

Team
SECRET

90.9

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13 1/8

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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 6th August 1982

At the end of a volatile week on the exchanges, activity diminished somewhat but the dollar continued very firm, unaffected by speculation about possible concerted Arab financial pressure on the US to force an Israeli withdrawal from Lebanon. An unexpectedly large rise in US unemployment in July (+0.3% to 9.8% - a new post-war record) helped to trim the dollar's gains a little by the end of the day. Sterling was a quieter market than yesterday and traded with a generally firmer tone. Some selling by the IMM during the afternoon was absorbed without difficulty and the ERI closed 0.1 higher at 91.1, after 90.8 at the start of the day.

After the hectic activity of the European markets, New York was quiet yesterday evening and sterling closed there at 1.7145. This morning the rate opened at 1.7150 and immediately dropped back on a little professional selling from Switzerland as the dollar moved sharply higher. With the dollar led up by the weakness of the yen and the deutschemark, affected again by worries over AEG, sterling fell back through 1.71, bottoming at 1.7053 in mid-morning. Some buying on oil company account was seen at the lower levels and the rate recovered to 1.7088 at noon. The announcement of the rise in US unemployment saw the dollar fall back from its strongest levels in Europe and sterling rose briefly to 1.7125, but when the IMM came in as sellers, the pound for a while looked vulnerable. The rate fell back again to 1.7065 but had recovered to 1.7115 by the close. Three-month Euro-dollars rose 3/8% to 12 5/8%. Sterling's forward premium widened to 1 9/16% and the covered differential remained modestly in favour of London.

Sterling regained some of yesterday's losses in Europe rising 1/8% in Germany (4.27 1/2%) and France (11.89 1/2%) and rather more in Switzerland (3.65 1/2%). The dollar gained a further 1/8% in each of these centres, at 2.4990 in Frankfurt (after 2.5070), 6.9475 in Paris and 2.1335 in Zurich against a weak Swiss franc. EMS was unchanged: 1 15/16% wide between the French franc at the top and the deutschemark at the bottom, with the latter 3 1/2% from the lira (1397). The Germans sold \$36mn. and the Danes \$6mn., while the Italians bought \$20mn., the Dutch bought deutschemarks worth \$6mn. and the Irish \$4mn. The Japanese again provided heavy support for the yen, selling \$63mn. in New York last night and \$252mn. in Tokyo this morning, where the yen closed at 259.55. In London it fell to 261.50 before improving to 260.30 by the close.

Gold was a quiet market. Fixings were at \$346.125 and \$344.75.

Operations:	Market	+	\$9mn.
	Ghana	-	7
	Sundries	+	8
			<hr/>
		+	\$10mn.
			<hr/> <hr/>

6th August 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 6th August 1982

Federal Funds

Opening: 10 $\frac{1}{8}$ %
Range: 10 $\frac{5}{8}$ % - 10 $\frac{3}{4}$ %
Close: 10 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{5}{8}$ (- $\frac{3}{8}$) 13 $\frac{1}{4}$ %
5-year: 99 $\frac{3}{4}$ (- $\frac{1}{4}$) 13 $\frac{3}{8}$ %
10-year: 99 $\frac{1}{2}$ (- $\frac{1}{8}$) 13 $\frac{7}{8}$ %
30-year: 103 $\frac{1}{4}$ (-1 $\frac{1}{2}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 11 $\frac{3}{8}$ %
1-month: 11 $\frac{1}{8}$ %
3-months: 13
6-months: 14

Federal Reserve Operations:

US 3-month Treasury Bills 10 $\frac{1}{4}$ %
US bank 3-month CDs 12%

Indicators

M1 +0.9%
Unemployment 9.8% in July (June 9.5%)

Comment:

With dealer's overnight financing rates at 10 $\frac{1}{2}$ %, against 8% earlier in the week, offsetting the pre-opening announcement on unemployment, the market opened little changed, but drifted down through the morning and early afternoon. Against this depressed background, the M1 announcement - the market's expectation was for a slight fall - caused prices to weaken further and the market closed at its low.

9th August 1982.

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