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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 18th August 1982

In one of the busiest days seen on the exchanges this year, the fundamental strength of the dollar in the present uncertain international financial climate was well demonstrated. After a blistering Kaufman-inspired rally in the US bond market yesterday, which took Eurodollar rates today to their lowest level for two years, the dollar fell by less than 1½% on the exchanges and was recovering its losses by the end of the day. Sterling was a very active market and some good demand was seen. The ERI rose 0.4 to 91.5.

As the US bond market soared and the dollar weakened in New York last night, sterling rose to close there at 1.7155. The dollar continued to be heavily sold in the Far East and sterling opened at 1.7265, having failed to keep pace with the improvement shown by the continental currencies. The dollar firmed initially in Europe as Eurodollar rates recovered a little of their overnight losses, and sterling slipped back to 1.7232 but the relatively low sterling/deutschemark cross rate of 4.26 attracted some good buying by London banks. In mid-morning, with Eurodollar rates again moving easier, the dollar weakened and sterling forged steadily ahead, reaching 1.7337 in very active trading. Although the US bond market again opened on a very firm note and seemed set, at first, to continue yesterday's rally, the dollar showed no disposition to weaken further during the afternoon when sterling reached 1.7346 at best. By the close, the dollar was recovering steadily and sterling eased back to 1.7315. Three-month Eurodollars fell another 1% to close at 10 1/16%, their lowest level since August 1980, taking forward sterling to a small discount of 3/16%.

The pound's performance in Europe was a little mixed: it gained 5/8% against a weak French franc (11.95%) but lost a similar amount to the Swiss franc (3.63½); it was little changed against the deutschemark (4.27%). The dollar lost 2½% in Switzerland (2.0990), 1½% in Frankfurt (2.4710) but only 1% in Paris (6.9050) where the French franc was heavily sold against the deutschemark. With the French franc slipping lower in EMS, the punt (1.3932) was clear at the top 1½% above the deutschemark, which was 3¼% from the lira (1388). The Italians bought \$48mn. while the Danes sold \$25mn. and the Germans \$20mn. The yen improved by 2¼% to close at 258.20.

The rally in the stock and bond markets spilled over into gold last night in New York and the price continued to rise this morning in the Far East and later in London. After fixing at \$352 in the morning, the price reached \$357.75 at the afternoon fix and was later quoted up to \$360.

Operations:	Market	+\$22mn.
	Interest	+ 7
	IDA	+ 6
	Sundries	- 4
		<u>+\$31mn.</u>
		<u><u> </u></u>
	Overnight	+ \$5mn.
		<u><u> </u></u>

18th August 1982.
TRS

US BOND AND MONEY MARKETS

Wednesday, 18th August 1982

Federal Funds

Opening: $8\frac{1}{2}\%$
Range: $8\frac{1}{2}\%$ - 11%
Close: $9\frac{3}{4}\%$

US Governments (NY closing bids)

2-year: 102½ (=) 11 5/8%
5-year: 105½ (+½) 12 5/16%
10-year: 107½ (+½) 12 7/16%
30-year: 114 (+½) 12 1/4%

Euro-dollars (Today's opening
London bid)

7-day: 9 5/16%
1-month: 9 3/4%
3-months: 10 1/8%
6-months: 11

Federal Reserve Operations:

US three-month Treasury Bills 8 7/16%.
US bank three-month CDs 10 5/8%.

Indicators

All prime rates to 14% from $14\frac{1}{2}\%$.

Comment:

There were some wild movements in the bond market. The rally continued at first, fuelled by Funds at $8\frac{1}{2}\%$ and panic retail buying; by mid-morning the long bond had gained almost three points. The absence of the Fed. saw the market collapse and by mid-afternoon it was showing losses of up to $\frac{1}{2}$ point on the day. Buyers reappeared, however, in the last hour and the market finished on a strong note, except for the two year, which was depressed by the forthcoming supply.

The new \$6.5bn. two year will be auctioned on 25th August.

An interesting footnote: share turnover on the New York Stock Exchange exceeded the previous record by 43%.

19th August 1982.
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