

22.7
DATE

SECRET

428 1/4 4.23 1/4
92.7 92.8
10 1/4 95/16 (3)

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 15th October 1982

With no indication from the Fed as to the new focus of economic policy, the markets remained apprehensive about tonight's money supply and the dollar strengthened further on the exchanges. Confirmation of the slowdown in inflation (wholesale prices fell 0.1% in September) and signs of continued weakness in the economy (industrial production down 0.6%) were ignored as operators sought to eliminate any remaining short dollar position. Although heavy support was necessary for some of the weaker currencies in EMS, expectations of a weekend realignment diminished as the day wore on. The good retail prices figures for September fully discounted, sterling saw some considerable selling during the afternoon. The ERI closed 0.1 down at 92.7.

The dollar was in strong demand in New York last night from the IMM and the Far East and sterling fell back to close there at 1.7042. Having opened at the same level this morning, the rate initially moved up to 1.7047 but then gave ground as the dollar strengthened generally. Some selling by an oil company took sterling down to 1.7008 in mid-morning but when the dollar peaked in Europe as some selling developed out of Switzerland against deutschemarks and Swiss francs, sterling recovered to trade around 1.70 1/4. Although the U.S. bond market again moved lower during the afternoon, the dollar eased back from its best levels and sterling moved up to 1.7050 at this time helped by some demand from Eastern Europe. However, when the IMM returned to bid for dollars towards the closing stages of the day, sterling briefly fell to 1.6995 before closing at 1.7020. Three month Euro-dollars were 1/16% firmer at 10 1/4% and sterling's forward premium was 15/16%.

The pound lost 1/4% in Germany (4.28 1/2%) and France (12.13 1/2) but gained 1/8% in Switzerland (3.67 1/2%). The dollar closed 1/4% higher in Frankfurt (2.5185) and Paris (7.13) and 3/8% stronger in Zurich (2.1572). EMS was under pressure throughout the day but by the close the Belgian franc (49.01) had reverted to bottom place with the Danish crown (8.9750) slightly above it. The band widened to 2 3/16% with the guilder (2.7495) steady at the top and the lira (1436.25 - after a new all-time low of 1441.62) closing 2 7/16% above the Belgian franc. The French franc again required support against the deutschemark and the Bank of France sold \$33mn. in New York last night and \$461mn. (of which \$174mn. was in deutschemarks) in Europe today. The Danes sold \$152mn., the Italians \$36mn., the Belgians \$14mn. and the Germans and the Irish \$10mn. each, while the Dutch bought Danish crowns worth \$4mn. The Norwegians spent a further \$121mn. in aid of their crown and the Swedes bought \$47mn. The Bank of Japan supported the yen, selling \$60mn. in New York last night and \$30mn. in Tokyo today. The yen closed 1% lower today at 269.77.

Gold fell back in New York last night, encountering heavy stop/loss selling orders at \$442. The price slipped lower in London today fixing at \$437.25 and \$432.50.

Operations: B.I.S. + \$9mn.
 Sundries + 3
 + \$12mn.

15th October 1982
TRS

US BOND AND MONEY MARKETS

Friday, 15th October 1982

Federal Funds

Opening: 9 $\frac{1}{4}$ %
Range: 9 $\frac{1}{4}$ %-9 $\frac{3}{4}$ %
Close: 9 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 104 (+ $\frac{1}{8}$) 9 13/16%
5-year: 107 $\frac{3}{4}$ (+ $\frac{1}{4}$) 10 5/8%
10-year: 115 (- $\frac{1}{8}$) 11 1/8%
30-year: 126 $\frac{3}{8}$ (- $\frac{3}{4}$) 11%

Euro-dollars (Today's opening
London bid)

7-day: 9 $\frac{1}{2}$ %
1-month: 9 $\frac{3}{4}$ %
3-months: 10%
6-months: 10 $\frac{1}{8}$ %

Federal Reserve Operations:

\$1.2bn. customer repurchase
agreement with Fed funds at 9 $\frac{1}{4}$ %.
Stop rate 9.05%.

3-month Treasury Bills 7 $\frac{3}{4}$ %
3-month US bank CDs 9 $\frac{1}{4}$ %
Differential 1 $\frac{1}{2}$ %

Indicators

M1 + \$6.9bn.
M2 + \$8.6bn. in September
PPI - 0.1% (after +0.6% in August)
Industrial Production - 0.6% (after - 0.5% in August)

Comment:

The market opened slightly higher following the PPI announcement, but soon began to drift down. The Fed's action at noon disappointed and moved prices lower. Prior to the money announcement, the market was down $\frac{1}{4}$ -1 for the day, with M1 better than the market's worst fears, prices improved by $\frac{1}{8}$ - $\frac{3}{8}$ following the announcement.

18th October 1982

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