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SECRET

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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 20th September 1982

An M1 increase (+\$4.3bn.) below the market's worst fears, together with further signs of weakness in the US economy (a 16% drop in housing starts in August), were sufficient to give the dollar a slightly easier tone for much of the day in quiet trading on the exchanges. Once again, sterling seemed rather sidelined; the ERI closed 0.1 higher at 91.7.

Sterling closed at 1.7122 in New York on Friday night and opened this morning at the low for the day of 1.7135. In very light activity, the rate moved narrowly around 1.71½ throughout the day, reaching 1.7171 at best as the dollar weakened during the morning. The rate closed at 1.7155. Later, however, as the dollar strengthened generally in the absence of action by the Fed to add liquidity to the domestic market, sterling fell back to 1.7090. Euro-dollars closed with losses of ¼%; the three-months deposit was 12%. Sterling's forward premium was 1½%.

The pound closed unchanged in Germany at 4.27½ but gained ¼% in France (12.09½) and ¼% in Switzerland (3.65¼). The dollar closed a little easier in the first two of these centres at 2.4928 and 7.05 respectively, but a little firmer in Zurich at 2.1292. Later, the deutschemark was quoted at 2.5060. In EMS, the Belgian franc (48.08) moved to bottom position, 1 1/16% below the punt (1.3692) and 2 11/16% from the lira (1405.45). The Italians sold \$91mn., the Belgians \$58mn. and the French \$57mn. Elsewhere, following the socialists' victory in the election, the Swedes sold \$47mn. The yen closed at 263.52.

Despite the tense situation in the Lebanon and the lower financing costs, gold was weaker. After opening at \$432 there was some heavy selling in London during the morning when the price fixed at \$426.50. The afternoon fixing was at \$424.25 but later the price was quoted down to \$420.

Operations:	Market	+ \$5mn.
	India	+ 9
	Sundries	+ 3
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		+ \$17mn.
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20th September 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 20th September 1982

Federal Funds

Opening: $10\frac{1}{8}\%$
Range: $9\frac{3}{4}\%$ - $10\frac{1}{8}\%$
Close: $9\frac{3}{4}\%$

US Governments (NY closing bids)

2-year: $100\frac{1}{4}$ (-) 12%
5-year: $100\frac{5}{8}$ (-) $12\frac{3}{8}\%$
10-year: $106\frac{3}{4}$ ($-\frac{1}{8}$) $12\frac{1}{2}\%$
30-year: $115\frac{1}{2}$ ($+\frac{3}{8}$) $12\frac{1}{16}\%$

Euro-dollars (Today's opening
London bid)

7-day: $10\frac{1}{8}\%$
1-month: $11\frac{5}{16}\%$
3-months: 12
6-months: $12\frac{13}{16}\%$

Federal Reserve Operations:

3-month Treasury Bills 8%
3-month US bank CDs n.a.

Differential

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{1}{4}$ down and moved lower early in the day. However a wire services report of another energy-related loan failure (of a company called GHR, covered in today's FT, page 31) moved the market up sharply. In the afternoon prices rose further, with the long bond nearing 116, before profit-taking took prices lower again.

21st September 1982.

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