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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 13th October 1982

A day of active two-way business on the exchanges but rather narrow movements in exchange rates. After the recent sharp falls in US interest rates - and all major banks followed yesterday's lead by Morgan Guaranty in moving to a 12% prime - the expected cuts in European rates began to appear. The Dutch reduced their discount and Lombard rates by  $\frac{1}{2}\%$  and the expected  $\frac{1}{2}\%$  cuts in the clearing banks' base rates were also announced. Sterling seemed little affected and continued firm; the ERI closed 0.2 lower at 92.8.

The dollar strengthened sharply in New York last night as profit-taking reduced substantially the gains seen earlier on in the day in the US bond market. Sterling withstood well another very large selling order and although the rate fell back to 1.7142 by the close there; it lost little ground against the Continental currencies. This morning sterling opened at 1.7149 and traded fairly narrowly around this level for much of the day against an unusually stable dollar. Some good investment demand was seen during the morning when the rate reached 1.7155 at best but, as on many days recently, there was some official and professional selling from Europe. News of the cut in base rates saw the pound marked down briefly to 1.7117 and when the US bond market at first seemed likely to give further ground, the pound remained at the lower levels for part of the afternoon. However, as the bond market began to recover, the dollar eased at the end of the day and sterling rose to close at 1.7147. Three-month Euro-dollars gained  $\frac{3}{8}\%$  to close at 10 $\frac{1}{2}\%$  and sterling's forward premium widened to  $\frac{7}{8}\%$ .

The pound was unchanged in Europe, closing at 4.29 $\frac{1}{2}$  in Germany, 3.65 $\frac{1}{2}$  in Switzerland and 12.15 in France. The dollar was a little firmer in each of these centres at 2.5046, 2.1335 and 7.0862. Tensions seemed to ease in EMS, where the Belgian franc (48.61) remained 1 13/16% from the guilder (2.7363) and 2 5/16% from the lira (1425.55). The Italians sold \$78mn., the French \$41mn., the Danes \$10mn. and the Irish bought \$4mn. Elsewhere, the Swedes bought a further \$166mn. and the Norwegians sold \$214mn. The yen surrendered some of its recent gains, closing 1 $\frac{1}{2}\%$  down at 265.75.

Gold fell in New York last night and moved lower in the Far East and London today. Fixings were at \$429.50 and \$428.75.

Operations:	Iran	+	\$10mn.
	BIS	+	9
	Sundries	+	1
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		+	\$20mn.
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13th October 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 13th October 1982

Federal Funds

Opening: 9½%  
Range: 8½% - 10%  
Close: 8½%

US Governments (NY closing bids)

2-year: 104¼ (+¼) 9¾%  
5-year: 108¼ (+¼) 10½%  
10-year: 116¼ (+1¼) 11%  
30-year: 128½ (+1½) 10¾%

Euro-dollars (Today's opening  
London bid)

7-day: 9 13/16%  
1-month: 9 13/16%  
3-months: 10 1/16%  
6-months: 10¼%

Federal Reserve Operations:

Bought \$550mn. Treasury Bills for  
a customer.

3-month Treasury Bills 7⅝%  
3-month US bank CDs 9¼%  
Differential 1⅝%

Indicators

Comment:

The market opened ¼ lower and traded narrowly during the morning. Prices moved up through the afternoon, backed by strength in the futures market, but closed off their highs.

14th October 1982.

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