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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 8th September 1982

A sharp reversal for the gold price, some large demand for dollars against yen, in particular, and an uninspiring performance by the US bond market all contributed to the dollar's recovery on the exchanges today. Sterling was less active than yesterday; the ERI rose 0.1 to 91.7.

The dollar firmed last night in a quiet New York market and sterling fell back to close there at 1.7265. This morning the rate opened at 1.7307 and, having reached 1.7310 in early business, eased back as the dollar, led by a large Far East official buying order against yen, strengthened in other centres. By noon sterling had drifted down to 1.7230 and the rate dipped briefly to 1.7195 in early afternoon when there was some selling from the US. Thereafter the pound remained around the 1.72 level, despite a steady appreciation of the dollar as the US bond market weakened during the New York morning. The rate ended at 1.7195, with the dollar also at its best levels in other centres. Three-month Euro-dollars were 1/16% firmer at 11½% and sterling's forward premium widened accordingly to 13/16%.

Sterling was firmer on the Continent, gaining ¾% in Germany (4.29½) and France (12.13½) and ½% in Switzerland (3.66½). The dollar gained over 1% in each of these centres to close at 2.4960, 7.0550 and 2.1295 respectively. It was an active day in EMS where there were further signs of weakness amongst some of the currencies. The French franc slipped to 2.8265 on its cross-rate against the deutschemark, despite sales of deutschemarks worth \$23mn. The Danish crown again sank lower within the band, the Central Bank having sold a further \$160mn. The Italians sold \$43mn. and the Dutch bought deutschemarks worth \$4mn. The Belgians reduced their discount and Lombard rates by ½% to 12½% and 13½% respectively. By the close the Irish punt (1.3818) was, as usual, at the top of the band, 2 1/16% from the deutschemark, with the lira (1404.50) 2¼% above the latter. Elsewhere, the yen was under pressure, falling 1¼% to 260.55.

Turnover was very heavy in another turbulent day in the gold market. After opening around \$480, the price fell steadily throughout the day in active and nervous trading, fixing at \$469 in the morning and touching \$450 briefly during a difficult afternoon fixing session which was eventually concluded at \$458. However, heavy demand, probably again on Middle Eastern account, was evident at the lower levels and by the close the price was again quoted up to \$468.

Operations:	Market	+	\$3mn..
	Iran	+	8
	Sundries	+	4
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		+	\$15mn.
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8th September 1982.

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TRS

US BOND AND MONEY MARKETS

Wednesday, 8th September 1982

Federal Funds

Opening: 9 $\frac{3}{4}$ %
Range: 7% - 10%
Close: 8%

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (-) 11 $\frac{3}{8}$ %
5-year: 100 $\frac{3}{4}$ (+ $\frac{1}{8}$) 12 $\frac{3}{8}$ %
10-year: 107 $\frac{1}{4}$ (+ $\frac{1}{2}$) 12 $\frac{3}{8}$ %
30-year: 114 $\frac{1}{8}$ (+ $\frac{3}{8}$) 12 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 10 $\frac{3}{8}$ %
1-month: 10 13/16%
3-months: 11 7/16%
6-months: 12 7/16%

Federal Reserve Operations:

Bought \$225mn. Treasury Bills for
a customer.

3-month Treasury Bills 8 $\frac{5}{8}$ %
3-month US bank CDs 10 $\frac{1}{4}$ %
Differential 2 $\frac{1}{8}$ %

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{1}{4}$ lower. In quiet trading conditions prices changed little until late afternoon, when rumours of the Bolivian default moved the market up in mainly professional trading.

9th September 1982.

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