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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 16th August 1982

Preoccupied with the liquidity problems facing some corporations and some sovereign borrowers, the exchange markets today seemed virtually to ignore another $\frac{1}{2}\%$ drop in the Fed.'s discount rate (the third fall in 4 weeks) and a sharp downward adjustment in US interest rates. Although most primes dropped $\frac{1}{2}\%$ to $14\frac{1}{2}\%$, with Bankers Trust going to 14%, and Eurodollars fell a full 1%, the dollar ended the day generally a little firmer. Sterling traded comfortably and the ERI rose 0.2 to 91.1.

With the \$2bn. increase in M1 fully discounted, the dollar eased in New York following the announcement of the cut in the discount rate and sterling rose to close there at 1.7050. There was little movement in rates in the Far East, so sterling opened this morning at 1.7040 and initially strengthened as the dollar, for a short while, weakened further on lower Eurodollar rates. The rate reached 1.7077 in the first hour of trading, helped by some buying from a Japanese bank, but as the dollar shook off its early softness, sterling began to give up its gains. As a potentially large commercial seller hovered in the wings, the rate eased during the remainder of the morning, falling to 1.6992 shortly before noon when the dollar approached its best levels of the day. However, when Fed.Funds opened at $9\frac{3}{4}\%$ in New York and the US bond market, after a hesitant start, moved ahead, the dollar drifted a little lower and sterling improved to touch 1.7055 before closing at 1.7033. Three-month Eurodollars fell 1% to close at $11\frac{5}{16}\%$ and inter-bank sterling eased $\frac{1}{4}\%$ to $11\frac{3}{8}\%$. Sterling's forward premium was reduced to $3\frac{1}{16}\%$.

Sterling was firm in most places in Europe, gaining $\frac{3}{8}\%$ in Switzerland ($3.66\frac{1}{2}$) and $\frac{1}{4}\%$ in Germany ($4.28\frac{1}{2}$) but was a touch easier in France ($11.91\frac{1}{2}$). The dollar, too, was rather firmer in each of the first two centres at 2.1530 and 2.5165 respectively, but a little easier in France (6.9955). EMS remained 2% wide, with the Irish punt (1.3697) retaining top position and the deutschemark $3\frac{7}{16}\%$ from the lira (1406.62). The Italians bought \$39mn. and the Irish \$25mn., while the Germans sold \$31mn. The yen closed at 263.55.

Gold continued a quiet market. After fixing at \$337.25 in the morning, the price improved to \$341.75 in the afternoon as the US bond market firmed.

Operations: Market +\$9mn.

Overnight +\$5mn.

16th August 1982.
TRS

US BOND AND MONEY MARKETS

Monday, 16th August 1982

Federal Funds

Opening: 9 $\frac{3}{4}$ %
Range: 9 $\frac{3}{4}$ -10%
Close: 10%

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$ (=) 12 3/16%
5-year: 102 $\frac{7}{8}$ (+ $\frac{1}{8}$) 12 7/8%
10-year: 103 $\frac{1}{2}$ (=) 13 1/16%
30-year: 109 $\frac{1}{8}$ (+ $\frac{1}{8}$) 12 3/4%

Euro-dollars (Today's opening
London bid)

7-day: 10 1/8%
1-month: 10 1/2%
3-months: 11 3/16%
6-months: 12 1/4%

Federal Reserve Operations:

\$700mn. repurchase agreements for
customer account with Fed.Funds
at 9 $\frac{3}{4}$ %. Stop rate 9.46%.

US three-month Treasury Bills 8 $\frac{7}{8}$ %.
US bank three-month CDs 10 $\frac{3}{8}$ %.

Indicators

Bankers Trust prime 14% from 15%, other
major banks to 14 $\frac{1}{2}$ % from 15%.

Comment:

There was some good retail follow through to Friday's discount rate cut and, after a hesitant start, the market rose sharply in mid-morning when the long bond breached 110 for a while. The sharp gains encouraged profit-taking, which was only briefly halted by the Fed. action, and prices drifted lower all afternoon, to close well below the highs.

17th August 1982.
TRS