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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th October 1982

The leak in New York last night of a Fed report forecasting slow economic growth in the US in 1983 gave the dollar a slightly softer tone at the start today but it soon started to firm in Europe, led by the weakness of the lira and the yen. As yesterday, all major currencies fell to new recent lows against the dollar although by the close it was below its best levels helped by a firm bond market performance and a slightly more modest rise (0.5%) than expected in the index of leading indicators. Sterling saw some heavy selling during the morning, as the proceeds of a large borrowing were converted, but recovered later as this was absorbed; the ERI closed 0.1 higher at 92.5.

As the dollar weakened in New York last night following news of the Fed's report, sterling rose to close there at 1.6810. This morning the rate opened at 1.6790 and, having touched 1.6795, began to fall back as the impact of the conversion of the large sterling borrowing was seen in the market. At the same time, the dollar was strengthening elsewhere following confirmation of the absence of any measures to support the yen and on the back of some sizeable demand against lira. Sterling lost ground at this time, falling to another six-year low of 1.6720 before recovering to 1.6734 at noon, helped by some commercial demand from France. During a quiet afternoon as the dollar eased back from its best levels sterling rose slowly to close at 1.6765. Three-month Euro-dollars and sterling's forward premium were unchanged at 10% and  $\frac{1}{8}\%$  respectively.

The pound was steady in Europe, closing at 4.29 in Germany, 3.70½ in Switzerland and 12.14½ in France. The dollar set 14-month highs in both Frankfurt (2.5670) and Zurich (2.2160) and a new high of 7.2575 in Paris. It closed a little below these levels at 2.5595, 2.21 and 7.2425 respectively. EMS was 2 1/16% wide between the Belgian franc (49.54) and the guilder (2.7832). The French sold deutschemarks worth \$84mn., the Italians sold \$78mn. and the Belgians \$70mn. (of which \$19mn. was in guilders). Elsewhere the Swedes sold \$30mn. The yen hit another five-year low of 278.15 but closed a little firmer at 277.10.

Despite the strength of the dollar, gold was relatively firm, helped by some demand from the Middle East. Fixings were at \$422 and \$423.25.

Operations:	Market	+	\$2mn.
	Sundries	+	7
			<hr/>
		+	\$9mn.
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The result for October is a rise in reserves of \$194mn. to a level of \$18,493mn. after net repayments of public sector borrowing of \$52mn. and a repurchase under the IMF oil facility of \$57mn. The renewal of the ECU swap caused a rise of \$248mn. in the value of the spot reserves and an equivalent fall in the over-bought forward position which was reduced overall by \$245mn. to a level of \$695mn.

29th October 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 29th 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 $\frac{7}{8}$  (-) 9 13/16%  
5-year: 107 $\frac{7}{8}$  (-) 10 9/16%  
10-year: 115 $\frac{1}{2}$  (+ $\frac{1}{2}$ ) 11 1/16%  
30-year: 126 $\frac{1}{4}$  (+ $\frac{1}{4}$ ) 11%

Euro-dollars (Today's opening  
London bid)

7-day: 9 11/16%  
1-month: 9 11/16%  
3-months: 9 15/16%  
6-months: 10 $\frac{1}{8}$ %

Federal Reserve Operations:

3-month Treasury Bills 7 $\frac{7}{8}$ %  
3-month US bank CDs 9 $\frac{1}{8}$ %  
Differential 1 $\frac{1}{4}$ %

Indicators

Leading indicators +0.5% in September (c.f. -0.2% in August)

Comment:

A quiet day with only light trading. The market moved up in the early going and held these levels until mid-afternoon when it improved a little further. Money supply was as expected and had no impact.

1st November 1982.

TRS