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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th July 1982

The market was overshadowed today by fears about the size of the increase to be revealed by tomorrow's money supply figures in the US. These concerns outweighed evidence provided by the fall in US industrial production in June that the recovery from the recession is fading in the face of persistent high real interest rates. The increase in tension in the Middle East caused by Iran's invasion of Iraq contributed also to a firm dollar. Sterling was quite active in the morning but was marked down in light business during the afternoon. The ERI closed 0.3 lower at 91.0.

Sterling closed a very quiet evening in New York yesterday at 1.7225. This morning the rate opened at 1.7262 and having touched 1.7265 in early business, when there was some professional buying interest from Switzerland, settled as yesterday, to trade around 1.72½ throughout the morning. Some modest buying interest was seen from Europe but there was also a little commercial selling in London. Shortly after noon, with the dollar seeming poised to go higher elsewhere, sterling began to display a softer tone and although the dollar turned back from its higher levels when Fed Funds opened at 13%, sterling continued to be marked down. The rate fell to touch 1.7159 before closing at 1.7183. With three-month Euro-dollars ½% firmer at 14¾%, sterling's forward premium was 2 7/16%, leaving a covered differential of 1/16% in favour of London.

The pound lost ground in Europe, closing ½% lower in Switzerland (3.65¾) and ¾% down in both Germany (4.29) and France (11.92¾). The dollar was a little easier in Zurich (2.1262) but almost unchanged in Frankfurt (2.4960) and Paris (6.9387). The deutschemark remained at the bottom of EMS, 1 15/16% below the French franc, which regained top position in the 2¼% band, and 3¾% below the lira (1395.87). The Italians bought \$42mn., the Germans sold \$13mn. and the Irish bought \$4mn. The yen closed at 255.87.

Gold was active either side of \$350. Fixings were at \$347.75 and \$350.25.

Operations:	Ghana	-	\$20mn.
	IDA	+	8
	India	+	5
	Sundries	+	2
		-	\$5mn.

15th July 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 15th July 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$  (+ $\frac{1}{4}$ ) 14%  
5-year: 98 $\frac{7}{8}$  (+ $\frac{3}{8}$ ) 14%  
10-year: 99 $\frac{1}{8}$  (+ $\frac{5}{8}$ ) 13 $\frac{7}{8}$ %  
30-year: 103 $\frac{1}{4}$  (+ $\frac{1}{2}$ ) 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: 15 $\frac{1}{8}$ %

Federal Reserve Operations:

Overnight repurchase agreement for  
system account with Fed Funds at  
13%. Stop rate 12.10%.

US 3-month Treasury Bills 12 $\frac{1}{8}$ %

US bank 3-month CDs 14 $\frac{1}{4}$ %

Indicators

Industrial production -0.7% in June (May -0.6% revised  
from -0.2%)

Comment:

The market opened higher and moved up further following the announcement of a slightly greater than expected fall in industrial production. Prices improved more following the Fed's reserve adding operation but soon fell back as trading volume fell and the Fed Funds rate moved up to 13 $\frac{1}{8}$ %. Activity was light throughout the afternoon with prices changing little.

16th July 1982.

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