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THE DEPUTY GOVERNOR *OWR*

Copies to Mr. Loehnis o/r  
Mr. Sangster

FOREIGN EXCHANGE AND GOLD MARKETS  
16TH - NOON, 30TH JULY 1982

During your absence the foreign exchange markets have been dominated by interest rate factors. The US monetary aggregates on the 16th showed a rise of \$5.9bn., at the lower end of expectations which had ranged up to \$10bn. Reaction was swift: the first prime rate cut by a large US bank (Man.Han.) was announced the following Monday, from 16 1/2% to 16%, and the Fed reduced Discount Rate by 1/2% to 11 1/2% the next day. Although last Friday's fall of \$0.1bn. in US M1 was disappointing, a further 1/2% was clipped off Man.Han.'s prime last Monday and all the major banks have now followed suit. This easing has enabled us gradually to reduce our dealing rates in the sterling money market by about 1/2%. Elsewhere, Belgian Bank and Lombard Rates down 1/2% to 13 1/2% and 14 1/2%; Swiss commercial bank deposit rates down by up to 3/4%.

Fed Funds have eased from around 13% to 11 5/8% yesterday (having touched 10 1/4% on Wednesday, 21st). Three-month Euro-dollars declined about 1 3/4% to 13 1/8% at noon today. Sterling interbank for same period down 9/16% to 11 15/16%.

In the exchanges, sterling gained some strength from the calling off of the ASLEF strike but softened a little on the dealing rate reductions. However, it has really been on the sidelines during the period except for a sale of £125mn. by the EEC which we asked them to transact in the market. It has risen roughly 1 1/4% in dollar terms, from 1.7183 to 1.74, by 0.4 on the ERI, to 91.4, but eased about 1/2% against the deutschemark, from around 4.29 to 4.27. We have intervened only marginally, buying under \$50mn.

The dollar has lost about 1 1/4% in Germany, easing from 2.4960 to 2.4543 at noon. The IMM have been very active in both directions, causing considerable volatility at times. The Bundesbank were aggressive sellers of dollars yesterday (-\$100mn.) and this

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morning (-\$50mn.). EMS has been below 2% wide on most days with the weakest position held by the deutschemark or the florin and the strongest shared by the punt/French franc/Danish krone. At noon the outriders were the florin and French franc some 1 7/8% apart. There have been modest recoveries of reserves by Belgium and Italy. The Canadians recovered nearly \$1bn. in July, almost all in the period up to the 20th. The yen is little changed at 256, though there were heavy sales by the IMM last night.

Gold has been volatile, too, and at times very heavily traded as various upper chart points were breached. On the 21st it reached \$369 but it has fallen back to \$343 this morning, a net fall of \$5 since the 15th, principally because of a sharp decline in the Far East last Wednesday. A low of \$336 was quoted yesterday. There seems to be little buying interest at present but silver is also an influence, having fallen from over \$7 to \$6.60 this past week.

Half-sovereigns (the first minted for general "use" since 1915) were released this week. 32,000 have been sold at a cost of approximately \$49.50 each, reflecting a 20% premium over intrinsic worth. With VAT they should retail at about £33 but the mark-up for a single coin purchase is likely to boost this to around £38.

The result for July is likely to be a rise in the reserves of \$239mn. after PSB/IMF/EMCF factors of +\$81mn., i.e. a perceived gain of \$158mn. The actual market take was \$125mn. During the month the dollar rate has risen from 1.7260 to 1.74, the ERI from 91.1 to 91.4 and the £/DM rate has shown little net movement(4.27). The forward book has fallen by \$26mn. to an over-purchased position of \$892mn. The absolute level of the reserves will be \$17.9bn.

DAHB

30th July 1982.

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