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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 26th August 1982

$\$ 1.7530$      3.9  
 $1.7645$      4.28%  
 4.20  
 4.15%

In the absence of a U.S. discount rate cut yesterday, the IMM moved swiftly back into dollars but the momentum soon evaporated. The several official interest rate reductions in Europe were expected and it needed rumours of an American construction company and American bank in trouble (this latter being linked to the Nederlandse Credietbank news) to disturb the dollar again. Sterling may have helped in this, too, being well traded and in good demand this afternoon. The ERI increased to 92.3.

Sterling had fallen, in line with other currencies, by noon in New York yesterday to around its closing level there of 1.7580. Trading was well balanced this morning in London: after opening at 1.7555, the rate ranged narrowly between 1.7547 and 1.7597. Early this afternoon it passed 1.76 and ran up on Far East interest to end the day at a high of 1.7695. Eurodollars hardened to 10 $\frac{3}{4}$ %, 1/16% below the comparable interbank sterling rate.

In Europe, the pound recorded further gains, rising to 4.28 $\frac{1}{2}$  in Germany, 12.06 $\frac{3}{8}$  in France and 3.61 $\frac{1}{2}$  in Switzerland. The dollar had a firmer tone for most of the day, resisted by sales of \$85mn. in Germany and \$45mn. in Denmark, but was set back suddenly in the last few minutes of London's day by rumours of the suspension of a major bank's shares and of an asbestos company's problems. The deutschemark recovered from 2.4390 to close less than  $\frac{1}{4}$ % lower at 2.4215 but remains bottom marker in EMS, 1 $\frac{3}{4}$ % below the lira (1375.62). The French franc was little changed in terms of the deutschemark (which the French again used as their intervention currency but only to the extent of \$25mn.) but improved to 6.8175 against the dollar: it is about 1 $\frac{1}{4}$ % below the lira. Both Swiss franc and yen were little changed, respectively at 2.0452 and 251.17.

Demand from the Far East - met in part by Middle East selling - returned gold to Tuesday's levels and beyond. London opened at \$414.75 and traded up to \$419 but the fixings were at \$417.50 and \$417.

Operations:	Market	+ \$ 9mn.
	Interest	+ 6
	Sundries	+ 11
		<hr/>
		+ \$26mn.

[+ms']

26th August 1982

DAHB

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US BOND AND MONEY MARKETS

Thursday, 26th August 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100 1/16  $11\frac{5}{8}\%$   
5-year: 105  $(-\frac{3}{8})$   $12\frac{3}{8}\%$   
10-year: 106  $(-\frac{1}{2})$   $12\frac{1}{2}\%$   
30-year: 113 13/16  $(-9/16)$   $12\frac{1}{4}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $9\frac{1}{2}\%$   
1-month:  $9\frac{7}{8}\%$   
3-months:  $10\frac{3}{4}\%$   
6-months:  $12\frac{1}{4}\%$

Federal Reserve Operations:

U.S. 3-month Treasury Bills:  $7\frac{1}{2}\%$   
U.S. bank 3-month CDS:  $9\frac{7}{8}\%$

Indicators

Fed discount rate cut from 11% to  $10\frac{1}{2}\%$

Comment:

The market was disappointed at no Fed action to inject liquidity through customer repos. The discount cut, though expected, nevertheless pulled prices off their lows.

27th August 1982

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