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THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 30th June 1982

A further sharp drop in Euro-dollar rates helped to keep the dollar on its downward tack today. Once again, though, the volume of business remained rather modest. Sterling continued firm but little traded. The ERI closed 0.2 higher at 91.3.

The dollar weakened in New York yesterday afternoon as the US bond market rallied and sterling was carried up to close there at 1.7447. This morning the rate opened at 1.7452 but drifted back to 1.7385 in early business, despite at first an easier dollar. By mid-morning, however, the dollar was recovering in Europe, helped by a short-lived uptick in deposit rates, and sterling settled around 1.74, sustained by some overseas official demand. Early New Yorkers at first seemed set to take the dollar higher and sterling slipped to 1.7366 over the lunch period but when Federal Funds opened up at 14% in New York and initially moved lower, the dollar's recovery was reversed; sterling moved back above 1.74, to close at 1.7430. Three-month Euro-dollars ended the day 9/16% lower at 15 3/8%. Sterling's forward premium narrowed to 2 3/8% and the covered differential widened to 5/16% in favour of London.

Sterling was unchanged in Germany (4.27 1/2) but lost 1/8% in France (11.85) and 3/8% in Switzerland (3.64 3/8). The dollar lost 3/8% in Frankfurt (2.4525) but 1% in both Paris (6.7955) and Zurich (2.0935), despite 1/2% cut in the Swiss commercial banks' deposit rates. The deutschemark reverted to the bottom of EMS which was fully stretched by the close, with the French franc remaining at the top and the lira (1378) 2 3/8% above the deutschemark. The Italians bought \$120mn., the French deutschemarks worth \$54mn. and the Irish \$9mn. Outside EMS, the Norwegians bought \$100mn. and the Swedes sold \$50mn. The yen (254.37) improved by 1/2%, the Bank of Japan having sold \$11mn. in Tokyo this morning. Monday's budget, which was not well received, made for a weak Canadian dollar and the Bank of Canada sold \$77mn. yesterday.

Gold was more volatile than in most recent days. The recovery in the price continued, helped again by falling interest rates and the sharp rise in the price of silver. Fixings were at \$314 and \$317.50. Later the metal was traded as high as \$319 before relapsing to \$313.50.

Operations:	Market	+	\$18mn.
	Ireland	+	35
	Interest	+	5
	Sundries	+	5
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		+	\$63mn.
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The result for June was a fall in reserves of \$117mn. to a level of \$17,703mn. after net new public sector borrowing of \$47mn. The overbought forward position declined by \$144mn. to a level of \$918mn.

30th June 1982.

TRS



US BOND AND MONEY MARKETS

Wednesday, 30th June 1982

Federal Funds

Opening: 14%  
Range: 13½% - 14½%  
Close: 14½%

US Governments (NY closing bids)

2-year: 99½ (+½) 14½%  
5-year: 97½ (+¾) 14½%  
10-year: 96¾ (+9/16) 14¾%  
30-year: 100¾ (+¾) 13¾%

Euro-dollars (Today's opening  
London bid)

7-day: 15¼%  
1-month: 15½%  
3-months: 15¾%  
6-months: 16¼%

Federal Reserve Operations:

Reverse repurchase agreement with  
Fed Funds at 13¾%. Stop rate  
11.59%.

Indicators

US leading indicators +0.3 in May /after +1.3 April (revised  
from +0.8) and +0.2 March (revised from -0.5)/.

Comment:

Following Tuesday's successful four-year note auction, the market opened with prices up to half a point higher. This improvement was sustained during the morning by a fall in the Federal Funds rates to 13½% and was unaffected by the announcement on leading indicators. The market fell slightly when the Fed unexpectedly executed a reverse repurchase agreement but this was quickly recovered, and even though the Funds rate went higher during the afternoon, the market moved up to close on a strong note.

1st July 1982.

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