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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 11th October 1982

A $\frac{1}{2}$ % fall in the Fed's discount rate, a decline (\$2.7bn.) in M1 well up to expectations and confirmation from Mr. Volcker that the Fed was in any case temporarily abandoning monetary targets - all this news although making for lower US interest rates today had little impact on quiet, holiday-affected exchanges, where the dollar continued obstinately firm. This was no doubt partly a result of market perception that the interest rate falls would be matched by moves elsewhere - and rates in both Switzerland and the UK moved lower over the day - but also reflected the current weakness of some of the other major currencies. Sterling traded quietly in a narrow range and the ERI closed 0.1 lower at 92.8.

The pound closed at 1.7115 in New York on Friday evening and opened at what proved to be the high of the day in London at 1.7212. With the dollar gradually firming elsewhere, sterling soon slipped back to 1.72, helped by some modest selling from the Indian sub-continent, and traded around this level for most of the remainder of the morning. In a thin afternoon's trading and with the dollar continuing in some general demand, sterling gave a little further ground with some modest official selling from Europe. The rate dipped to 1.7161 before closing at 1.7173. Three-month Euro-dollars fell 7/16% to close at 10 5/16% and sterling's forward premium narrowed to $\frac{1}{8}$ %.

The pound was a little easier against the major continental currencies, falling $\frac{1}{8}$ % in Germany (4.29 $\frac{1}{2}$) and Switzerland (3.66 $\frac{1}{8}$) and $\frac{1}{4}$ % in France (12.15 $\frac{1}{4}$). The dollar ended $\frac{1}{8}$ % lower in these centres at 2.5007, 2.1357 and 7.0762. In EMS the Belgian franc (48.54) resumed bottom position in the band, 1 13/16% below the guilder (2.7330) and 2 $\frac{3}{8}$ % from the lira (1423). The Italians sold \$175mn., the French \$135mn. (of which \$72mn. was in deutschemarks) and the Germans \$30mn. In Scandinavia a further 6% devaluation of the markka over the weekend renewed pressure on the Norwegian crown (7.2025) and the Norges Bank sold \$59mn. By contrast, the Swedes continued to recoup reserves, taking in \$445mn. With Tokyo closed for Physical Education Day, the yen improved further in London, rising another 1% to close at 263.95.

Gold was quiet until late in the day when some volatility was seen. After fixing at \$431.75 and \$430, the price moved up abruptly to \$440 late in the afternoon following a surge in the silver price on the Chicago futures market.

Operations:	BIS	+	\$9mn.
	Zimbabwe	+	9
	Sundries	+	4
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		+	\$22mn.
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11th October 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 11th October 1982

Federal Funds

Opening:

Range:

Close:

US Governments (NY closing bids)

2-year:

5-year:

10-year:

30-year:

Euro-dollars (Today's opening
London bid)

7-day: 9 $\frac{1}{8}$ %

1-month: 9 15/16%

3-months: 10 $\frac{1}{4}$ %

6-months: 10 $\frac{3}{8}$ %

3-month Treasury Bills

3-month US bank CDs

Differential

Federal Reserve Operations:

Indicators

Market closed for Columbus Day.

Comment: