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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 4th October 1982

Convinced that by the New York close last Friday US money supply would not be far from the Fed's target, markets were shocked by the release of the figures showing M1 rising by \$400mn. in the latest week. Euro-dollar rates moved up sharply today and the dollar soared to new recent highs in subdued and rather nervous trading. There was some token support for the deutschemark and yen from the Fed in an unexpected but ineffectual gesture. Sterling fell to a new six-year low against the dollar but was firm in Europe. The ERI closed unchanged at 91.6.

Sterling closed at 1.6930 in New York on Friday night but following some demand for the dollar over the weekend in the Middle East, the rate opened this morning at 1.6862. When the dollar at first appeared likely to ease a little, sterling moved up to 1.6877 in the first hour of trading, but the respite was short-lived and the rate soon settled to trade narrowly around 1.68½ in very light activity. Some professional selling from Germany was seen around mid-day and the rate dipped to 1.6840 shortly after noon, but little other sizeable business was seen. When the US bond market started to give ground during the afternoon, the rate remained at the lower levels, ending the day at a six-year low of 1.6837. Three-month Euro-dollars closed 5/16% higher at 11¼% and sterling's forward premium widened to 1½%.

The pound was firm in Europe, gaining ¼% in Germany (4.29½) and Switzerland (3.69½) and ½% in France (12.12½). The dollar rose 1% in these centres, to close at 2.5495 in Frankfurt (after a 14-month high of 2.5525), 2.1940 in Zurich and 7.2015 (after a new low of 7.2135) in Paris. EMS widened to 1½% between the Belgian franc (49.51) at the bottom and the guilder (2.7854) at the top, with the lira (1433.55 - a new all-time low) 3½% from the franc. The Germans sold \$48mn. and the Belgians guilders worth \$9mn., while the Danes and the Dutch bought deutschemarks worth \$22mn. and \$16mn. respectively. Elsewhere, the Swedes sold a further \$93mn. and the Bank of Japan sold \$125mn. in Tokyo this morning where the yen closed at a five-year low of 272.45; it fell to 272.92 in London. In their first intervention for two months, the Fed sold \$20mn. in New York this afternoon, against deutschemarks and yen equally.

Gold attempted to hold the \$400 level in London early this morning but fell heavily later in the day as the US bond market weakened. Fixings were at \$392.75 and \$387.50.

Operations:	Market	+	\$11mn.	<i>387.25</i>
	Iran	+	6	
	Interest	+	7	
	Sundries	+	4	
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		+	\$28mn.	
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	Overnight.	+	\$11mn.	
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4th October 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 4th October 1982

Federal Funds

Opening: $10\frac{3}{4}\%$
Range: $10\frac{5}{8}\%$ - $10\frac{7}{8}\%$
Close: $10\frac{3}{4}\%$

US Governments (NY closing bids)

2-year: 101 $(-\frac{1}{4})$ $11\frac{1}{2}\%$
5-year: 103 $(-\frac{1}{4})$ $11\frac{3}{4}\%$
10-year: 109 $\frac{3}{8}$ $(-\frac{5}{8})$ $12\frac{1}{16}\%$
30-year: 117 $\frac{1}{2}$ $(-\frac{7}{8})$ $11\frac{7}{8}\%$

Euro-dollars (Today's opening
London bid)

7-day: $11\frac{1}{4}\%$
1-month: $11\frac{5}{8}\%$
3-months: $11\frac{7}{8}\%$
6-months: $12\frac{5}{8}\%$

Federal Reserve Operations:

3-month Treasury Bills $8\frac{1}{4}\%$
3-month US bank CDs $10\frac{7}{8}\%$
Differential $2\frac{3}{8}\%$

Indicators

Comment:

The market opened weaker and traded down all morning. The lack of Fed activity, when some had hoped for an addition of reserves, contributed to the weakness. The afternoon saw little activity with the market closing only slightly off the bottom.

5th October 1982.

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