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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th July 1982

Fears about the size of the US Treasury financing requirements to be announced later today overhung the exchanges, reducing activity and helping to keep the dollar very firm. Meanwhile, there were further cautious moves towards lowering interest rates, with Belgium cutting discount and Lombard rate by $\frac{1}{2}\%$ and further reductions in the Bank's bill dealing rates. Despite this, sterling remained very firm and the ERI closed unchanged at 91.4.

Sterling closed a quiet evening in New York yesterday at 1.7522. This morning the rate opened at 1.7530 and, having touched 1.7543 in early business, eased back slowly as the dollar strengthened on firmer Euro-dollar rates. By noon the rate had drifted down to 1.7484. After a very quiet morning, some selling from London banks was seen shortly before the reductions in the Bank's bill dealing rates were announced and the rate fell to touch 1.7435. During an uneventful afternoon the rate recovered slowly, as the dollar gave up some of its gains, and it closed at 1.7491. Three-month Euro-dollars shed early gains to close unchanged at 13 $\frac{3}{16}\%$. Interbank sterling rates fell $\frac{1}{8}\%$ to 11 $\frac{15}{16}\%$ and sterling's forward premium narrowed to 1 $\frac{5}{16}\%$, reducing the covered differential to 1/16% in favour of London.

Sterling's performance on the Continent was a little mixed: it closed unchanged in Germany at 4.26 $\frac{1}{2}$, marginally easier in France at 11.86 $\frac{1}{2}$ and gained $\frac{3}{8}\%$ in Switzerland to 3.60 $\frac{3}{4}$. The dollar was firmer in both Frankfurt (2.4360) and Zurich (2.0627) but a touch weaker in Paris (6.7812). EMS widened to 1 $\frac{1}{8}\%$ between the French franc at the top and the guilder (2.6962) at the bottom but the lira (1365.65) weakened to close only 3 $\frac{5}{16}\%$ above the latter. The Italians sold \$118mn., the Germans \$25mn. and the Danes \$13mn. Elsewhere, the Norwegian krone was the subject of devaluation rumours and fell sharply for the second successive day, making losses of 1 $\frac{1}{2}\%$ so far this week. The central bank, concerned about the effects of the exchange rate on export competitiveness, intervened aggressively buying \$70mn. The yen was weak, with the IMM as buyers of dollars; it closed at 253.77.

Gold fell back through \$350 in the Far East this morning. Fixings in London were at \$345.75 and \$347.

| | | | |
|-------------|--------|---|-------------|
| Operations: | Market | + | \$11mn. |
| | BIS | + | 35 |
| | Iraq | + | 9 |
| | | | <hr/> |
| | | + | \$55mn. |
| | | | <hr/> <hr/> |

28th July 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 28th July 1982

Federal Funds

Opening: 11 $\frac{3}{8}$ %
Range: 11 $\frac{3}{8}$ % - 14 $\frac{1}{2}$ %
Close: 14 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{3}{8}$ (- $\frac{1}{8}$) 13 $\frac{1}{2}$ %
5-year: 99 $\frac{1}{2}$ (- $\frac{1}{8}$) 13 $\frac{7}{8}$ %
10-year: 99 $\frac{1}{8}$ (- $\frac{1}{8}$) 13 $\frac{7}{8}$ %
30-year: 103 $\frac{1}{4}$ (- $\frac{1}{4}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$0.7bn. customer repurchase
agreement with Fed Funds at 11 $\frac{3}{8}$ %.
Stop rate 10.02%.

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

US bank 3-month CDs 12 $\frac{3}{8}$ %

Indicators

Comment:

Prices slowly drifted down throughout the day in light trading, as the market awaited the details of the Treasury quarterly refunding announcement. This was released late in the day and was much in line with market expectations (a \$6bn. 3-year issue and a \$5bn. 10-year issue to be auctioned in early August as part of the current quarter's \$50bn. funding requirement). Prices changed little on the news.

29th July 1982.

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