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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th January 1983

Political considerations combined with interest rate expectations to take the dollar to its best levels of the year in heavy trading on the exchanges today. Following strong demand from the IMM and from commercial operators in New York last night, the dollar opened on a firm note and moved higher today as concerns that the German elections in March might result in a hung parliament weakened the deutschemark. At the same time dealers seemed less confident about an early cut in the Fed's discount rate and rumours began to circulate that the Bundesbank might drop interest rates by 1% on Thursday. Sterling was a very active two-way market. Evidence of sterling's better tone was provided by the resilience of the rate in the face of a massive commercial selling order from Scandinavia. Although the pound gave ground as the dollar advanced, it was very firm against the Continental currencies and the ERI ended 0.1 higher at 82.0, after 82.3 at the start.

As the dollar strengthened in New York last night, sterling slipped back to close there at 1.5815. This morning the rate opened at 1.5868, although the dollar was already stronger in Europe, and moved up to 1.5892 on some European demand in early business. However, with the dollar continuing to strengthen, particularly against the deutschemark, sterling soon settled back to trade actively around 1.58¾ for much of the first part of the morning. As the large selling order from Sweden entered the market the rate began to give ground but it moved down only reluctantly given both the volume of selling and the dollar's strength elsewhere in Europe. With some professional operators in Germany and Italy also seeking to depress the rate, sterling looked vulnerable for a short while but ready buyers were found and the rate dipped no lower than 1.5762 during the morning. As on most days recently, New York took the dollar higher and although sterling eased back further during the afternoon, it remained fairly steady in Europe. A low of 1.5735 was touched shortly before the close at 1.5750. Three-month Euro-dollars were 1/16% firmer at 8 13/16% and the cost of forward cover remained at 2⅛%.

The pound was firmer in Europe, closing with gains of ⅞% in Germany (3.77) and France (10.67⅞) and ⅞% in Switzerland (3.09½). The dollar rose over 1½% in each of these centres to end at 2.3935 in Frankfurt, 6.7792 in Paris and 1.9647 in Zurich. The Belgian franc (46.89) resumed its normal place at the bottom of EMS, 2⅛% below the guilder (2.6332) after sales of guilders worth $21mn. With the deutschemark moving lower in EMS, the French were able to recoup a further $143mn. (of which $130mn. was in deutschemarks). The Irish again provided support for the punt, selling $48mn. (of which $10mn. was in deutschemarks). Outside EMS, the Swedish crown benefited from the large order against sterling and the Riksbank bought $90mn. The yen fell ½% to 232.15.

Recent interest in gold waned in the face of the strength of the dollar and the price drifted back throughout the day. Fixings were at $487 and $485.

Operations:	Market	+	$2mn.
	Iraq	+	8
	PSB G'teed (South West Water)	+	8
	Interest	+	6
	Sundries	+	2
		+	$26mn.

18th January 1983.

TRS

US BOND AND MONEY MARKETS

Tuesday, 18th January 1983

Federal Funds

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

US Governments (NY closing bids)

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

Euro-dollars (Today's opening London bid)

7-day:	$8\frac{7}{8}$%
1-month:	$8\frac{3}{4}$%
3-months:	$8\frac{3}{4}$%
6-months:	$8\frac{7}{8}$%

Federal Reserve Operations:

$1.5bn. customer repurchase agreement with Fed Funds at $8\frac{1}{8}$%. Stop rate 7.92%.

Bought $200mn. Treasury Bills for customers.

3-month Treasury Bills	$7\frac{5}{8}$%
3-month US bank CDs	$8\frac{1}{8}$%
Differential	$\frac{1}{2}$%

Indicators

Comment:

The market continued to drift, despite the low Fed Funds rate and helpful Fed action.

19th January 1983.

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