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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 5th October 1982

With markets uncertain whether the unexpected growth in US money supply revealed last Friday would lead merely to a pause in, or a reversal of, the recent falls in US interest rates, there was little movement today on the exchanges. The dollar remained extremely firm helped again by the particular weakness of the yen. There was no intervention today from the Fed. Sterling traded in a narrow range and the ERI closed 0.2 higher at 91.8.

Sterling closed at 1.6825 in New York last night and opened this morning at 1.6840. As the dollar strengthened in early business, helped by firmer Euro-dollar rates, sterling fell back under pressure of professional selling from some London banks. The rate fell to touch a new six-year low of 1.6821 before settling to trade around 1.6840 for the balance of the day in a quiet market. When the US bond market improved in the early going in the afternoon and the dollar eased from the best levels, the pound moved up to 1.6855 before closing at 1.6852. Three-month Euro-dollars ended the day 1/16% firmer at 11 13/16% and sterling's forward premium widened to 1 3/8%.

The pound again gained ground in Europe, rising 1/8% to close at 4.30 in Germany, 3.70 1/2 in Switzerland and 12.13 1/2 in France. The dollar was a little firmer in each of these centres at 2.5520, 2.1975 and 7.2025 respectively. EMS narrowed to 1 11/16% between the guilder (2.7885) at the top and the Belgian franc (49.47) at the bottom, 3 3/8% from the lira (1436.15 - another all-time low). The Germans sold \$28mn., while the Danes and Dutch bought deutschemarks worth \$20mn. and \$6mn. respectively. The Swedes sold \$47mn. There was no intervention in Tokyo today from the Bank of Japan although the yen remained weak. It closed at 273.85 in London having earlier fallen to 274.77. Fed intervention in New York yesterday rose to sales of \$50mn., \$30mn. of which was against deutschemarks and \$20mn. against yen (which was matched by similar sales by the Bank of Japan, taking their total support yesterday to \$145mn.).

Gold was quiet and steady. Fixings were at \$387.25 and \$390.25.

Operations:	Market	+	\$17mn.
	Sundries	+	2
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		+	\$19mn.
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	Overnight	+	\$9mn.
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5th October 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 5th October 1982

Federal Funds

Opening: 10 $\frac{1}{4}$ %
Range: 9 $\frac{1}{2}$ % - 10 $\frac{1}{4}$ %
Close: 9 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{1}{8}$ (+ $\frac{3}{8}$) 11 5/16%
5-year: 103 $\frac{1}{2}$ (+ $\frac{1}{2}$) 11 11/16%
10-year: 110 (+ $\frac{5}{8}$) 12%
30-year: 118 $\frac{1}{4}$ (+ $\frac{3}{4}$) 11 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 11 5/16%
1-month: 11 7/16%
3-months: 11 13/16%
6-months: 12 $\frac{1}{8}$ %

Federal Reserve Operations:

3-month Treasury Bills 8 $\frac{1}{8}$ %
3-month US bank CDs 10 13/16%
Differential 2 11/16%

Indicators

Comment:

A quiet and largely professional market trading, in the absence of any other news, off the Funds rate. As this fell throughout the day, so the market moved steadily higher.

6th October 1982.

TRS