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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd July 1982

The dollar's downward spiral gathered pace today following the release yesterday of another indicator (orders for durable goods in June -1.6%) showing that the recovery from the recession in the US is faltering in the face of high real interest rates. About the same time, one of Wall Street's gloomiest economic gurus, Henry Kaufman, was rumoured to be recanting his bearish views on the course of interest rates and the dollar weakened very sharply during the morning. An unexpectedly large rise in US consumer prices in June (+1%) and an uninspiring performance by the US bond market this afternoon trimmed its losses by the end of the day. Sterling enjoyed some sizeable turnover and continued the pattern seen earlier in the week, making less progress against the weakening dollar than the other major currencies. The ERI closed unchanged at 91.0.

As the dollar weakened in New York last night the pound rose there to close at 1.75. The dollar continued to ease in the Far East and sterling opened in London at 1.7527. Having fallen briefly to 1.7525, the rate started to move ahead as the dollar fell back, led by a strong Swiss franc. Again, some selling was seen from a Japanese bank but some buying on oil company account helped sterling to breach 1.76 by mid-morning and it reached 1.7641 shortly before noon as the deutschemark reached its best levels. New York at first seemed likely to take the dollar lower and a large stop/loss buying order for sterling was triggered, which took the pound up to 1.7650 in mid-afternoon. However, the rate had drifted back to 1.76 by the close as the dollar came back from its weakest levels. Three-month Euro-dollars fell sharply, closing 11/16% lower at 12 3/4%. Sterling's forward premium narrowed to 1 1/8% and the covered differential widened to 7/16% in favour of London.

Sterling continued to lose ground on the Continent, closing 3/8% lower in Switzerland (3.57 3/8) and 1/2% lower in Germany (4.23) and France (11.77 1/2). The dollar lost around 1 1/2% in each of these centres, finishing at 2.0305, 2.4035 and 6.69 respectively. EMS narrowed further, the deutschemark closing only 1 3/4% below the French franc at the top of the 2 1/4% band and 3% from the lira (1305.15). The Danes sold \$39mn. and the Belgians bought \$25mn. The yen rose about 1% to close at 249.82.

Gold rallied in the Far East this morning on the weaker dollar and held its gains in London. Fixings were at \$363.75 and \$363.25.

Operations:	Market	+	\$5mn.
	Sundries	+	<u>6</u>
		+	<u>\$11mn.</u>

23rd July 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 23rd July 1982

Federal Funds

Opening: 10½%
Range: 10½% - 10¾%
Close: 10¾%

US Governments (NY closing bids)

2-year: 99¾ (-⅜) 13¼%
5-year: 100½ (-¼) 13⅝%
10-year: 100½ (-¼) 13⅝%
30-year: 105 (-⅝) 13⅝%

Euro-dollars (Today's opening
London bid)

7-day: 11½%
1-month: 12%
3-months: 13%
6-months: 14%

Federal Reserve Operations:

US 3-month Treasury Bills 10¾%
US bank 3-month CDs 11¾%

Indicators

US Consumer Prices +1.0%
M1 -\$0.1bn.

Comment:

In quiet conditions, normal for a Friday, stocks traded, prior to the money supply announcement, within ¼ point either side of the previous evening's close. The money supply figure disappointed the market - a decline of \$2-3bn. had been expected - and prices moved down to close at their lows.

24th July 1982.

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