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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th August 1982

Unexpected Fed action yesterday afternoon in New York to supply liquidity to the US domestic market sparked off a rally in the bond market and a significant easing in the dollar. Today, lower Euro-dollar rates and some concerted intervention by the German and Swiss central banks carried the dollar lower but it seemed poised to recover again by the end of the day. Sterling had a quieter and much more comfortable day, recovering some of yesterday's losses. The ERI rose 0.3 to 91.0.

The Fed action and the ensuing rally in the bond market last night in New York caused the dollar to lose $\frac{3}{4}\%$ there and sterling improved with the other major currencies to close at 1.7080. In the Far East the dollar regained some ground and sterling opened this morning at 1.7010. In early business the dollar showed no clear direction but sterling enjoyed some modest demand from Germany and rose steadily. By mid-morning with the dollar by then heading lower as Euro-dollar rates eased further and the impact of the European intervention was felt, sterling breached 1.71 and was only slightly below that level at noon. The absence of any reduction in the Bank's dealing rates contributed to some further buying interest over the lunch period and the rate reached 1.7145 at best. When the US bond market opened on an uncertain note, and with the Swiss and German authorities having withdrawn from the market, the dollar began to recover in the afternoon, helped by some buying in New York. Sterling eased back from its best levels to close at 1.7095. After the close, rumours of a two million barrel a day increase in Saudi oil production led to some selling of sterling from the US and the rate was quoted down to 1.6985. Euro-dollars surrendered most of yesterday's gains, closing 7/16% lower at 12 $\frac{3}{8}\%$. Sterling's forward premium narrowed to 1 $\frac{1}{2}\%$ and there was no significant covered interest rate differential.

The pound was steady in Europe, closing at 4.27 in Germany, 11.88 $\frac{3}{4}$ in France and 3.64 $\frac{1}{2}$ in Switzerland. The dollar's losses of over 1% were largely incurred in New York yesterday evening and it closed at 2.4975, 6.9515 and 2.1317 respectively today but later was quoted at 2.51 in Germany. EMS narrowed to 1 13/16% and the Irish punt (1.3777) finished narrowly ahead of the French franc at the top, with the deutschemark at the bottom, 3 $\frac{1}{2}\%$ below the lira (1393.62). The Germans sold \$125mn. and the Swiss \$50mn., while the Italians bought \$80mn. and the Dutch bought deutschemarks worth \$20mn. There was no support today for the yen which closed at 262.20 in London.

Gold was a very quiet and steady market. Fixings were at \$337.75 and \$338.25. Later, following the reports of the Saudi oil production increase, the price was quoted at \$335.

Operations:	Market	+	\$16mn.
	New Zealand	-	10
	Sundries	-	1
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		+	\$5mn.
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10th August 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 10th August 1982

Federal Funds

Opening: 11%
Range: 10 $\frac{3}{4}$ % - 11%
Close: 10 $\frac{3}{4}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

US 3-month Treasury Bills 10 $\frac{1}{4}$ %
US bank 3-month CDs 11 13/16%

Indicators

Comment:

Prices moved erratically throughout the day in quiet,
mostly professional trading.

11th August 1982.

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