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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th July 1982

Business on the exchanges continued to be inhibited by rumours about the liquidity difficulties facing some of the German banks and the deutschemark remained weak. A possible easing last night by the Fed in the application of monetary policy was therefore largely overlooked by the market and only made a temporary impact on the strength of the dollar. Sterling was again a quiet market and the ERI closed unchanged at 91.1.

Overnight action by the Fed to inject permanent liquidity into the domestic market caused the dollar to weaken in New York last night and sterling rose there to close at 1.7170. However, the dollar recovered most of its losses in the Far East and sterling opened at 1.71 in London. After touching 1.7085 in early business, the rate started to rise when the dollar surrendered some of its gains on easier Euro-dollar rates and it reached 1.7143 at best shortly before noon. The opening level of 14% for Fed Funds seemed likely to confirm the dollar's easier tone but it unexpectedly, and apparently without good reason, recovered sharply in the late afternoon, taking sterling to 1.7107 at the close. Three-month Euro-dollars closed  $\frac{1}{8}\%$  lower at 15 11/16%. Sterling's forward premium narrowed to  $3\frac{1}{8}\%$  and the covered differential was unchanged at  $\frac{1}{8}\%$ .

Sterling was unchanged in both Germany (4.30 $\frac{3}{8}$ ) and Switzerland (3.67 $\frac{1}{2}$ ) but gained  $\frac{1}{8}\%$  against a weak French franc (11.97). The dollar, too, closed little different in the first two centres at 2.5155 and 2.1480 respectively, but set another all-time high in Paris (6.9965). EMS was fully-stretched at the close between the Danish krone (8.6750) and the deutschemark, with the lira (1406.50) 3 7/16% above the latter. The Italians bought \$82mn. The yen closed at a two-year low of 259.60 in Tokyo this morning, despite support of \$127mn. by the Bank of Japan; it closed at 258.22 in London.

Gold firmed a little on lower Euro-dollar rates. Fixings were at \$310.85 and \$313.50.

Operations	Market	+	\$5mn.
	Interest	+	26
	IDA	+	12
	BIS	+	9
	Sundries	+	2
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		+	\$54mn.
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8th July 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 8th July 1982

Federal Funds

Opening: 14%  
Range: 13 $\frac{3}{4}$ % - 14%  
Close: 13 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$  (+ $\frac{7}{8}$ ) 14 $\frac{1}{4}$ %  
5-year: 98 $\frac{1}{4}$  (+1 $\frac{1}{4}$ ) 14 $\frac{1}{4}$ %  
10-year: 98 $\frac{1}{4}$  (+1 $\frac{5}{8}$ ) 14 $\frac{1}{8}$ %  
30-year: 102 $\frac{5}{8}$  (+2 $\frac{1}{8}$ ) 13 $\frac{5}{8}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 14 $\frac{3}{8}$ %  
1-month: ~~15 1/16%~~ 14  $\frac{7}{8}$ %  
3-months: 15 $\frac{3}{8}$ %  
6-months: 15 $\frac{3}{8}$ %

Federal Reserve Operations:

Overnight repurchase agreement for  
system account with Fed Funds at  
14%. Stop rate 13.0%.

US 3-month Treasury Bills 12 $\frac{3}{8}$ %

US bank 3-month CDs 14 $\frac{1}{2}$ %

Indicators

Comment:

The market opened higher in active trading with Fed Funds opening at 14% and declining throughout the morning. In late morning, the market advanced further fuelled by both investor interest and professional activity. The positive tone was reinforced significantly when the Fed did system repos. The market continued slowly but steadily higher over the course of the afternoon. By the close the market was up  $\frac{3}{4}$ -1 $\frac{1}{2}$  points for the day, with the surge in prices having attracted some panic retail buying.

9th July 1982.

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