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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 4th August 1982

The extreme uncertainty and nervousness about the direction of US interest rates and of the dollar was well demonstrated last night and today. Unsettled by Fed action to drain reserves from the US domestic market and tighten liquidity there, dealers who the previous day had pushed the dollar sharply lower, reversed their opinions yesterday afternoon in New York and bid aggressively for dollars. Europe continued the movement today and the dollar closed at its best levels for two weeks. Once again, sterling remained on the sidelines, easing gently lower; the ERI closed 0.1 down at 91.6.

As the dollar's recovery gathered pace in New York yesterday evening, sterling fell back with the other currencies to close there at 1.7410. This morning the rate opened at 1.7390 and, after touching 1.7399, began to fall back as the dollar's advance continued. As has been the case throughout most of the last few weeks, there was little business in sterling apart from some modest commercial selling during the morning from Germany. By noon the rate had reached 1.7326 and when the US bond market looked in danger of heading lower again and the dollar reached its best levels of the day, the rate was marked back briefly to 1.73. It closed at 1.7332, as the dollar eased temporarily. Later, however, as the dollar was bid up further in New York, sterling was quoted down to 1.7260. Three-month Euro-dollars were  $\frac{1}{8}\%$  firmer at 12 7/16%. Sterling's forward premium widened to  $1\frac{1}{8}\%$  and the covered differential reverted to  $\frac{1}{8}\%$  in favour of London.

Sterling was a little firmer on the Continent, gaining  $\frac{3}{8}\%$  in Germany (4.28 $\frac{1}{2}$ ) and Switzerland (3.63 $\frac{1}{2}$ ) and  $\frac{1}{4}\%$  in France (11.90 $\frac{1}{2}$ ). The dollar rose  $1\frac{1}{2}\%$  in each of these centres to close at 2.47, 2.0992 and 6.8690, respectively. Later, however, the dollar was quoted at 2.4840, 2.1120 and 6.91. The French franc retained its top position in EMS,  $1\frac{1}{2}\%$  above the deutschemark, which was 3 5/16% below the lira (1382.87). The Italians sold \$80mn., the Germans \$30mn. and the Danes \$10mn. The yen continued very weak despite sizeable support from the Bank of Japan, who sold \$22mn. in New York last night and \$153mn. in Tokyo this morning where the yen closed at 258.20. Today it fell through 260 under pressure of heavy professional selling from Switzerland but had recovered slightly to 259.82 by the close.

Gold eased a little further as the dollar strengthened, fixing at \$347.60 and \$346.25.

Operations:	Government	-	\$8mn.
	Interest	+	7
	Sundries	+	2
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		+	\$1mn.
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4th August 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 4th August 1982

Federal Funds

Opening: 10½%  
Range: 10¾% - 11%  
Close: 10½%

US Governments (NY closing bids)

2-year: 100½ (-¼) 12¾%  
5-year: 101 (-) 13¾%  
10-year: 100¾ (-¼) 13¾%  
30-year: 105½ (+¼) 13¾%

Euro-dollars (Today's opening  
London bid)

7-day: 11 1/16%  
1-month: 11 7/16%  
3-months: 12 5/16%  
6-months: 13 3/16%

Federal Reserve Operations:

Reverse repurchase agreement with  
Fed Funds at 10½%. Stop rate  
10.78%.

US 3-month Treasury Bills 10%.

US bank 3-month CDs 11½%.

Indicators

Comment:

The market opened unchanged but drifted down until mid-afternoon in light trading - the Fed's action contributing only slightly to the decline. Prices began to improve following the auction of the 10-year Treasury note to close little changed on the day.

The new tranche of \$5½bn. 10-year note was auctioned at an average of 13.69%.

5th August 1982.

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