

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

98FE  
12R

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th July 1982

The \$5.9bn. surge in US money supply (+\$5.5bn. net of revisions) was right at the bottom end of the range of expectations and set the stage for sharp reductions in US rates today. Euro-dollar rates eased steadily and two major banks (MHT and First Chicago) cut their prime rates  $\frac{1}{2}\%$  to 16%. Despite this the dollar was very firm in London, regaining some of the ground it lost on Friday night in New York, perhaps on the view that lower US rates would inevitably be matched by interest rate cuts elsewhere in the world. Sterling enjoyed some benefit from the collapse of the ASLEF strike, shaking off the softness seen at the end of last week, and enabling cuts in the Bank's bill dealing rates to be weathered comfortably. The ERI closed 0.6% higher at 91.4.

As the dollar tumbled in New York on Friday night following the money supply figures, sterling rose there to close at 1.7455. The rate opened in London at the high for the day of 1.7475 and eased back as the dollar started to recover. Some selling on oil company account took the rate down to 1.7385 but this was quickly absorbed and the pound settled to trade comfortably between 1.74 and 1.74 $\frac{1}{2}$  for the remainder of the day, despite a steadily strengthening dollar. The rate closed firm at 1.7405. Three-month Euro-dollars shed 11/16% over the day to close at 13 $\frac{1}{8}\%$ . Sterling's forward premium narrowed to 1 $\frac{1}{2}\%$  and the covered differential remained unchanged at  $\frac{1}{8}\%$  in favour of London.

Sterling recovered its recent losses in Europe, closing  $\frac{1}{2}\%$  firmer in Germany (4.29 $\frac{3}{8}\%$ ) and  $\frac{3}{8}\%$  higher in Switzerland (3.64 $\frac{1}{2}\%$ ) and France (11.94 $\frac{3}{8}\%$ ). The dollar lost about  $\frac{3}{8}\%$  closing at 2.4666, 2.0957 and 6.8620 respectively. The Irish punt (1.3967) moved to top position in EMS, 1 15/16% above the deutschemark which, in turn, was 3 7/16% below the lira (1379.40). The Belgians bought \$18mn. and the Germans sold \$8mn. The yen closed at 253.60.

Despite the reduced financing costs, gold made little headway, fixing at \$350 and \$347.50.

Operations:	Market	+	\$5mn.
	Iraq	+	17
	Iran	+	8
	BIS	+	5
	India	+	5
	Ghana	-	12
			<hr/>
		+	\$28mn.
			<hr/> <hr/>

19th July 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 19th July 1982

Federal Funds

Opening: 12½%  
Range: 11¾% - 12¼%  
Close: 12%

US Governments (NY closing bids)

2-year: 101¼ (+¼) 13¾%  
5-year: 100½ (+½) 13 9/16%  
10-year: 101¼ (+¼) 13 9/16%  
30-year: 105¼ (+¼) 13½%

Euro-dollars (Today's opening  
London bid)

7-day: 12½%  
1-month: 13%  
3-months: 13 11/16%  
6-months: 14 1/16%

Federal Reserve Operations:

Discount rate reduced from 12%  
to 11½%.

US 3-month Treasury Bills 11½%

US bank 3-month CDs 13½%

Indicators

US housing starts fell by 15.3% in June

MHT and Frist Chicago prime rates to 16% from 16½%

Comment:

An interesting day in the bond market with some, but insufficient, retail follow-through to Friday's encouraging money supply. The market opened at Friday's closes, with Fed Funds at 12½% but began to move ahead when Funds ticked down to 12%. By mid-morning the long bond was showing a gain of ½ a point but prices faded when the Fed failed to appear. The fall in housing starts was fully discounted and by mid-afternoon prices were back to opening levels. The Fed announced the ½% cut in discount rate at 4.25 p.m. and, after a slow reaction, prices at the shorter end moved higher.

20th July 1982.

TRS