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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 22nd October 1982

The exchange markets silted up today with uncertainty over the size of the Fed's next discount rate cut, which they expect this evening. Business was hard to navigate. Both the dollar and sterling passively drifted on to slightly higher ground, the ERI for the pound closing 0.1 better at 92.8.

The New York market showed similar signs of slowing last night: the pound closed at 1.70. It opened this morning in London at 1.7006, touched 1.6975 just before noon and closed at 1.6977. Euro-dollars shaded back 1/16% to 9 3/4%, sterling's forward premium remaining unchanged.

In Europe, the pound looked generally stronger: it rose to 4.29 3/4 in Germany, 12.13 11/16% in France and 3.69 1/2 in Switzerland. The dollar, which had opened somewhat lower, recovered to close almost unchanged in comparison with last night, Chemical's prime rate reduction to 11 1/2% being disregarded. The deutschemark eased from 2.5211 to 2.5290 at the end of London's trading. EMS edged out to 2 3/16% in width, between the Belgian franc (49.08) and the florin (2.7546), the lira (1444.15) being 2% above the franc. The Belgians sold florins worth \$20mn. whilst the Italians sold \$78mn. There were sales also by the Irish (\$18mn.), Danes (\$5mn.) and Norwegians (\$89mn.). The French franc, around the centre of EMS, ended at 7.1590; the Swiss franc, 2.1745; and the yen, 273.45.

Gold fixed at \$426.25 and \$428.

Operations:	Interest	+	\$6mn.
	Sundries	+	1
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		+	\$7mn.
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22nd October 1982.

DAHB
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US BOND AND MONEY MARKETS

Friday, 22nd October 1982

Federal Funds

Opening: $9\frac{3}{8}\%$
Range: $9\frac{1}{4}\%$ - $9\frac{1}{2}\%$
Close: $9\frac{1}{2}\%$

US Governments (NY closing bids)

2-year: $99\frac{1}{2}$ ($-\frac{3}{8}$) 10%
5-year: $106\frac{7}{8}$ ($-1\frac{1}{8}$) $10\frac{3}{4}\%$
10-year: $113\frac{5}{8}$ ($-1\frac{5}{8}$) $11\frac{3}{8}\%$
30-year: $124\frac{1}{4}$ ($-2\frac{5}{8}$) $11\frac{1}{8}\%$

Euro-dollars (Today's opening
London bid)

7-day: $9\frac{3}{4}\%$
1-month: $9\frac{13}{16}\%$
3-months: $10\frac{1}{16}\%$
6-months: $10\frac{1}{4}\%$

Federal Reserve Operations:

3-month Treasury Bills $7\frac{5}{8}\%$
3-month US bank CDs $9\frac{3}{16}\%$
Differential $1\frac{9}{16}\%$

Indicators

M1 +\$3.2bn.

Chemical Bank prime $-\frac{1}{2}\%$ to $11\frac{1}{2}\%$

Comment:

The market drifted lower throughout the day in quiet trading as hopes for a discount rate cut gradually faded. The reduction in Chemical Bank's prime had little impact and going into money supply the market was off $1\frac{1}{4}$ points. When the sharp rise in money was not followed by a change in the discount rate, the market slumped further.

25th October 1982.

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