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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 30th July 1982

The exchanges continued nervous and volatile today, with no clear sense of direction. Active buying in New York last night by the IMM pushed the dollar sharply higher there and today it reluctantly gave up some of its gains helped by some further intervention from the Bundesbank and some selling by an East European bank during the morning. The ½% cut in the clearing banks' base rates long since discounted, sterling remained firm but on the sidelines. The ERI closed 0.1 higher at 91.5.

As the IMM bought dollars aggressively in New York last night, sterling was sold down to 1.7275 before closing there at 1.7330. The rate opened this morning at 1.7339 and, having touched 1.7320 in early business, moved ahead quickly to establish a level around 1.74, reaching 1.7421 at best shortly before noon. As on many days recently, there was little business in sterling and the rate traded quietly but comfortably. The announcement of the ½% cut in Lloyds' base rate saw sterling marked down briefly to 1.7365 but, with the dollar then easing elsewhere as Fed Funds opened at 11¾%, the rate recovered to touch 1.7437 before again steadying around the 1.74 level. The rate ended the day at 1.7405. Three-month Euro-dollars fell 5/16% to 13%. Sterling's forward premium narrowed to 1 7/16% and the covered differential in favour of London was 5/16%.

Sterling was firm on the Continent, gaining ¾% in Germany (4.28) and ¼% in Switzerland (3.63) and France (11.90½). The dollar ended about ¾% higher in each of these centres at 2.4590, 2.0860 and 6.84 respectively. In EMS the deutschemark returned to bottom position, 1¾% below the French franc and 3¼% from the lira (1377). The Germans sold \$50mn. and the Danes \$8mn. while the Italians bought \$82mn., the French \$30mn. and the Irish \$6mn. The yen was again weak, falling to 258.85 in Tokyo, where the Bank of Japan sold \$16mn.; it closed in London at 256.90.

Gold traded quietly and steadily at yesterday's levels. Fixings were at \$342.50 and \$342.90.

Operations:	Market	+	\$11mn.
	Iran	+	8
	IDA	+	6
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		+	\$25mn.
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The result for July is a rise in reserves of \$240mn. to a level of \$17,943mn., after net new public sector borrowing of \$104mn. and a repurchase under the IMF oil facility of \$57mn. The renewal of the ECU swap caused a rise of \$34mn. in the value of the spot reserves and an equivalent fall in the overbought forward position which was reduced overall by \$26mn. to a level of \$892mn.

30th July 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 30th July 1982

Federal Funds

Opening: 11½%
Range: 10¾% - 11½%
Close: 11½%

US Governments (NY closing bids)

2-year: 100½ (+1) 12¾%
5-year: 101¾ (+1½) 13¾%
10-year: 101¾ (+1½) 13½%
30-year: 105¼ (+1½) 13½%

Euro-dollars (Today's opening
London bid)

7-day: 11¾%
1-month: 11¾%
3-months: 12¾%
6-months: 13 11/16%

Federal Reserve Operations:

Discount rate reduced from 11½%
to 11%.

US 3-month Treasury Bills 10¾%

US bank 3-month CDs 11¾%

Indicators

US leading indicators unchanged in June (after +0.9 in May,
revised from +0.3).

M1 -\$0.8bn.

Comment:

The market opened ¼-¾ higher, with investors apparently more optimistic about the money supply and the likely demand for the following week's Treasury offerings. After some early activity, trading declined and the prices stayed within a ¼ point range until the late afternoon. The money supply figure was in line with expectations, but the cut in the discount rate came as a surprise and the market immediately moved up ½-1 point, closing at its high.

2nd August 1982.

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