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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 17th September 1982

An uncharacteristically lively Friday's trading on the exchanges. The market was uncertain how to react to the news of the collapse of Chancellor Schmidt's coalition - although, on balance, it seemed to strengthen the deutschemark - and was disturbed by rumours that the Israelis had attacked the Soviet Embassy in Beirut. Having lost over ½% in New York last night following Fed action to supply liquidity to the domestic market, the dollar ended the day in Europe a little weaker still. Sterling was sold heavily during the morning but recovered in the latter part of the day to close unchanged in effective terms at 91.7, after 91.4 at noon.

Following some confusion over Fed policy in the first part of the week, markets were reassured by the injection of funds yesterday afternoon in New York and the dollar weakened sharply. Sterling rose there to close at 1.7125 and opened in London at 1.7140 today. Having touched 1.7156 in early business, sterling encountered some heavy selling from the Sub-Continent during the morning while the dollar strengthened more generally on reports of further Israeli action in Beirut. Sterling fell back to 1.7060 before recovering as the order was absorbed to 1.7115 shortly before noon. During a quieter afternoon, as the dollar eased again on an improving US bond market, sterling rose to reach 1.7155 before the close at 1.7133. Both three-month Euro-dollars and sterling's forward premium fell by 1/16% to 12½% and 1½% respectively.

Sterling closed ½% lower in Europe, finishing at 4.27½ in Germany, 3.64½ in Switzerland and 12.07½ in France. The dollar closed about 1% down in these centres at 2.4955, 2.1255 and 7.0512 respectively, most of the loss having occurred in New York last night. In EMS, the guilder (2.7330) moved to top position, 15/16% above the Danish crown (8.8150), which was 2 9/16% from the lira (1408.12). The Italians sold \$16mn. and the Irish \$8mn. Elsewhere, the Swedes sold \$45mn. and the Norwegians \$20mn.

The rumours from Beirut had no impact on the gold price which fell back in quiet trading. Fixings were at \$445.50 and \$441.50.

Operations:	Market	+	\$3mn.
	India	+	9
	Sundries	+	2
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		+	\$14mn.
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17th September 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 17th September 1982

Federal Funds

Opening: 10½%  
Range: 10% - 10½%  
Close: 10¾%

US Governments (NY closing bids)

2-year: 100¼ (+¼) 12%  
5-year: 100¾ (+¾) 12¾%  
10-year: 106¾ (+¾) 12½%  
30-year: 115½ (+½) 12½%

Euro-dollars (Today's opening  
London bid)

7-day: 11%  
1-month: 11¼%  
3-months: 11 13/16%  
6-months: 12¾%

Federal Reserve Operations:

Weekend repurchase agreement for  
system account with Fed Funds at  
10¼%. Stop rate 8.56%.

3-month Treasury Bills 8 3/16%

3-month US bank CDs 11%

Differential 2 13/16%

Indicators

M1 +\$4.3bn.

Housing starts -16.2% in August (after +33.7% in July)

Comment:

The market moved in a narrow range throughout the day in  
light trading.

20th September 1982.

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