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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd July 1982

After the volatility of some recent days, markets were quiet and stable today. Although US interest rates recovered some of their losses of the past few days, following a poor performance by the US bond market, the dollar ended a little lower in most centres. Sterling hardly moved all day but it again lost ground in Europe. The ERI closed 0.1 down at 91.0.

Sterling closed a lively evening's trading in New York yesterday at 1.7475. This morning the rate opened at 1.7460 and, having touched 1.7485 in early business, traded around the opening level for the balance of the day, closing at the low of 1.7450. As on several days recently, there was some selling by a Japanese bank but otherwise little business was seen. Three-month Euro-dollars rose $\frac{1}{4}\%$ to close at 13 $\frac{7}{16}\%$. Sterling's forward premium widened to 1 $\frac{11}{16}\%$ leaving a covered differential of $\frac{5}{16}\%$ in favour of London.

Sterling lost another $\frac{1}{4}\%$ in Europe, closing at 4.25 $\frac{1}{2}$ in Germany, 3.60 $\frac{3}{8}$ in Switzerland and 11.83 $\frac{3}{8}$ in France. The dollar, too, was weaker in these centres at 2.4365, 2.0652 and 6.7812 respectively. EMS narrowed to 2% between the Danish krone (8.4250) and the deutschemark, with the lira (1367.70) only 2 $\frac{1}{8}\%$ above the latter. The Belgians bought \$50mn. and the Germans sold \$2mn. The yen gained $\frac{1}{2}\%$ to close at 251.90.

The recent rally in gold ended in New York last night and the price gave further ground in London today. Fixings were at \$358.25 and \$353.

Operations:	Market	+	\$2mn.
	BIS	+	9
	India	+	9
	Sundries	+	9
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		+	\$29mn.
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22nd July 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 22nd July 1982

Federal Funds

Opening: 11%
Range: 10 $\frac{7}{8}$ % - 11 $\frac{3}{8}$ %
Close: 11 $\frac{1}{8}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Swapped \$450mn. 2-month Treasury
Notes for an equivalent amount
of 5 and 7-year Treasury Notes
for a customer.

US 3-month Treasury Bills 10 $\frac{3}{4}$ %

US bank 3-month CDs 12 $\frac{1}{4}$ %

Indicators

Durable goods orders -1.6% in June

Comment:

Prices held close to the previous night's levels throughout most of the morning, in quiet conditions. The absence of any Fed intervention at noon (against some expectations of a reverse repurchase agreement) induced a modest improvement. In early afternoon trading, prices moved up as rumours began circulating that Kaufman was shifting his long-term bearish attitude on interest rates. The durable goods number also gave a boost to the market.

23rd July 1982.

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