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THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 3rd August 1982

A fall in factory orders in the US in June reconfirmed the absence of any sustained recovery from the recession there and gave renewed impetus to the bond market yesterday afternoon in New York. The dollar fell sharply from the levels seen in London yesterday but it spent today recovering those losses despite easier Euro-dollar rates. Sterling was quiet but firm. The ERI closed unchanged at 91.7.

As the dollar weakened in New York last night sterling moved up to close there at 1.7575. This morning the rate opened at 1.7585 and, having touched 1.76 in very early trading, eased back slightly as the dollar's recovery began. After a quiet morning during which little business was seen apart from a two-way interest from an American insurance company, the rate had drifted to 1.7457 by noon. When the US bond market quickly started to surrender yesterday's gains the dollar moved ahead strongly in the afternoon and Euro-dollar rates returned to their opening levels. Sterling eased slightly lower, touching 1.7515 shortly before the close at 1.7524. After weakening during the morning, three-month Euro-dollars closed only 1/16% lower at 12 5/16%. Sterling's forward premium was 3/8% and the covered differential slightly against London by the close.

Sterling was more or less unchanged in Europe, closing at 4.26 1/2 in Germany, 3.62 1/2 in Switzerland and 11.88 in France. The dollar, having opened 1% weaker, closed only 1/4% below yesterday's levels at 2.4339, 2.0690 and 6.7787 respectively. The French franc reverted to top of EMS, which closed only 1 11/16% wide with the deutschemark at the bottom, 3 7/16% from the lira (1361.35). The Germans sold \$23mn. and the French bought \$19mn. Elsewhere, the Norwegians bought a further \$25mn. The yen closed at 257.45.

After a very firm opening, gold slipped back as the dollar strengthened. Fixings were at \$352.50 and \$349.25.

Operations:	Market	+	\$9mn.
	Interest	+	5
	Sundries	+	2
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		+	\$16mn.
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3rd August 1982.

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US BOND AND MONEY MARKETS

Tuesday, 3rd August 1982

Federal Funds

Opening: 10 $\frac{1}{4}$ %  
Range: 10 $\frac{1}{4}$ % - 10 $\frac{1}{4}$ %  
Close: 10 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{4}$  (- $\frac{5}{8}$ ) 13%  
5-year: 101 (-1 $\frac{1}{8}$ ) 13 $\frac{3}{8}$ %  
10-year: 101 $\frac{1}{2}$  (-1 $\frac{1}{8}$ ) 13 $\frac{1}{2}$ %  
30-year: 105 $\frac{1}{4}$  (-1 $\frac{1}{4}$ ) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 11 $\frac{1}{8}$ %  
1-month: 11 9/16%  
3-months: 12 7/16%  
6-months: 13 5/16%

Federal Reserve Operations:

Reverse repurchase agreement with  
Fed Funds at 10 $\frac{1}{2}$ %. Stop rate  
10.78%.

US 3-month Treasury Bills 10 $\frac{1}{8}$ %

US bank 3-month CDs 11 $\frac{5}{8}$ %

Indicators

Comment:

The market opened  $\frac{1}{8}$ - $\frac{1}{2}$  weaker, and remained at this level through a fairly quiet morning, until the Fed unexpectedly executed the reverse repurchase agreement just before noon. This action caused prices to fall a  $\frac{1}{4}$  point. Prices declined further after the auction of the 3-year Treasury note, but recovered slightly before the close.

4th August 1982.

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