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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 12th October 1982

There were further sharp falls in US interest rates today as the effects of the Fed's downgrading of monetary policy had their impact on the US credit markets. A number of major banks, led by Morgan Guaranty, dropped their prime rate 1%, to 12%, and Euro-dollars again moved down, reaching their lowest level for over two years. The dollar eased a little further in rather quiet trading on the exchanges. Sterling continued firm and the ERI rose 0.2 to 93.0, its highest level for 15 months.

Sterling seemed unaffected by a very large selling order executed in Chicago last night and opened this morning at 1.7177. As the dollar weakened slowly in Europe, helped by good demand for Swiss francs, sterling moved up to trade narrowly around 1.72 throughout the morning, withstanding another modest official selling order from Europe. When the US bond market surged ahead in the afternoon and primes moved lower, the dollar eased further in Europe. Sterling saw some good buying at this time both from Chicago and on oil company account and the rate moved quickly ahead, reaching 1.7285 at best. When the dollar recovered slightly towards the close sterling moved back to 1.7261. Three-month Euro-dollars fell a further 7/16% over the day, to close at 9 3/4%, their lowest level since August 1980. Sterling's forward premium was 1/2%.

The pound was unchanged in Germany (4.29 1/2) and France (12.15 1/2) but lost 3/4% in Switzerland (3.65 1/2). The dollar fell 1/2% in these centres, to close at 2.4887, 7.0430 and 2.1282. There was no change in EMS, where the Belgian franc (48.31) closed 1 13/16% from the guilder (2.72) and 2 5/16% from the lira (1417.37). The Bank of France defended the French franc against the deutschmark at a cross-rate of 2.83, selling deutschmarks worth \$143mn. and \$117mn., while the Germans sold \$5mn. and the Irish bought \$19mn. Elsewhere, the Swedes continued rebuilding their reserves, buying \$379mn. and the Norwegians sold \$82mn. The yen seemed unaffected by news that the prime minister is to step down; it rose 1/2% to close at 262.35.

Gold rallied sharply in the US last night and in the Far East this morning, where it touched \$450. It settled back a little in London today, fixing at \$442.25 and \$441.25.

Operations:	Market	+	\$9mn.
	Ghana	-	7
	Nepal	-	7
	Sundries	-	2
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		-	\$7mn.
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12th October 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 12th October 1982

Federal Funds

Opening: 9 $\frac{1}{4}$ %
Range: 8 $\frac{7}{8}$ % - 9 $\frac{1}{4}$ %
Close: 9 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 104 $\frac{1}{8}$ (+ $\frac{1}{8}$) 9 $\frac{3}{4}$ %
5-year: 107 $\frac{5}{8}$ (+ $\frac{1}{8}$) 10 $\frac{5}{8}$ %
10-year: 115 $\frac{1}{8}$ (+ $\frac{1}{2}$) 11 $\frac{1}{8}$ %
30-year: 126 $\frac{5}{8}$ (+1 $\frac{3}{4}$) 10-15/16%

Euro-dollars (Today's opening London bid)

7-day: 9 $\frac{3}{4}$ %
1-month: 9 $\frac{3}{4}$ %
3-months: 10 1/16%
6-months: 10 3/16%

Federal Reserve Operations:

Bought \$400 Treasury Bills for a customer.

3-month Treasury Bills 7 7/16%
3-month US bank CDs 9 3/16%
Differential 1 $\frac{3}{4}$ %

Indicators

Retail sales in September rose 1% (c.f. -1.0% in August)
Morgan Guaranty, Chemical and Bank of America prime rate
-1% to 12%.

Comment:

A very volatile day, chiefly characterised by profit-taking. The long bond opened 4 points up from Friday following Monday's movement in the futures markets and general euphoria over Mr. Volcker's comments at the week-end. The opening levels were more or less held throughout the morning but some heavy selling was seen in the afternoon, encouraged by the stronger-than-expected retail sales figure. The market closed at the lows.

13th October 1982.

TRS