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 THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19th August 1982

After the hectic activity of the last few days, today was rather quieter on the exchanges. As the rally in the US bond market also paused for breath and the precipitate fall in US interest rates ended, the dollar was generally firmer. Most attention was focussed on the French franc, which weakened sharply, despite large-scale support, as rumours revived that it was shortly to leave EMS. Sterling was less active than on most days recently; the ERI eased 0.2 to 91.3.

The rally in the bond market cooled yesterday when the Fed. failed to inject further liquidity into the domestic market, provoking widespread profit-taking. In a volatile evening's trading, the dollar strengthened sharply and sterling fell back to close at 1.7190. The Far East sold the dollar again this morning and the pound opened in London at the high for the day of 1.7289. With Eurodollar rates firming during the morning, the dollar rose steadily and sterling gradually eased back, despite some good buying by a UK oil company. By mid-morning, when the dollar reached its peak for the day, the rate had fallen to 1.7225 and it remained at the lower levels, falling to 1.72 at one point, throughout a quiet afternoon. The rate closed at 1.7216, with the dollar then easing in most other centres. Three-month Euro-dollars closed 3/16% firmer at 10½ and the forward discount for sterling was ½%.

The pound was a little firmer in France (11.97) but easier elsewhere, closing at 4.27½ in Germany and 3.62½ in Switzerland. The dollar gained ¼% in Paris (6.9525) and ½% in Frankfurt (2.4840) and Zurich (2.1160). The French franc fell to the middle of EMS, leaving the punt (1.3842) clear at the top, 1¼% above the deutschemark which was 2¼% distant from the lira (1397.50). The French sold \$274mn. and deutschemarks worth \$150mn. and the Germans sold \$24mn., while the Dutch bought deutschemarks worth \$20mn. and Irish bought \$7mn. The yen improved to 257.85.

Gold struggled to hold yesterday's levels. Fixings were at \$356.25 and \$356.65.

Operations:	Market	+\$16mn.
	Lothian	
	(PSB	
	g'teed)	+ 18
	Iran	+ 5
	Sundries	+ 6
		<u>+\$45mn.</u>

Overnight	<u>+\$5mn.</u>
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19th August 1982.  
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US BOND AND MONEY MARKETS

THURSDAY, 19TH AUGUST 1982

Federal Funds

Opening: 9%  
Range: 9-9 $\frac{1}{8}$ %  
Close: 9 $\frac{1}{8}$ %

US Governments (NY closing bids)

2-year: 103 $\frac{1}{8}$  (+ $\frac{5}{8}$ ) 11 $\frac{1}{4}$ %  
5-year: 105 $\frac{1}{8}$  (+ $\frac{5}{8}$ ) 12 $\frac{1}{8}$ %  
10-year: 107 $\frac{1}{4}$  (+ $\frac{1}{2}$ ) 12 $\frac{3}{8}$ %  
30-year: 113 $\frac{1}{8}$  (+ $\frac{1}{8}$ ) 12 $\frac{1}{4}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 9 5/16%  
1-month: 9 15/16%  
3-months: 10 3/16%  
6-months: 11 3/16%

Federal Reserve Operations:

US three-month Treasury Bills 7 11/16%.  
US bank three-month CDs 9 15/16%.

Indicators

Comment:

Another very volatile day. There was less retail interest in the market and prices fell steadily throughout the morning. By noon the long bond was down 1 $\frac{1}{4}$  points. Sentiment changed in the afternoon, with the expected passage of the tax bill and rumours of difficulties arising from the Mexican crisis for a major US bank. The market rallied, particularly at the short end - a further reflection of the "flight to quality".

20th August 1982.  
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