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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 28th September 1982

A record US trade deficit in August of \$7.1bn. may be a sign of things to come but it interrupted only briefly the rise in the dollar on the exchanges. However, with no resolution of the political uncertainty in Germany and the yen still overshadowed by worries about Japanese banks, and perhaps also adversely affected by the depression in the Hong Kong stock market, no currency provided much counterweight to the dollar. Sterling saw some sizeable selling during the morning but weathered another cut in the Bank's bill dealing rates comfortably. The ERI closed unchanged at 91.9.

As the IMM bid for dollars in New York last night, sterling fell back to 1.6925 at one point but following the release of the US trade figures, the dollar weakened and sterling recovered to close at 1.7005. This morning the rate opened at 1.7010 and touched 1.7019 in early business as the dollar initially weakened. However, with some moderate buying against some of the other European currencies, the dollar soon started to strengthen generally, helped by firmer Euro-dollar rates. Sterling fell back through 1.70 to trade around 1.69½ for much of the morning. News of the cut in the Bank's dealing rates saw sterling marked back to 1.6931 over the lunch period but when the US bond market opened on a firm note and the dollar eased back from its strongest levels, the rate recovered during the afternoon to touch 1.6967 before closing at 1.6957. Although firmer throughout the morning, Euro-dollar rates eased during the afternoon and closed ¼% lower at 11 11/16%. Sterling's forward premium was 1 1/16%.

The pound was steady in Europe, closing at 4.30½ in Germany, 3.69 in Switzerland and 12.16½ in France. The dollar closed firmer in all these centres at 2.5384, 2.1760 and 7.1737 respectively, having earlier set a new recent high of 2.5470 against the deutschemark in New York last night and touched 2.1827 and 7.1825 in Zurich and Paris today. EMS was unchanged at 1 13/16% between the punt (1.3445) at the top and the Belgian franc (49.30) at the bottom, 3½% from the lira (1428 - a new all-time low). The Italians sold \$77mn., the Belgians \$43mn. (of which \$6mn. in guilders) and the Germans \$3mn. The Swedish crown touched a new low of 6.3030 and the Riksbank sold \$48mn. Last night in New York, where the yen touched 270, the Japanese sold \$6mn. and they sold \$98mn. in Tokyo this morning where it closed at 269.50; in London it fell to 270.12 before closing at 269.72.

Gold fell to \$404 briefly in New York last night as the dollar strengthened sharply. It traded a little higher than that in London today but in fairly light activity. Fixings were at \$409.65 and \$410.50.

Operations:	Market	+ \$19mn.
	Interest	+ 18
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		+ \$37mn.
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28th September 1982.

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US BOND AND MONEY MARKETS

Tuesday, 28th September 1982

Federal Funds

Opening:  $9\frac{3}{4}\%$   
Range:  $8\frac{1}{2}\%$  -  $9\frac{7}{8}\%$   
Close:  $8\frac{3}{4}\%$

US Governments (NY closing bids)

2-year:  $101\frac{3}{8}$  ( $+\frac{1}{2}$ )  $11\frac{1}{2}\%$   
5-year:  $102\frac{7}{8}$  ( $+\frac{3}{4}$ )  $11\frac{7}{8}\%$   
10-year:  $109\frac{7}{8}$  ( $+\frac{7}{8}$ )  $12\%$   
30-year:  $118\frac{1}{2}$  ( $+\frac{3}{4}$ )  $11\frac{3}{4}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $10\frac{3}{4}\%$   
1-month:  $11\%$   
3-months:  $11\frac{5}{16}\%$   
6-months:  $12\%$

Federal Reserve Operations:

3-month Treasury Bills  $7\frac{3}{4}\%$   
3-month US bank CDs  $10\frac{1}{2}\%$   
Differential  $2\frac{3}{4}\%$

Indicators

Bankers Trust reduced prime rate from  $13\frac{1}{2}\%$  to  $13\%$ .

Comment:

The market opened  $\frac{1}{8}$ - $\frac{3}{8}$  higher and remained little changed until mid-afternoon when Funds rate fell below  $9\frac{1}{2}\%$  and the market rose sharply.

29th September 1982.

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