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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 10th September 1982

A disappointing US bond market performance, the absence of any new rumours about defaults by either sovereign borrowers or banks and a larger increase (+0.6%) in US wholesale prices than expected all helped the dollar to firm on the exchanges today. EMS was again in some turmoil. While a sharp increase in domestic money market rates took some pressure off the Danish crown, the French franc again required large-scale support. Sterling saw some good two-way business during the morning but little thereafter; the ERI was unchanged at 91.7.

Sterling closed steady in New York last night at 1.7225 against a generally firmer dollar. The dollar strengthened further in the Far East early this morning and the pound opened at the high for the day of 1.7190 but soon began to give ground under pressure of some sizeable selling by a Japanese bank. By mid-morning the rate had fallen to 1.7116 but it recovered later on some buying from the Far East. By noon the rate had stabilised around 1.7145 and it remained close to this level throughout a quiet afternoon, closing at 1.7147. Three-month Euro-dollars rose $\frac{3}{8}\%$ to close at 11 15/16%, taking sterling's forward premium to 1 5/16%.

The pound was firmer in Europe, gaining $\frac{1}{8}\%$ in Germany (4.29 $\frac{1}{2}$) and France (12.14 $\frac{1}{2}$) and $\frac{1}{2}\%$ in Switzerland (3.66 $\frac{3}{8}$). The dollar rose $\frac{3}{8}\%$ in each of these centres, to close at 2.5032, 7.0825 and 2.1395. With call money rates in Denmark at 28%, pressure on the Danish crown eased a little and by the close it was only 1 11/16% below the punt (1.3640) after sales of \$26mn. (of which \$1mn. was in punts). The lira (1408) closed 3 $\frac{3}{8}\%$ above the crown. The French franc was again weak, setting a new low of 7.10 and almost reaching 2.83 on its cross-rate against the deutschemark. The Bank of France sold \$25mn. in New York last night and \$359mn. in Europe today (of which \$224mn. was in deutschemarks). The Germans sold \$17mn. Elsewhere, the approaching general election necessitated some support for the Swedish crown and the Riksbank sold \$105mn. The yen closed at 262.05.

Gold fell sharply under pressure of Middle Eastern selling, fixing at \$448.25 this morning. Rumours that Brehznev had died sparked off some short-covering at the afternoon fixing, where the price reached \$457 before concluding at \$453. Later the price was quoted down to \$439.

Operations:	Market	+	\$5mn.
	Interest	+	5
	Sundries	+	6
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		+	\$16mn.
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10th September 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 10th September 1982

Federal Funds

Opening: 10%
Range: 9½% - 10%
Close: 9¾%

US Governments (NY closing bids)

2-year: 99¾ (-¼) 12%
5-year: 100¾ (-¾) 12½%
10-year: 105¾ (-¾) 12½%
30-year: 112¾ (-1¾) 12½%

Euro-dollars (Today's opening
London bid)

7-day: 11%
1-month: 11½%
3-months: 12¾%
6-months: 13¾%

Federal Reserve Operations:

3-month Treasury Bills 8¾%
3-month US bank CDs 11%
Differential 2¾%

Indicators

M1 + \$0.9bn.
M2 + \$22.8bn. in August
Producer prices rose 0.6% in August (July also 0.6%)

Comment:

With Fed Funds at 10%, the market opened weaker. After a quiet morning prices moved down further during the afternoon, as concern grew over the pending announcement of money figures. However, following the announcement, prices moved up to close about ¼ off their lows.

13th September 1982.

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