

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th January 1982³

The reiteration, following the Prime Minister's return from the Falklands, of the denials of plans for an early general election calmed the exchanges and sterling traded throughout the day with a much firmer tone. There was considerable covering of short sterling positions, against the deutschemark in particular, taken earlier in the week and the pound gained a little in Europe and held fairly steady against a strengthening dollar. The dollar moved steadily higher throughout the first half of the day on reports of some substantial Middle East demand as hopes of a discount rate cut later today appeared to diminish. However, following the release of indicators showing inflation continuing to fall (Wholesale Prices +0.1% in December) and no pick-up in the economy (Industrial Production -0.1%) the dollar eased back from its best levels. Sterling's ERI rose 0.3 to 81.6.

The pound was steady in New York last night, closing there at 1.5820. It weakened a little in the Far East early this morning to open in London at 1.5755 but, having touched 1.5745, moved up quickly to the 1.58 level. From the start sentiment was better than on any day recently and some reasonable two-way business was seen. By mid-morning, with the dollar then firmer in Europe, as rumours of a large Middle East official order to sell deutschemarks against the dollar went through the market, there were signs of the unwinding of some short positions against sterling taken over the past few days and sterling reached 1.5825 at best. Over the lunch period early New Yorkers bid the dollar higher and in a thin market at this time sterling fell back quite quickly to touch 1.5740. However, the weakness proved temporary and the rate recovered to 1.58 in a quiet afternoon with the dollar then easing back elsewhere following the release of the weak economic indicators. The pound ended at 1.5805. Three-month Euro-dollars were 1/16% easier than yesterday at 8 $\frac{1}{2}$ % and with sterling inter-bank rates considerably lower, the cost of forward cover narrowed to 2 $\frac{1}{2}$ %.

The pound was firmer in Europe, gaining $\frac{1}{2}$ % in Germany (3.72 $\frac{1}{2}$ %) and Switzerland (3.06 $\frac{1}{4}$ %) and $\frac{3}{8}$ % in France (10.55 $\frac{1}{2}$ %). The dollar recovered its losses of yesterday, ending $\frac{1}{2}$ % firmer in these centres at 2.3580, 1.9377 and 6.6387. For a Friday there was remarkably little pressure in EMS where the band again closed unchanged, at 2 3/16%, between the Belgian franc (46.35) and the guilder (2.60). The French spent \$208mn. (of which \$52mn. was in deutschemarks) protecting the franc's cross-rate against the deutschemark, while the Belgians sold guilders worth \$45mn. and the Dutch bought Belgian francs worth \$15mn. and the Irish sold \$65mn. The Italians bought \$35mn. and the Danes \$12mn. The yen closed $\frac{1}{2}$ % down at 230.75.

After the activity of the past few days, the gold market was much quieter. The price gave up some of its recent gains as the dollar strengthened, fixing at \$483.75 and \$483.25.

Operations:	Market	+	\$2mn.
	PSB G'teed	+	39
	(SSEB)		
	Sundries	+	6
			<hr/>
		+	\$47mn.
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14th January 1983.

TRS

US BOND AND MONEY MARKETS

Friday, 14th January 1983

Federal Funds

Opening: 8 $\frac{3}{8}$ %
Range: 8% - 8 $\frac{1}{2}$ %
Close: 8 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$ (+ $\frac{1}{8}$) 9 $\frac{1}{8}$ %
5-year: 101 $\frac{1}{8}$ (+ $\frac{1}{8}$) 9 13/16%
10-year: 101 $\frac{1}{4}$ (- $\frac{1}{8}$) 10 $\frac{1}{4}$ %
30-year: 98 $\frac{7}{8}$ (- $\frac{3}{8}$) 10 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 8 $\frac{7}{8}$ %
1-month: 8 11/16%
3-months: 8 11/16%
6-months: 8 13/16%

Federal Reserve Operations:

\$1bn. customer repurchase agreement
with Fed Funds at 8 $\frac{1}{4}$ %. Stop rate
8.14%.

3-month Treasury Bills 7 $\frac{3}{8}$ %
3-month US bank CDs 8 $\frac{1}{8}$ %
Differential $\frac{1}{2}$ %

Indicators

PPI +0.1% (after +0.6% in November)
Industrial Production -0.1% (after -0.4% in November)
M1 -\$300mn.
M2 +\$14.1bn. in December

Comment:

The market moved higher during the morning, following the PPI and Industrial Production figures, but lost ground during the afternoon. The absence of a discount rate cut, despite better than expected money figures, saw prices decline further.

17th January 1983.

OP JF