

FE 2/24

SECRET

THE DEPUTY GOVERNOR

Handwritten: Havel

Handwritten: Dresdner

Handwritten: Hessische
Dachstuhl Bauunternehmung

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th July 1982

Handwritten: B.T.G. Bayerische Vereinsbank (see AEG)

Handwritten: JS

Handwritten: Any names?

Markets were rife with rumour today but business remained at a low level, as banks became increasingly concerned about the credit standing of some of their competitors. While the collapse of a small bank in Oklahoma and the large losses incurred in the second quarter by Continental Illinois had no adverse effect on the strength of the dollar, rumours of sizeable losses on exchange and security business by some of the second line German banks, following immediately on news of AEG's difficulties, contributed to the weakness of the deutschemark. As German banks bid for Euro-dollars, rates moved sharply higher and the dollar reached its best levels for over 10 months against the deutschemark and set new all-time highs against some of the other Continental currencies. Sterling was again on the sidelines and the ERI closed 0.1 lower at 91.1.

The dollar strengthened in New York yesterday evening and sterling slipped back to close at 1.7142. After opening at 1.7098 this morning, the rate fell quickly in early business as the dollar firmed on higher Euro-dollar rates, touching 1.7035 (a new five-year low) before settling to move narrowly around 1.7075 for most of the balance of the morning. As on most days recently little business in sterling was observed. The entry of New York saw the dollar turn down a little in Europe and sterling moved through 1.71 at noon to reach 1.7117 at best over the lunch period. The easier tone to the dollar, however, proved very temporary when Fed Funds opened at 15% in New York. Sterling eased back in the afternoon to 1.7053 before closing at 1.7085. With three-month Euro-dollars ending the day 5/16% firmer at 15 15/16%, sterling's forward premium widened to 3 7/16% and the covered differential in favour of London was 1/8%.

Sterling was stronger on the Continent, gaining 1/2% in France (11.93%) and Switzerland (3.67%) and 1/4% in Germany (4.30). The dollar rose over 1 1/4% in each of these centres, closing at 6.8962 (an all-time high), 2.1505 and 2.5170 respectively. In EMS, the deutschemark closed at the bottom 2 3/16% below the Danish krone (8.6925) at the top and 3 5/16% from the lira (1410.25). The French bought deutschemarks worth \$109mn. and the Italians bought \$75mn. Elsewhere, the Norwegians bought \$32mn. and the Swedes sold \$10mn. The Japanese spent \$28mn. in support of the yen this morning; it closed in London at 259.40.

Gold slipped back as the dollar strengthened, fixing at \$307.40 and \$306.75.

Operations:	Market	+	\$3mn.
	Iran	+	6
	Ghana	-	6
			<hr/>
		+	\$3mn.
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7th July 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 7th July 1982

Federal Funds

Opening: 15%
Range: 2% - 15%
Close: 5%

US Governments (NY closing bids)

2-year: 99 $\frac{5}{8}$ (+ $\frac{1}{8}$) 14 $\frac{5}{8}$ %
5-year: 97 (+ $\frac{1}{4}$) 14 9/16%
10-year: 96 $\frac{5}{8}$ (+ $\frac{1}{8}$) 14 $\frac{3}{8}$ %
30-year: 100 $\frac{1}{2}$ (+ $\frac{3}{8}$) 13 $\frac{7}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 15 1/16%
1-month: 15 $\frac{3}{8}$ %
3-months: 15 13/16%
6-months: 16 1/16%

Federal Reserve Operations:

Bought Treasury Notes for system
account with Fed Funds at 14 $\frac{3}{8}$ %.
Overnight repurchase agreement for
system account with Fed Funds at
14 $\frac{3}{8}$ %. Stop rate 12.70%.

US 3-month Treasury Bills 13 $\frac{1}{8}$ %

US bank 3-month CDs 15 $\frac{1}{8}$ %

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{3}{8}$ lower in response to the high funds rate (15%), but slowly regained most of the lost ground during the course of a quiet morning. The overnight repurchase agreement had been widely expected and only helped the market to maintain its level. Early in the afternoon, the Fed injected permanent liquidity into the market by buying Treasury Notes (a coupon pass). Although the initial reaction was muted with prices moving up only slightly, subsequently the upward move gathered some strength with prices rising by up to $\frac{1}{8}$ before settling back late in the day.

8th July 1982.

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