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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th October 1982

Diminishing hopes of a US discount rate cut this Friday, coupled with the absence of the rumoured package of support measures for the yen, took the dollar to new highs again on the exchanges today. The volume of business was not, however, great and markets were thin throughout the day. Sterling moved with the major Continental currencies, falling to another six-year low against the dollar. The ERI closed 0.1 down at 92.4.

As the IMM bid aggressively for dollars in New York last night sterling fell to 1.6765 before closing at 1.6805. This morning, having opened at 1.6825, the rate traded very quietly around this level until just after noon, reaching 1.6834 at best. The dollar began to strengthen with the entry of New York but although the rate was marked lower throughout the afternoon little selling of sterling was seen. A new recent low of 1.6750 was set just before the close at 1.6756. Three-month Euro-dollars were 1/16% firmer at 10% and sterling's forward premium was 3/8%.

The pound was a little firmer in Europe, gaining 1/8% in Germany (4.29 1/2) and France (12.11 1/2) and 1/4% in Switzerland (3.70 1/2). The dollar rose 3/8% in each of the first two centres to close at a 14-month high of 2.5620 in Frankfurt and a new high of 7.23 in Paris; it gained 7/8% to a 14-month high of 2.2125 in Zurich. EMS was fully-stretched by the close with the Belgian franc (49.62) requiring \$27mn. equivalent in support (of which \$4mn. was in deutschemarks and \$1mn. in guilders). The French bought \$51mn.-worth of deutschemarks. The guilder (2.7812) remained at the top of the band followed by the lira which closed at an all-time low of 1462.25. The yen opened on a relatively firm note but weakened as the day wore on as hopes of a package of support measures declined. It closed at another five-year low of 277.45.

Unusually, gold was little troubled by the strength of the dollar and the price remained in a narrow range around \$420. Both fixings were at \$418.25.

Operations:	Market	+ \$4mn
	IDA	+ 32
	Interest	+ 12
	Ghana	- 8
	Sundries	+ 2
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		+ \$42mn.
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28th October 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 28th October 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$ (+ $\frac{1}{4}$) 9 $\frac{3}{4}$ %
5-year: 107 $\frac{7}{8}$ (+ $\frac{5}{8}$) 10 9/16%
10-year: 115 (+1) 11 3/16%
30-year: 125 $\frac{1}{2}$ (+1 $\frac{1}{2}$) 11 1/16%

Euro-dollars (Today's opening
London bid)

7-day: 9 9/16%
1-month: 9 $\frac{5}{8}$ %
3-months: 9 15/16%
6-months: 10 3/16%

Federal Reserve Operations:

3-month Treasury Bills 7 15/16%
3-month US bank CDs 9 3/16%
Differential 1 $\frac{1}{4}$ %

Indicators

Comment:

A quiet but firm day's trading but the buying interest was wholly professional and little or no retail demand was seen. After a steady morning the market improved during the afternoon on rumours of the bankruptcy of International Harvester and the leak of a gloomy forecast by the Fed on growth prospects in 1983.

The market seems oblivious of the huge supply of paper coming over the next 10 days and unless the discount rate is cut or there is a major corporate/bank failure, some retrenchment from present levels seems probable.

29th October 1982.

TRS