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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th July 1982

The unexpectedly large decline in the US money figure announced on Friday evening caused a sharp rise in the bond market and set the scene for much lower Euro-dollar rates in London this morning. The dollar weakened further in the mainstream of the market but sterling remained stuck in a backwater, leaving the ERI unchanged at 91.2.

There was little time for the exchanges to react before the weekend to the American monetary aggregates and in New York sterling closed quietly at 1.7315. It opened and closed in London today at 1.7370, having ranged between 1.7337 and 1.7386. There was very modest demand from a Japanese bank this morning. Euro-dollars fell another 11/16% to 14 7/16% at three months whilst sterling interbank declined to 12 3/8%; the covered differential narrowed to 1/16% in London's favour as the forward premium for sterling fell to 2 1/8%.

In Continental Europe, the pound moved down about 3/8%, easing to 4.27 1/2 in Germany, 11.89 3/8 in France and 3.64 in Switzerland. The dollar gave up another 1% or so, falling to 2.4627 against the deutschemark, 8.52 against the Danish krone - these two currencies spanning a narrower EMS at the close, 1 15/16% in width. The French franc improved to 6.8475. The Belgians bought \$33mn. to add to \$10mn. purchased late on Friday. Although the punt improved to 1.3960, the Irish sold \$15mn. The lira closed at 1379, the Swiss franc at 2.0957 and the yen at 253.20.

Gold continued its rally, too, going on to \$347.50 in New York on Friday but closing there \$2 lower. The Far East failed to renew the momentum and London opened steadily, fixing at the first session at \$338.50. The market became more volatile later and, after a long session, the second fixing was struck at \$343.

Operations:	Ireland	+	\$46mn.
	Iran	+	11
	India	+	9
	Iraq	+	9
	Sundries	+	3
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		+	\$78mn.
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DAHB

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Federal Funds

Opening: 13 $\frac{1}{2}$ %
Range: 12 $\frac{7}{8}$ % - 13 $\frac{1}{2}$ %
Close: 13 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (- $\frac{1}{2}$) 14%
5-year: 99 (- $\frac{1}{2}$) 14%
10-year: 99 $\frac{1}{2}$ (- $\frac{1}{2}$) 13 $\frac{7}{8}$ %
30-year: 103 $\frac{1}{2}$ (- $\frac{1}{2}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 13 11/16%
1-month: 14 3/16%
3-months: 14 $\frac{3}{4}$ %
6-months: 14 $\frac{7}{8}$ %

Federal Reserve Operations:

Bought \$200mn. bills for a customer.

US 3-month Treasury Bills 12 $\frac{1}{2}$ %

US bank 3-month CD's 13 $\frac{7}{8}$ %

Indicators

Comment:

The market opened on a stronger tone encouraged by the latest money supply figures, and moved up during the course of an active morning as the Fed Funds rate declined to 12 $\frac{7}{8}$ %. The failure of any reserve supplying by the Fed, however, dampened enthusiasm and, with profit-takers rushing in to take their gains, prices were pushed lower. Prices fell further as the Fed Funds rate moved up to 13 $\frac{1}{2}$ % and the market continued to drift down into the close, finishing at or near its lows.

13th July 1982

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