

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 9th August 1982

Today the dollar marked dramatically the anniversary of its August 1981 peak by scaling new heights in most centres. The unexpected and disappointing \$0.9bn. rise in M1 on Friday night, together with the collapse of a large takeover in the US oil industry, made for sharply higher Euro-dollar rates and set the scene for today's events. Sterling saw some spasmodic selling and suffered a little more than most other major currencies, falling to its lowest level against the dollar since December 1976. The ERI lost 0.4 to close at 90.7.

As the US bond market dropped sharply in New York on Friday night following the money figures and the cancellation of Gulf Oil's takeover of Cities Service, sterling fell back to close at 1.7055. The dollar continued to strengthen rapidly in the Far East and in the early going in London, where sterling opened at 1.6970 but was soon marked back, under pressure of selling from Europe, to 1.6870, its lowest level since Christmas Eve 1976. Although Euro-dollar rates moved rather higher during the morning and the dollar remained very firm, sterling staged a cautious recovery, helped by some modest professional buying, and established a trading range around 1.69½ by mid-morning. By noon the rate had reached 1.6969 but with New York also looking to sell sterling, it traded with a rather soft tone, falling back to 1.6908 in the early afternoon. However, as the opening losses in the bond market began to be erased and the dollar came back from its strongest levels in Europe, the rate rose to 1.6935 by the close. Later, as the Fed intervened to pump liquidity into the US market, the dollar weakened further and sterling was quoted up to 1.7020. Euro-dollar rates were much firmer, with the three-month deposit closing 7/16% higher at 13 1/16%. Sterling's forward premium widened to 1 11/16% and interest parity prevailed.

Sterling was easier on the Continent, losing ¼% in Switzerland (3.64½) and a little less in Germany (4.27) and France (11.88). The dollar reached its best levels for 12 months in both Zurich (2.1657) and Frankfurt (2.5365) and an all-time high of 7.0550 in Paris, but it closed a little below these levels at 2.1510, 2.5216 and 7.0140 respectively. EMS was 1½% wide between the French franc at the top and the deutschemark at the bottom, with the latter 3½% from the lira (1409.15, after an all-time low of 1415.75). The Italians bought \$55mn., the Dutch deutschemarks worth \$20mn. and the Irish \$8mn. The Bank of Japan provided massive support for the yen, selling a further \$40mn. in New York on Friday and \$608mn. in Tokyo this morning. The yen fell to a five-year low of 263.30 before closing today at 262.52.

Gold suffered from the strength of the dollar and the firmer Euro-dollar rates, fixing at \$337.75 and \$336.

Operations:	Market	+	\$3mn.
	IDA	+	5
	Interest	+	5
	Sundries	-	2
			<hr/>
		+	\$11mn.
			<hr/> <hr/>

9th August 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 9th August 1982

Federal Funds

Opening: 11%
Range: 10 $\frac{7}{8}$ % - 11%
Close: 10 $\frac{7}{8}$ %

US Governments (NY closing bids)

2-year: 100 (+ $\frac{3}{8}$) 13 $\frac{1}{8}$ %
5-year: 100 $\frac{1}{2}$ (+ $\frac{1}{2}$) 13 $\frac{5}{8}$ %
10-year: 100 $\frac{3}{8}$ (+ $\frac{7}{8}$) 13 $\frac{5}{8}$ %
30-year: 105 $\frac{1}{2}$ (+1 $\frac{3}{8}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 11 $\frac{3}{8}$ %
1-month: 11 $\frac{3}{4}$ %
3-months: 12 $\frac{1}{4}$ %
6-months: 13 $\frac{3}{4}$ %

Federal Reserve Operations:

Overnight repurchase agreement for
system account with Fed Funds at
11%. Stop rate 10.25%.

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

US bank 3-month CDs 11 $\frac{7}{8}$ %

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{3}{8}$ below Friday's closing levels, but improved very gradually in a very quiet morning session. By mid-day prices were back to around the prior close when the Fed unexpectedly executed a repurchase agreement for system account. This triggered a rally which continued through the afternoon and prices closed at or near their highs.

10th August 1982.

OP OP