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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 11th August 1982

Although the dollar returned briefly today almost to Monday's highs, it was restrained by some strong commercial and professional buying of deutschemarks out of Europe. Accordingly, after a very firm opening this morning, the dollar was by the close only a little above the levels seen in late business yesterday in London. In quiet trading, sterling moved with the Continental currencies and the ERI closed 0.2 lower at 90.8.

As the market concluded that the Fed action in supplying liquidity on Monday had been a technical operation rather than a deliberate further easing of monetary policy, the dollar strengthened in New York and sterling fell back to close there at 1.70. The Far East again took the dollar higher, so the pound opened in London at 1.6950 and quickly fell back to 1.6930 as the dollar threatened to strengthen further. However, some good buying of deutschemarks and sterling was seen from Eastern Europe which both reined in the dollar and helped sterling to advance steadily to 1.6990 by mid-morning. Some commercial selling of sterling against deutschemarks was, however, seen at the higher levels and the rate settled back to trade quietly around 1.69½ for most of the balance of the day. As Fed Funds opened in New York at 10½% and the dollar eased a little further in Europe, sterling moved up slowly to close at 1.6972. Three-month Euro-dollars were 1/16% firmer at 12 11/16%. Sterling's forward premium was 1½% and there was little deviation from interest parity.

The pound was a touch firmer in Europe, closing at 4.27½ in Germany, 11.89½ in France and 3.64½ in Switzerland. The dollar gained ¼% in each of these centres at 2.5182, 7.0075 and 2.1490 respectively. EMS was unchanged: 1½% wide between the Irish punt (1.3670) at the top and the deutschemark at the bottom, 3¾% from the lira (1405.50). The Italians bought \$20mn., the Dutch deutschemarks worth \$8mn. and the Irish \$4mn., while the Germans sold \$11mn. The yen established another five-year low in Tokyo this morning when it closed at 264, despite support of \$238mn. from the Bank of Japan; it improved to 262.87 in London.

The gold price fell further in quiet trading. Fixings were at \$332.875 and \$333.50.

Operations:	Iran	+	\$18mn.
	Bangladesh	-	14
	Sundries	+	7
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		+	\$11mn.
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11th August 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 11th August 1982

Federal Funds

Opening: 10 $\frac{3}{8}$ %
Range: 10 $\frac{3}{8}$ % - 11 $\frac{1}{4}$ %
Close: 11 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 99 15/16 (-1/16) 13 $\frac{1}{8}$ %
5-year: 100 $\frac{1}{2}$ (+ $\frac{1}{8}$) 13 $\frac{3}{8}$ %
10-year: 100 $\frac{1}{2}$ (-) 13 $\frac{3}{8}$ %
30-year: 105 $\frac{3}{8}$ (-) 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 $\frac{1}{2}$ %

Federal Reserve Operations:

US 3-month Treasury Bills 10 $\frac{1}{2}$ %
US bank 3-month CDs 11 13/16%

Indicators

Retail sales +1% in July (June -3.3%, revised from -1.5%)

Comment:

In quiet trading conditions, prices stayed within a narrow range throughout the day, little affected either by the higher Fed Funds rate or the retail sales announcement.

12th August 1982.

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