

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 13th July 1982

The dollar regained most of its losses of the past two days as Euro-dollar rates moved sharply higher. The rise in rates resulted from profit-taking in the US bond market, where operators are uncertain whether the Fed's recently more accommodating stance springs from a policy change or is merely a reassuring gesture in the face of worries about the health of the banking system. With the $\frac{1}{2}\%$ cut in base rates seemingly entirely discounted, sterling continued firm and the ERI rose 0.1 to 91.3.

When the Fed failed to inject liquidity into the US domestic market yesterday, as many participants expected, the recent rally in the US bond market ended and the dollar firmed. Sterling fell back less than the Continental currencies to close there at 1.7321 but it had relapsed to 1.7265 by the London opening this morning. News of the first base rate cut saw the rate marked down to 1.7252 but it recovered quickly and settled to trade around 1.73 throughout the remainder of the morning, despite a steadily strengthening dollar. As yesterday, some good buying was seen from a Japanese bank but this was counter-balanced by some commercial selling. At first New York seemed likely to sell the dollar and sterling rose to touch 1.7333 in the early afternoon, but when the US bond market opened on a weak note and moved lower, the dollar strengthened sharply. In very light business sterling drifted back to close at 1.7265. Three-month Euro-dollars ended the day $\frac{1}{2}\%$ higher at 14 $\frac{15}{16}\%$. Sterling's forward premium widened to 2 $\frac{9}{16}\%$ and interest parity prevailed.

The pound more than regained yesterday's losses in Europe, rising $\frac{1}{2}\%$ in Switzerland (3.66%), $\frac{1}{2}\%$ in Germany (4.30%) and $\frac{1}{2}\%$ in France (11.94). The dollar gained around $\frac{1}{4}\%$ in each of these centres, to close at 2.1235, 2.4925 and 6.9155 respectively. In EMS the Irish punt (1.7865) assumed the top position in the $2\frac{1}{2}\%$ band, fully-stretched against the deutschemark, with the lira (1392) 3 $\frac{9}{16}\%$ above the latter. The Italians bought \$46mn. and the Belgians \$22mn. The yen closed at 256.70.

Gold enjoyed another volatile day. After fixing at \$339 in the morning there was strong demand at the afternoon fix which was eventually struck at \$352.50.

Operations:	Market	+	\$10mn.
	IDA	+	8
	Interest	+	7
	Bangladesh	-	19
	Sundries	+	2
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		+	\$8mn.
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	Overnight	+	\$5mn.
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13th July 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 13th July 1982

Federal Funds

Opening: 13½%
Range: 12¾% - 13½%
Close: 12¾%

US Governments (NY closing bids)

2-year: 100¼ (-¾) 14¼%
5-year: 98¾ (-¾) 14¼%
10-year: 98¾ (-¾) 14%
30-year: 102¾ (-1½) 13¾%

Euro-dollars (Today's opening
London bid)

7-day: 13¾%
1-month: 14 5/16%
3-months: 14 13/16%
6-months: 15¼%

Federal Reserve Operations:

\$1.8bn. customer repurchase
agreement with Fed Funds at 13¾%.
Stop rate 12.66%.
Bought \$200mn. Treasury Notes for
a customer.

US 3-month Treasury Bills 12¾%.

US bank 3-month CD's 14¼%.

Indicators

Retail sales -1.5% in June (May +2.7% revised from +1.5%)

Comment:

Prices drifted lower throughout the morning on further profit-taking by market traders and the slightly higher than expected Fed Funds rate. By 11.45 the market was down around ½ a point. Prices improved modestly following the Fed's action and moved up further in the early afternoon as Fed Funds declined to 12¾%. The market appeared to gain some support from the announcement on retail sales, although a fall of 1½% was much in line with expectations. Towards the close, however, prices again declined sharply on very light trading and the market closed at or near its lows.

14th July 1982.

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