

FE 2/2 4
JAFE 7/12

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd August 1982

Although M1 on Friday night at -\$0.8bn. was exactly in line with market expectations, Fed action in cutting the discount rate by $\frac{1}{2}\%$ to 11% was earlier than generally anticipated. It paved the way for a further reduction in major banks' prime rates, to 15%, today but despite this the dollar remained firm and showed no disposition to weaken sharply. Against the background of lower US rates, sterling was unaffected by the reduction in the Bank's bill dealing rates and took heart from the trade figures which seemed well received. The ERI closed 0.2 higher at 91.7.

Sterling closed at 1.7475 in New York on Friday night and opened in London this morning at 1.7450. As the dollar eased in the early going on lower Euro-dollar rates, sterling moved quickly ahead to breach 1.75 and touch 1.7533 in mid-morning. Some commercial buying was seen from Eastern Europe but this was counterbalanced by some professional selling against deutschemarks from London. By late morning the rate had steadied around 1.7525 but when the US came in as buyers of dollars, despite a generally firm US bond market, sterling eased back again to the 1.75 level. As the dollar recovered quickly towards the end of the day, sterling remained very stable, helped by the trade figures, easing only to 1.7495 by the close. Three-month Euro-dollars fell $\frac{3}{8}\%$ from Friday to close at 12 $\frac{3}{8}\%$. Sterling's forward premium fell to 13/16% and the covered differential to $\frac{1}{8}\%$ in favour of London.

Sterling was about $\frac{1}{4}\%$ easier in Europe, closing at 4.27 in Germany, 3.62 $\frac{1}{2}$ in Switzerland and 11.87 $\frac{1}{2}$ in France. The dollar closed about $\frac{3}{8}\%$ easier in each of these centres at 2.4405, 2.0737 and 6.7887 respectively, having earlier lost over 1%. Following a cut in the Bank of France's intervention rate, the Irish punt (1.4107) replaced the French franc at the top of EMS, 1 $\frac{1}{8}\%$ above the deutschemark which was 3 5/16% from the lira (1365.75). The French bought \$55mn., while the Italians sold \$35mn. and the Germans \$18mn. Elsewhere, the Norwegian krone (6.5505), as rumoured last week, was effectively devalued by 2%, when the weighting of the US dollar in their basket of currencies was reduced at the expense of the EEC currencies. The Norges bank also bought \$100mn. to help depress the krone. Despite the narrowing of the interest rate differentials, the yen failed to make any progress against the dollar, easing to 257.22.

Gold rallied in the Far East this morning as Euro-dollar rates eased and held its gains in London. Fixings were at \$352.125 and \$351.35.

Operations:	Switzerland	+	\$20mn.
	Iraq	+	9
	Interest	+	7
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		+	\$36mn.
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2nd August 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 2nd August 1982

Federal Funds

Opening: 11%
Range: 10½% - 11%
Close: 10½%

US Governments (NY closing bids)

2-year: 100¾ (+¾) 12½%
5-year: 102¾ (+¾) 13¾%
10-year: 102½ (+1¾) 13¾%
30-year: 106½ (+1¾) 13¾%

Euro-dollars (Today's opening
London bid)

7-day: 11¾%
1-month: 11½%
3-months: 12¼%
6-months: 13¾%

Federal Reserve Operations:

US 3-month Treasury Bills 9¾%
US bank 3-month CDs 11 5/16%

Indicators

Factory orders -0.3% in June

Comment:

The market opened slightly higher, with the professionals benefitting from a low cost of carry (overnight repurchase agreements were at rates below 8%), but with no retail interest, prices made little headway during the morning. In mid-afternoon, prices moved up again, on the factory orders announcement and the decline in the Fed Funds rate. The market closed at its high.

3rd August 1982.

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