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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th July 1982

A very erratic day on the exchanges. Last night's US Treasury refinancing announcement was much in line with market expectations but the dollar strengthened very sharply in New York where the IMM turned from sellers to buyers. Today, after a very steady morning, the dollar gave back much of its gains, as the US bond market improved and major banks consolidated prime rates at 15½%. Sterling continued firm and the ERI closed unchanged at 91.4.

Sterling fell 1½ cents to close at 1.7345 in New York last night as the IMM, who sold the dollar heavily last week, bought back their positions. The dollar eased a little in the Far East and sterling opened in London at 1.7391. Some early nervousness about a possible cut in the clearing banks' base rates was evident and selling by both London and German banks took the rate down to 1.7290 in mid-morning against an otherwise unchanged dollar. This pressure was, however, fairly easily absorbed and the rate had recovered almost to the opening levels by noon. When the US bond market, after a hesitant start, began to move ahead in the afternoon, sterling moved above 1.74 to close at the high for the day of 1.7425. Three-month Euro-dollars were ¼% firmer at 13 5/16%. Sterling's forward premium widened to 1½% and the covered differential to ¼% in favour of London.

Sterling was firmer on the Continent, gaining ¾% in Switzerland (3.62½) and rather less in both Germany (4.26¾) and France (11.88½). The dollar, which had gained almost 1½% against the European currencies in New York last night, ended the day only ½% firmer at 2.0780 in Zurich, 2.4470 in Germany and 6.8187 in Paris. Later, however, the dollar started to improve again and the deutschemark was quoted at 2.4545. EMS widened to 1 15/16% between the French franc and the guilder (2.7115), with the lira (1375.75) only 3¾% from the latter. The Germans sold \$100mn., the Danes \$18mn. and the Irish \$4mn. Elsewhere, the Swedes bought \$30mn. and the Norwegians \$5mn. The Bank of Japan sold \$60mn. in New York last night but the yen continued weak in London today, falling to 255.02.

Gold was hit by the firmer dollar in New York last night and opened in London this morning at \$336. Some US commission house buying during the morning brought a slow recovery and the fixings were at \$340.50 and \$342.50. Later, the price was quoted back below \$340.

Operations:	Market	+	\$14mn.
	Interest	+	13
	Government	-	5
	Sundries	-	5
		+	<u>\$17mn.</u>

29th July 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 29th July 1982

Federal Funds

Opening: 11 $\frac{3}{8}$ %
Range: 11 $\frac{5}{8}$ % - 11 $\frac{3}{4}$ %
Close: 11 $\frac{5}{8}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

US 3-month Treasury Bills 11%
US bank 3-month CDs 12 $\frac{1}{4}$ %

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{1}{4}$ higher, despite Fed Funds trading at 11 $\frac{3}{8}$ %. In a day of light trading, prices did not move far from their opening levels until the late afternoon when they improved further to close at their highs for the day.

30th July 1982.

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