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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 3rd September 1982

Concern over the effects on North American banks of developments in Latin America, whether real (Mexican nationalisation) or feared (Argentine default), brought the dollar under renewed stress last night and started gold on another sharp upward run. By this afternoon the dollar had begun to recover as dealers squared their books in advance of next Monday's Labor Day holiday. In Europe the Danish krone felt the backwash of the Government's resignation; and the French franc retreated. Dome Petroleum's announcement of default caused the Canadian dollar to fall rapidly away. Sterling remained in the wings, the ERI edging back to 91.7.

Sterling closed at 1.7437 in New York yesterday and opened at 1.74 today in London. With little noticeable trading it ranged between 1.7445 and 1.7317 before closing at 1.7346. Later, as the dollar again surged, it fell to 1.7277. Euro-dollars were slightly better bid, closing at 11 $\frac{3}{4}$ %. Sterling interbank closed at 10 $\frac{1}{4}$ %.

In Europe the pound lost some ground in Germany (4.28 $\frac{1}{2}$) and Switzerland (3.63 $\frac{3}{4}$) but rose to 12.08 $\frac{3}{4}$ in France, where the dollar advanced to 6.9662 despite intervention of \$31mn. and deutschemarks worth \$54mn.; the cross-rate in German currency terms moved adversely to over 2.82. EMS remained about 1 $\frac{1}{2}$ % wide between the punt (1.3935) and deutschemark (2.4687, after ranging between 2.4510 and 2.4760). The Germans sold \$5mn. and the Italians \$39mn. (the lira ended 2 $\frac{1}{2}$ % above the deutschemark, closing better at 1392). But the Danes lost \$58mn. in holding their krone virtually unchanged. The Swiss franc closed at 2.0950 and the yen at 256.70. After Dome Petroleum's announcement, the Canadian dollar eased to 1.24 = US\$1, having opened around 1.23 $\frac{1}{2}$.

There was very large Middle East bear covering of gold last night in New York, where the price rose to \$439. This gave a good platform for today's markets which saw the rise continue, to \$454.75 this morning and \$455 at the second (but quieter) fixing. Later \$458 was paid.

Operations:	Market	+	\$14mn.
	BIS	+	9
	India	+	9
	Australia	+	5
	Sundries	+	2
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		+	\$39mn.
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3rd September 1982.

DAHB

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US BOND AND MONEY MARKETS

Friday, 3rd September 1982

Federal Funds

Opening: 10 $\frac{1}{8}$ %
Range: 9 $\frac{1}{4}$ % - 10 $\frac{1}{8}$ %
Close: 9 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$ (+ $\frac{1}{8}$) 11 13/16%
5-year: 100 $\frac{1}{8}$ (+ $\frac{1}{8}$) 12 7/16%
10-year: 106 $\frac{1}{8}$ (+ $\frac{1}{8}$) 12 9/16%
30-year: 114 $\frac{1}{8}$ (+ $\frac{1}{2}$) 12 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 10 $\frac{7}{8}$ %
1-month: 11 3/16%
3-months: 11 $\frac{5}{8}$ %
6-months: 12 $\frac{5}{8}$ %

Federal Reserve Operations:

\$1.3bn. customer repurchase
agreements with Fed Funds at 10 $\frac{1}{8}$ %.
Stop rate 9.52%.

3-month US Treasury Bills 8 $\frac{5}{8}$ %

3-month US bank CDs 10 13/16%

Indicators

US unemployment in August 9.8% (unchanged from July)
M1 +\$1.5bn.

Comment:

A volatile, professional day's trading which left the market generally a little higher. Sharp gains were registered during the morning, by when the long bond was up well over a point, but profit-taking and position-squaring before the long Labor Day holiday weekend trimmed the gains.

6th September 1982.

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