

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd September 1982

The dollar was sold out of the Middle East this morning but closed above its lows once this pressure had disappeared. Sterling encountered very modest buying this morning but stood quietly by thereafter. The ERI rose to 91.8.

In New York last night the pound closed at 1.7237. Early signs of pressure on the dollar in the Far East saw the opening rate at 1.7279 in London today, from which level it appreciated to 1.7355 at noon. Some European as well as Middle East demand was noted, albeit small. As the dollar continued offered, there was a further rise to 1.7418 before a reaction down to a close at 1.7350. Euro-dollars opened very firmly: the three-months stood at 11 $\frac{1}{2}$ %; later, however, as demand faded there was a softening to the close at 11 $\frac{9}{16}$ %, a net decline of $\frac{3}{16}$ % since last night. Sterling interbank also eased, to 10 $\frac{13}{16}$ % and the covered differential remained at parity.

Against Continental currencies the pound edged lower to close at 4.29 in Germany, 3.65 $\frac{1}{2}$ in Switzerland and 12.05 $\frac{3}{4}$ in France. The dollar opened in Germany at 2.4774 and traded up to 2.4810 but began to show the effect of selling, which forced the rate back to 2.4630 immediately after noon. It closed at 2.4725 with the deutschemark still 1 $\frac{1}{2}$ % below the punt (1.3922) and some 2 $\frac{7}{16}$ % below the lira (1397). The Italians sold \$42mn., the Danes \$39mn. The Irish were buyers of \$14mn. and the Dutch bought another handful of deutschemarks (\$8mn.). The French franc closed at 6.9475, its Swiss counterpart at 2.1045 and the yen at 256.70. The dollar's net decline since last night is about $\frac{1}{2}$ %.

Gold climbed away from \$400 and closed in New York yesterday at \$405.50. There was a gentle firming to \$408.25 at this morning's London fixing and after some hesitancy the rise was resumed, bringing a second fixing at \$409.75 and subsequent trading in New York at \$418.

Operations:	Market	+	\$8mn.
	New Zealand	+	69
	IDA	+	11
	Interest	+	7
	Sundries	+	5
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			+ \$100mn.
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2nd September 1982.

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US BOND AND MONEY MARKETS

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Federal Funds

Opening: 10 $\frac{1}{4}$ %
Range: 10 $\frac{1}{4}$ % - 10 $\frac{1}{2}$ %
Close: 10 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{2}$ (+ $\frac{1}{8}$) 11 $\frac{7}{8}$ %
5-year: 100 $\frac{3}{8}$ (+ $\frac{1}{2}$) 12 $\frac{1}{2}$ %
10-year: 106 $\frac{1}{2}$ (+ $\frac{7}{8}$) 12 $\frac{5}{8}$ %
30-year: 113 $\frac{1}{2}$ (+1 $\frac{1}{2}$) 12 $\frac{1}{4}$ %

Euro-dollars (Today's opening
London bid)

7-day: 11%
1-month: 11 3/16%
3-months: 11 9/16%
6-months: 12 $\frac{1}{2}$ %

Federal Reserve Operations:

US 3-month Treasury Bills 8 $\frac{1}{4}$ %
US bank 3-month CDs 10 $\frac{1}{8}$ %

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{3}{8}$ higher, but, with no follow-through, these levels were not held and prices drifted down throughout the morning. Trading remained quiet until mid-afternoon, when rumours of further credit problems, mainly associated with a possible default by Argentina, produced a flight to quality and prices moved up in professional speculative trading to close at their highs.

3rd September 1982.

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