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SEC

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 8th October 1982

There were some wild movements in a hectic day's trading on the exchanges. The unexpectedly large (16%) devaluation of the Swedish crown announced this morning put pressure on the other Scandinavians and, through the Danish crown, on the weaker EMS currencies giving rise to some talk of a possible weekend realignment. Meanwhile, the dollar fell further helped by speculation in the U.S. press that the weakness of the economy would cause the Fed to abandon temporarily the targets for M1 and concentrate on reducing interest rates. The release of the U.S. unemployment figures for September (+0.3% to 10.1%) reinforced these views, sending the bond markets to new highs and leading to growing expectations of a discount rate cut this evening. Amongst all this activity, sterling remained somewhat on the sidelines and relatively stable. The ERI at 92.9 was 0.5 higher, again, mainly as a consequence of the weakness of the Scandinavian currencies.

Sterling closed at 1.7150 last night in New York and opened at 1.71 this morning in London. Although the dollar strengthened in early business, sterling rose steadily at this time, helped by buying from Switzerland, to reach 1.7145 within the first hour of trading. However, with the sterling/deutschemark cross rate approaching 4.31, there was some selling during the morning from the Middle East and when an oil company also began selling sterling against deutschemarks, the rate fell sharply around mid-day, bottoming at 1.7065 shortly after noon. When the rally in the U.S. bond market was resumed during the afternoon and Eurodollar rates fell further, sterling recovered quickly to reach 1.7155 before closing at 1.7145. Three month Eurodollars fell ½% over the day, to close at 10¾% and sterling's forward premium fell to ¾%.

Sterling lost a further ½% in Switzerland (3.66⅛), was a touch easier in Germany (4.29⅞) and a little firmer in France (12.17¼). The dollar fell over 1% in Zurich (2.1360) and ¾% in Frankfurt (2.5075) and Paris (7.10). EMS was under some pressure and the band had widened to 2⅛% by the close, with the Danish crown (8.9350) assuming bottom position and the guilder (2.7385) at the top. The lira (1428) almost returned within the band, closing only 2½% above the crown. There was some heavy intervention, with the Danes selling $241mn., the Italians $190mn., the French $166mn. (of which $70mn. was in deutschemarks), the Belgians $95mn. (of which $2mn. in guilders) and the Irish $19mn. The Dutch bought Danish crowns worth $3mn. Elsewhere, following their devaluation, the Swedes took their losses on recent support, recouping $1008mn., while the Norwegians spent $354mn. The yen strengthened sharply, rising 1½%, following the introduction of a government package to stimulate the economy; it closed at 266.52.

Gold was a rather thin and nervous market. The price moved in an erratic fashion throughout the day, fixing at $438 and $433.

Operations: Sundries + $1mn.

8th October 1982

TRS

US BOND AND MONEY MARKETS

Friday, 8th October 1982

Federal Funds

Opening:	9¾%
Range:	8¾ - 10%
Close:	9½%

US Governments (NY closing bids)

2-year:	104	(+ 1)	9 13/16%
5-year:	107½	(+ ⅝)	10 11/16%
10-year:	114⅝	(+ ⅞)	11¼%
30-year:	124⅞	(+ 1⅝)	11⅛%

Euro-dollars (Today's opening London bid)

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

Federal Reserve Operations:

Reverse repurchase agreements with Fed Funds at 9 3/8%. Stop rate 9.65%.

Bought $200 mn. Treasury Bills for a customer.

3-month Treasury Bills	7 11/16%
3-month US bank CDs	9 5/8%
Differential	1 15/16%

Indicators

M1 - $2.7 bn.

Discount rate - 1/2% to 9½%

U.S unemployment 10.1% in September (c.f 9.8% in August).

Comment: An extremely volatile day. The market continued to rally strongly during the morning following the release of the unemployment figures and helped by a falling Funds rate. The long bond breached 125 before mid-day but crashed to previous day's close (123¼) on draining by the Fed. However, when the Funds's rate resumed downward path in the afternoon, the market began to recover, gapping higher on release of money supply and reduction in discount rate.

TRS.

11th October 1982