THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th October 1982

There were some dramatic movements in the markets today following an article - regarded as an inspired leak - in the Wall Street Journal suggesting that Tuesday's FOMC meeting had agreed that M1 should be allowed to expand more quickly than originally planned. The dollar, which had begun the day on a firm note, crashed as the bond market soared and prime rates were cut to 13%. Meanwhile, in the Far North, yesterday's devaluation of the Finmark was followed today by the suspension of dealings in Swedish kronor and rumours of a 7% devaluation. Sterling was again firm. The ERI rose 0.3 to 92.4, mainly as a result of the marking down by the market of the Swedish crown.

A large order to sell the currencies in New York last night saw the dollar strengthen very sharply in a thin market and sterling fell back to 1.6860. However, the dollar eased in the Far East, so the pound opened in London at the low for the day of 1.6925 and soon started to move ahead, despite some sizeable selling by a large Far Eastern professional bank. With some good demand in London and some official sales from Europe, sterling was an active two-way market throughout the morning, while the dollar showed a generally easier tone as Eurodollar rates edged lower. The entry of New York and the surge in bond prices, together with the prime rate cuts, hastened the fall of the dollar enabling sterling to make further progress but, as usual in these circumstances, at a rather slower pace than some of the major continental currencies. The rate closed at the high for the day of 1.7010 but was later firmly quoted a cent higher. Three-month Eurodollar rates fell another $\frac{1}{4}$% to $11\frac{1}{4}$% and sterling's forward premium narrowed to 1%.

The pound was easier in Europe, shedding $\frac{5}{8}$% in Switzerland (3.68$\frac{1}{8}$) and rather less in Germany (4.30) and France (12.16$\frac{1}{2}$). The dollar fell 3/4% in these countries to close at 2.1645, 2.5279 and 7.1515 respectively. There was no change in EMS but some heavy support for some of the weaker currencies. The Belgian franc (49.04) closed 1 13/16% below the guilder (2.7612) after sales of $77mn. (of which $4mn. was in guilders). In addition, the French sold $159mn. and deutschemarks worth $57mn., the Danes sold $101mn., the Italians $68mn., the Germans $5mn. and the Irish $1mn. Elsewhere, the Norwegians sold $153mn. The yen was weak again in New York last night and the Bank of Japan sold a further $200mn. (taking yesterday's intervention to $497mn.) and the Fed sold $20mn. against yen. Today the yen improved quite sharply in Europe with some strong professional buying to close at 270.82 with no support provided.

Gold responded strongly to the cut in prime rates with some good commission house buying and a sharp upward movement on the futures market. After fixing at $417.25 and $418.50, the price was later quoted up to $428.

Operations:	Market	+ $19mn.
	Interest	+ 12
	Iran	+ 7
	Greece	– 15
	Sundries	+ 6
		+ $29mn.
	Overnight	+ $10mn.

7th October 1982

TRS

US BOND AND MONEY MARKETS

Thursday, 7th October 1982

Federal Funds

Opening:	9 3/4%
Range:	9½-9¾%
Close:	9 3/4%

US Governments (NY closing bids)

2-year:	103	(+1¼)	10 7/16
5-year:	106⅞	(+2⅝)	10 13/16%
10-year:	113½	(+2⅜)	10 3/8%
30-year:	123¼	(+3⅝)	11 1/4%

Euro-dollars (Today's opening London bid)

7-day:	10 3/16%
1-month:	10 9/16%
3-months:	10 7/8%
6-months:	11 1/8%

Federal Reserve Operations:

Sold $200mn. Treasury Bills for a customer.

3-month Treasury Bills	7 11/16%
3-month US bank CDs	10 3/16%
Differential	2 1/2%

Indicators

Consumer credit rose $0.1bn. in August

(cf +0.6bn. in July)

Comment:

An article in the Wall Street Journal saying that the FOMC had decided to let M1 expand temporarily because of the weakness of the economy sparked off another major rally. When fears that the Fed might drain liquidity were not realised around mid-day, the market soared further, closing at the high.

8th October 1982

TRS