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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 24th September 1982

An abundance of rumours made for an active and nervous day's trading on the exchanges. The market opened to find the yen at a new low on rumours that one of the major Japanese banks had incurred substantial foreign exchange losses and that another was very heavily exposed to Mexico. The yen continued under pressure in Europe throughout the day, leading the dollar higher against all the Continental currencies, except the French franc, where there was talk of a weekend support package. Sterling remained steady, somewhat on the sidelines, but in good demand from Eastern Europe. The trade figures seemed to have no impact and the ERI was unchanged at 91.8.

The dollar firmed in New York last night where sterling closed at 1.7070. This morning the rate opened at 1.7073 and fell back to 1.7041 in the early going as the dollar tried to break into new higher ground against the deutschemark. However, with the Bundesbank evidently supporting at DM 2.52 (they sold \$30mn. over the day), the dollar fell back and sterling recovered swiftly to 1.7089 during the morning on the back of strong East European demand. In the afternoon as the US bond market gave ground and the dollar again tried to move higher, sterling eased back to trade around 1.70½, ending at 1.7056. Three-month Euro-dollars closed unchanged at 11 11/16%, having earlier reached 11 15/16%. Sterling's forward premium was 1%.

The pound was firm on the Continent, gaining 5/8% to 3.69 5/8 against a weak Swiss franc, hit by the conversion of a large Swedish borrowing, and closing at 4.29 1/4 in Germany and 12.11 3/8 in France. The dollar gained 1% in Zurich (2.1672), 1/2% in Frankfurt (2.5170) and 1/4% in Paris, where the franc performed well. EMS remained 1 9/16% between the punt (1.3575) at the top and the Belgian franc (48.77) at the bottom, 3 1/4% from the lira (1416.62). There was no intra-marginal intervention. Elsewhere, the Swedish crown was again under pressure and the Riksbank sold \$95mn. Despite \$104mn. of support by the Bank of Japan in Tokyo this morning, the yen closed there at a five-year low of 265.70. It later fell to 267.50 in London, before closing at 267.32.

Gold rallied on some good buying in New York where it reached \$444 last night but it had relapsed to \$438 by the London opening. It gave further ground in London today as the dollar strengthened, fixing at \$438.50 and \$431.

Operations:	Market	+	\$20mn.
	Govt.		
	(cancelled requirement)	+	30
	Bangladesh	+	7
	India	+	7
	IDA	+	5
	Sundry	+	1
		+	<u>\$70mn.</u>

24th September 1982.  
TRS

US BOND AND MONEY MARKETS

Friday, 24th September 1982

Federal Funds

Opening: 10 $\frac{1}{8}$ %  
Range: 9 $\frac{7}{8}$ % - 10 $\frac{1}{4}$ %  
Close: 10%

US Governments (NY closing bids)

2-year: 100 $\frac{3}{8}$  (- $\frac{1}{2}$ ) 11 $\frac{1}{4}$ %  
5-year: 101 $\frac{1}{8}$  (- $\frac{1}{2}$ ) 12 1/16%  
10-year: 108 $\frac{1}{2}$  (-1) 12 $\frac{1}{4}$ %  
30-year: 117 $\frac{1}{2}$  (-1) 11 $\frac{7}{8}$ %

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Weekend repurchase agreement for  
system account with Fed Funds at  
10 $\frac{1}{4}$ %. Stop rate 8.92%.

3-month Treasury Bills 7 $\frac{7}{8}$ %

3-month US bank CDs 10 $\frac{3}{4}$ %

Differential 2 $\frac{7}{8}$ %

Indicators

M1 -\$1.3bn. (previous week revised from +\$4.3bn. to +\$5bn.)

Comment:

The market opened weaker and traded lower most of the morning session in light volume. The Fed's action perked the market up for a time. The market continued to fall following the money figures, due to a total lack of buying interest.

27th September 1982.

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