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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 27th September 1982

The dollar burst through its August highs to send most currencies tumbling to new lows on the exchanges today. The uncertain political outlook in Germany following the indecisive elections in Hesse, a further weakening of the yen and some firming of Euro-dollar rates at the approach of the end-quarter were the main factors. Dealers focussed, too, on the \$700mn. upward revision to last week's money supply figure (rather than on this week's \$1.3bn. decline) which renewed concerns that growth in M1 might lead to some tightening of Fed policy and perhaps higher US interest rates. Sterling gave less ground than the other currencies against the dollar and was very firm on the Continent. The ERI rose 0.1 to 91.9.

The dollar eased in New York on Friday night and sterling rose to close there at 1.7110. As the dollar moved up sharply in the Far East, led again by the weakness of the yen, sterling opened in London at 1.7023 and dipped briefly to 1.6985 in early trading as the deutschemark fell back through DM 2.53. However, when the dollar turned temporarily easier in Europe, perhaps on some intra-marginal purchases of deutschemarks by some of the European central banks, sterling recovered quickly, reaching 1.7036 in mid-morning when some East European demand was again evident. During the afternoon, as the dollar firmed again on the back of buying from New York, sterling saw some good interest from an oil company and traded narrowly around 1.70½ before closing at 1.7017. After the close, as the European central banks withdrew, the IMM entered to bid the dollar higher still and sterling fell back to 1.6950. Three-month Euro-dollars closed ¼% higher at 11 13/16% and sterling's forward premium widened to 1 1/16%.

The pound gained ¼% in Germany (4.30½), ⅓% in France (12.16½) but was ¼% easier in Switzerland (3.68½). The dollar rose ½% in Frankfurt to close at 2.5307 (after a 13-month low of 2.5360), ⅓% in Paris at 7.15 (after a new low of 7.1565) but was almost unchanged in Zurich at 2.1675. (Later the dollar was quoted at 2.5420, 7.18 and 2.1775 respectively.) EMS widened to 1 13/16% between the Belgian franc (48.99) at the bottom and the punt (1.3530) at the top, with the lira (1423.05) 3 5/16% from the franc. The Germans sold \$65mn., while the French, Danes and Dutch bought deutschemarks worth \$59mn., \$20mn. and \$14mn. respectively. The yen was again subject to heavy selling in the Far East where it closed at another five-year low of 268.40 after support of \$263mn. by the Bank of Japan; it improved to 268.20 in London but was later quoted at 270.

In rather quiet trading, gold weakened further as the dollar strengthened. Fixings were at \$414.25 and \$413.75.

Operations:	Market	+	\$17mn.
	Zimbabwe	+	6
	IDA	+	5
	Sundries	+	4
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		+	\$32mn.
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27th September 1982.

TRS



US BOND AND MONEY MARKETS

Monday, 27th 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 $\frac{1}{8}$  (+ $\frac{1}{4}$ ) 11 $\frac{5}{8}$ %  
5-year: 102 $\frac{1}{8}$  (+ $\frac{1}{4}$ ) 12%  
10-year: 109 (+ $\frac{1}{2}$ ) 12 $\frac{1}{2}$ %  
30-year: 117 $\frac{1}{4}$  (+ $\frac{1}{2}$ ) 11 $\frac{7}{8}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 11 $\frac{1}{8}$ %  
1-month: 11 $\frac{3}{8}$ %  
3-months: 11 $\frac{3}{4}$ %  
6-months: 12 7/16%

Federal Reserve Operations:

\$1bn. customer repurchase  
agreement with Fed Funds at 10 $\frac{1}{8}$ %.  
Stop rate 9.07%.

Bought \$200mn. Treasury Bills for  
a customer.

3-month Treasury Bills 8%

3-month US bank CDs 10 $\frac{3}{8}$ %

Differential 2 $\frac{5}{8}$ %

Indicators

US trade deficit \$7.1bn. in August.

Comment:

After gaining  $\frac{1}{4}$ - $\frac{5}{8}$  in the first hour, on light volume, the market traded in a narrow range for the remainder of the day.

28th September 1982.

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