

2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 25th January 1983

The discord amongst OPEC members and the prospect of a prolonged period of weak oil prices caused further problems for sterling today and the pound plumbed new depths against the dollar. Trading was again extremely heavy and although business tended to be one-way early in the day when most of the selling pressure was seen, and markets were extremely volatile, two-way interest developed as the day wore on. Meanwhile, the dollar gave up all of yesterday's gains, as dealers became convinced that yesterday's pessimism about the prospects for lower US interest rates was overdone. Sterling's ERI closed 0.8 down at 81.0.

Sterling failed to move up as the dollar eased in New York last night and it ended at the London close of 1.5360. With Abu Dhabi reported as intending to increase its oil production, heavy selling of sterling developed in the Far East and by the London opening the rate had fallen to 1.5235. The heavy selling continued in early business in London, with sizeable official sales as well as the normal professional pressure. Within the first half hour of trading the rate had touched 1.5175, another all-time low, but it recovered quite quickly as some professional buying was seen from London banks. Although some massive commercial selling orders seemed likely at one time to put sterling under further downward pressure, some of them were not executed and this encouraged covering by banks who had positioned themselves to do the business. When a US professional decided to make a sizeable speculative purchase, he precipitated further covering of short sterling positions and the rate rose rapidly in mid-morning with the dollar easing at the same time elsewhere. The pound reached 1.5405 as this operation was in progress but it had drifted down to 1.5335 by noon. In contrast to most days recently, New York were also seeking to take the dollar lower and with the US bond market improving and causing some further easing in Euro-dollar rates, the dollar continued to lose ground throughout the afternoon. The sterling market seemed in better balance in the second half of the day and there were few erratic moves in the rate which returned to the 1.54 level, reaching 1.5440 at best before closing at 1.5430. Three-month Euro-dollars shed $\frac{1}{8}\%$ to $9\frac{1}{4}\%$ and the cost of forward cover widened to 2 5/16%.

The pound lost most of its recent gains in Europe, falling $1\frac{1}{2}\%$ in Germany (3.73 $\frac{3}{8}$) and France (10.58 $\frac{1}{2}$) and $1\frac{1}{2}\%$ in Switzerland (3.07). The dollar closed 2% down in each of these centres at 2.4230, 6.8685 and 1.9920 respectively. In EMS, the Belgian franc returned to bottom place, $2\frac{1}{8}\%$ below the guilder (2.6607). The Italians bought \$68mn., the French \$50mn., the Danes \$49mn. and the Dutch \$10mn., while the Germans sold \$19mn. at their fixing and the Irish sold \$1mn. of guilders. The yen rose 2% to 236.10.

Gold firmed as the dollar eased, with some good demand reported from Switzerland. Fixings were at \$485 and \$488.75.

Operations:	Market	-	\$12mn.
	PSB G'teed:		
	Brit.Tel.	+	61
	S.Glamorgan	+	6
	Government	-	9
			<hr/>
		+	\$46mn.
			<hr/> <hr/>

25th January 1983.
TRS

US BOND AND MONEY MARKETS

Tuesday, 25th January 1983

Federal Funds

Opening: 8½%
Range: 8¾% - 8½%
Close: 8¾%

US Governments (NY closing bids)

2-year: 99¾ (+¼) 9½%
5-year: 99¼ (+¾) 10¼%
10-year: 99½ (+½) 10¾%
30-year: 96¾ (+¾) 10¼%

Euro-dollars (Today's opening
London bid)

7-day: 9 1/16%
1-month: 9%
3-months: 9¾%
6-months: 9 5/16%

Federal Reserve Operations:

\$1.2bn. customer repurchase agreement
with Fed Funds at 8¾%. Stop rate
8.30%.

Sold \$300mn. Treasury Bills for
customers.

3-month Treasury Bills 8 1/16%
3-month US bank CDs 8 7/16%
Differential ¾%

Indicators

Comment:

The bond market recovered from Monday's depressed levels
in anticipation of the state of the union message.

26th January 1983.

OP

op