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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th July 1982

The proximity of the release of the expected huge increase in US money supply inhibited trading today. However, as the day wore on, estimates of the size of the increase were scaled back and the dollar weakened further, despite a larger-than-hoped 1% rise in US wholesale prices. Sterling was on the sidelines all day but again had an easier tone. The ERI closed 0.2 lower at 90.8.

Sterling closed a quiet evening in New York yesterday at 1.7180. Today the rate opened at the high of 1.7215 and drifted lower throughout the day in exceptionally thin trading. A little selling from France was seen shortly after noon, when the rate fell to 1.7143, but no other sizeable business was observed. The encouraging RPI had no discernible impact but following on yesterday's good money supply figures may have strengthened market sentiment that, subject to US money supply, the next cut in UK rates may not be too long delayed. The rate closed at 1.7182. Three-month Euro-dollars lost 5/16% to close at 13 9/16% and the covered differential was 1/8% in favour of London.

Sterling lost further ground in Europe, shedding 1/8% in Switzerland (3.63 1/2), 3/8% in Germany (4.27 1/4) and 1/4% in France (11.89 3/8). The dollar closed lower in all these centres at 2.1152, 2.4857 and 6.9215 respectively. In EMS the Danish krone (8.5925) was at the top, 2% above the deutschemark, with the lira (1393.25) 3 3/8% above the latter. The Belgians bought \$20mn. and the Germans sold \$9mn. The yen closed at 255.02.

Gold was a little easier with signs of some Soviet selling at the higher levels. Fixings were at \$345.75 and \$347.

Operations:	Market	-	\$1mn.
	EEC	-	28
	Sundries	+	3
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		-	\$25mn.
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	Overnight	+	\$5mn.
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16th July 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 16th July 1982

Federal Funds

Opening: 12 $\frac{7}{8}$ %
Range: 12% - 12 $\frac{7}{8}$ %
Close: 12 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$ (+ $\frac{3}{4}$) 13 $\frac{1}{2}$ %
5-year: 100 (+1 $\frac{1}{8}$) 13 $\frac{3}{8}$ %
10-year: 100 $\frac{1}{2}$ (+1 $\frac{3}{8}$) 13 $\frac{5}{8}$ %
30-year: 105 (+1 $\frac{3}{4}$) 13 3/16%

Euro-dollars (Today's opening
London bid)

7-day: 13%
1-month: 13 9/16%
3-months: 14 3/16%
6-months: 14 $\frac{3}{8}$ %

Federal Reserve Operations:

Weekend repurchase agreement for
system account with Fed Funds at
12 $\frac{3}{8}$ %. Stop rate 11.59%.

US 3-month Treasury Bills 11 $\frac{5}{8}$ %

US bank 3-month CDs 13 $\frac{1}{2}$ %

Indicators

Producer prices +1% in June
M1 +\$5.9bn.

Comment:

Prices opened higher despite a larger than expected increase in the producer price index and moved up to show gains of $\frac{3}{8}$ to $\frac{1}{2}$ point just prior to the Fed's execution of a repurchase agreement for system account. The market considered this intervention to be aggressive and immediately marked prices up a further $\frac{1}{2}$ point. The market continued to improve in the afternoon as hopes grew of a favourable money supply number. The news of the increase in M1 of \$5.9bn. (against market fears that the "July bulge" would be \$7-10bn.) caused prices to jump again in heavy trading by both dealers and retail. Some profit-taking then ensued bringing prices down slightly from their peaks.

19th July 1982.

OP

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