

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th September 1982

$-\frac{3}{8} \frac{2}{16} m 1$   
 $-\frac{5}{16} \frac{2}{16} m 2$   
 + 3

Euro-dollar rates eased today following a strong performance by the US bond market yesterday, a cut of  $\frac{1}{8}\%$  in Bankers Trust prime rate, to 13%, and the disappearance of end-quarter pressure as dealings commenced for October. The prospect of a resolution of the German political crisis in favour of Mr. Kohl was also a factor helping the deutschemark and contributing to some modest easing in the dollar. Sterling saw some sizeable two-way business but the conversion of the proceeds of a large sterling borrowing caused some downward pressure. The ERI fell 0.3 to 91.6.

The dollar weakened in New York last night following the prime rate cut and sterling moved up to close at 1.7030. This morning the rate opened at the high for the day of 1.7040 and immediately started to give ground as the dollar strengthened in Europe. As yesterday, some active selling by a US oil company was seen and the conversion of a large sterling acceptance credit also depressed the rate, which fell to 1.6972 in mid-morning. Although some demand, particularly from Eastern Europe, was evident during the afternoon, together with some US interest, the rate remained around 1.69 $\frac{1}{2}$  for most of the balance of the day, with a tendency to look easier than on most days recently. By the close the dollar had moved back from its firmest levels elsewhere in Europe, but sterling ended at its low for the day of 1.6971. Three-month Euro-dollars were  $\frac{5}{16}\%$  down at 11 $\frac{3}{8}\%$  and sterling's forward premium was 1%.

The pound was weaker in Europe, falling  $\frac{1}{2}\%$  in Germany (4.28 $\frac{1}{2}$ ) and France (12.10 $\frac{1}{2}$ ) and  $\frac{3}{8}\%$  in Switzerland (3.67 $\frac{1}{2}$ ). The dollar fell about  $\frac{1}{2}\%$  in each of these centres to close at 2.5240, 2.1655 and 7.1327. EMS remained 1  $\frac{13}{16}\%$  between the punt (1.3525) at the top and the Belgian franc (49.03) at the bottom, 3  $\frac{9}{16}\%$  from the lira (1421.20). The Belgians sold \$66mn. and the Italians bought \$31mn. The Swedish crown was again under pressure and the Riksbank sold \$197mn., while the Norwegians provided \$35mn. of support for their crown. There was no intervention today by the Bank of Japan and the yen improved to close at 268.42.

Gold firmed in New York last night but could not hold its gains in London today. After fixing at \$413.15 in the morning, the price drifted lower, to \$409.75 at the afternoon fix, and was later testing the \$400 level.

Operations:	Market	+	\$7mn.
	Interest	+	5
	Sundries	+	10
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		+	\$22mn.
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29th September 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 29th September 1982

Federal Funds

Opening: 9½%  
Range: 9¼% - 12%  
Close: 12%

US Governments (NY closing bids)

2-year: 101¼ (-¼) 11¾%  
5-year: 102⅞ (-) 11⅞%  
10-year: 109⅞ (-½) 12 1/16%  
30-year: 117⅞ (-⅞) 11⅞%

Euro-dollars (Today's opening  
London bid)

7-day: 10¾%  
1-month: 11%  
3-months: 11 7/16%  
6-months: 12%

Federal Reserve Operations:

Overnight reverse repurchase  
agreement with Fed Funds at 9½%.  
Stop rate 9.84%.

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

3-month Treasury Bills 7¾%

3-month US bank CDs 10½%

Differential 2¾%

Indicators

Comment:

The market opened little changed, but moved up slowly during a quiet morning to show gains of around ¼. The Fed's matched sales at noon took the market by surprise and prices were marked down by up to 1 point at the long end. The dip brought in buyers and prices recovered some ground before easing again towards the close.

30th September 1982.

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