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GORAS

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st July 1982

Markets seemed reassured by Volcker's statement yesterday to the Senate Banking Committee and US interest rates continued to ease lower today. An unexpectedly sharp rise in US GNP in the second quarter (+1.7%) was matched by a revised decline for the first quarter and seemed to have no impact. Although the US bond market paused for breath after the recent rally, the dollar weakened today against most currencies. Sterling enjoyed an active day's trading with some further sizeable commercial and official selling. A recovery later in the day enabled the ERI to close 0.1 higher at 91.2.

The IMM were active sellers of the dollar last night in New York and although sterling rose a cent, to close at 1.7432, it again failed to keep pace with the improvement shown by the European currencies. This morning the rate opened at 1.7430 and, having touched 1.7435 in early business, gave ground as a further official European selling order entered the market. The rate dipped to 1.74 in mid-morning but then, helped by some Japanese buying and with the dollar easing elsewhere, it recovered to 1.7433 by noon. Some commercial selling from South Africa was then seen, which took the rate back to 1.7423 against a weakening dollar, but, when this had been absorbed, the rate started to move ahead sharply. With Fed Funds opening at 10½%, New York were looking to take the dollar lower and sterling rose to 1.7495 during the afternoon, before closing at 1.7451. After the close, as the dollar continued to weaken, sterling was quoted up to 1.7570. Three-month Euro-dollars lost a further 3/16% to close at 13 3/16%. Sterling's forward premium fell by a similar amount to 1½%, leaving the covered differential unchanged.

Sterling again lost ground on the Continent, falling ½% in Switzerland (3.61½%) and ¼% in Germany (4.26¾) and France (11.85¾). The dollar closed about 1% weaker in each of these centres at 2.0735, 2.4430 and 6.7945. Later, however, the deutschemark was quoted down to 2.4282. In EMS, the Danish krone (8.4285) regained top position, 2 3/16% above the deutschemark, which was 3 1/16% from the lira (1370.50). The Italians bought \$66mn. and the Dutch sold \$15mn. and deutschemarks worth \$12mn. The yen improved ½% to 253.30. The Bank of Canada continued to rebuild reserves, buying \$188mn. yesterday.

Gold rallied strongly in New York last night and remained firm in London today. After fixing at \$361.50 in the morning, the price reached \$369 in the early afternoon before fixing at \$366.50.

| | | | |
|-------------|----------|---|-------------|
| Operations: | Market | + | \$10mn. |
| | India | + | 5 |
| | Sundries | + | 7 |
| | | | <hr/> |
| | | + | \$22mn. |
| | | | <hr/> <hr/> |

21st July 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 21st July 1982

Federal Funds

Opening: 10 $\frac{1}{4}$ %
Range: 10 $\frac{1}{4}$ % - 10 $\frac{3}{4}$ %
Close: 10 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{1}{4}$ (- $\frac{1}{8}$) 13 $\frac{1}{4}$ %
5-year: 100 $\frac{1}{4}$ (- $\frac{3}{8}$) 13 $\frac{5}{8}$ %
10-year: 100 $\frac{3}{8}$ (- $\frac{3}{8}$) 13 $\frac{5}{8}$ %
30-year: 104 $\frac{3}{8}$ (-1) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 11 $\frac{3}{4}$ %
1-month: 12 $\frac{3}{8}$ %
3-months: 13 5/16%
6-months: 14 1/16%

Federal Reserve Operations:

US 3-month Treasury Bills 11%
US bank 3-month CDs 12 $\frac{3}{4}$ %

Indicators

US GNP +1.7% (annual rate) 2nd quarter (1st quarter revised
to -5.1% from -3.7%)

Comment:

The market opened slightly higher but moved back down following the GNP announcement. Around mid-day, there was a slight rally on the absence of Fed intervention (with the Fed Funds rate so low, there was some expectation of a reverse repurchase agreement), but in mid-afternoon the market began to weaken again, and prices closed at their lows for the day.

22nd July 1982.

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