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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th January 1983

Sterling fell to an all-time low against the dollar today in heavy trading on the exchanges. The inconclusive OPEC meeting, together with predictions by Sheikh Yamani that North Sea oil prices would shortly be cut by \$2-3 a barrel was primarily responsible but the Shadow Chancellor's remarks at the weekend added to the uncertainty. However, markets were never disorderly and sterling's weakness was partly a reflection, too, of the strength of the dollar which soared in all other centres following superficially disappointing money figures from the US (M1 +\$6.9bn.) and an unchanged Fed discount rate - confirmation, as the markets saw it, that the Fed's accommodative monetary stance was ending. Sterling's ERI, after opening at 83.0, closed 1.0 down from Friday at 81.8.

As the dollar rose in New York on Friday night following the release of the money supply, sterling was marked down to 1.5635 at the close there. Although the dollar strengthened sharply in the Far East, the pound opened in London at 1.5611 and touched 1.5615 in early business. However, the relative strength of sterling against the Continental currencies at this time (DM 3.86) and the prominence given to Mr. Shore's remarks at the weekend, soon provoked some selling and the rate gave ground. With an East European professional actively selling sterling in substantial size, the rate fell steadily throughout the morning, although the dollar at this time was tending to ease elsewhere. The rate bottomed temporarily in mid-morning at 1.5440, although by recent standards it still remained relatively firm against the major Continental currencies. With New York looking to take the dollar higher, news of the break-up without agreement of the OPEC conference provoked some further selling and the rate dipped to 1.5395 over the lunch period. Shortly afterwards a forecast by Yamani that North Sea oil prices would be cut by \$2-3 within the next few days sparked off further pressure and the rate fell to touch an all-time low of 1.5347 in mid-afternoon despite the presence in the market at this time of another East European bank as an aggressive buyer of sterling. The rate closed rather nervously at 1.5360. Three-month Euro-dollars were 7/16% higher at 9 3/8% and the cost of forward cover rose to 2 3/16%.

The pound was weaker in Europe, falling 7/8% in Germany (3.80) and France (10.76 1/2) and 1/2% in Switzerland (3.11 1/2). The dollar gained 2% in each of these centres to end at 2.4735, 7.0085 and 2.0282. In EMS, the punt (1.3475) moved to bottom place 2 3/16% below the guilder (2.7087). The Italians bought \$140mn., the French deutschemarks worth \$52mn. and the Danes \$17mn. The yen suffered with the European currencies, closing at 240.75 after \$10mn. of support from the Bank of Japan.

The strength of the dollar caused a sharp setback for gold which fell some \$10. Fixings were at \$475.75 and \$476.

Operations:	Market	-	\$21mn.
	Interest	+	5
	Sundries	+	1
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		-	\$15mn.
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	Overnight	-	\$8mn.
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24th January 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 24th January 1983

Federal Funds

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

US Governments (NY closing bids)

2-year:  $99\frac{1}{2}$  (-)  $9\frac{1}{2}\%$   
5-year:  $99\frac{3}{8}$  ( $-\frac{1}{8}$ )  $10\frac{1}{4}\%$   
10-year: 99 ( $-\frac{1}{8}$ )  $10\frac{5}{8}\%$   
30-year:  $95\frac{5}{8}$  ( $-\frac{3}{8}$ )  $10\frac{7}{8}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $9\frac{1}{16}\%$   
1-month:  $9\frac{1}{8}\%$   
3-months:  $9\frac{3}{16}\%$   
6-months:  $9\frac{7}{16}\%$

Federal Reserve Operations:

\$1bn. customer repurchase agreement  
with Fed Funds at  $8\frac{3}{8}\%$ . Stop rate  
 $8.27\%$ .

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

Indicators

Comment:

The market opened  $\frac{1}{8}$ - $\frac{1}{4}$  lower on continued uncertainty over Federal Reserve policy and worries over the budget deficits, and traded around this level throughout the day.

25th January 1983.

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