

SECRET

2/24  
FREE  
THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 3rd November 1982

The uncertain consequences for US economic policy of the Democratic gains in the US mid-term elections contributed to the dollar's strength in more active trading on the exchanges today. Growing hopes for a 1% cut in the Fed's discount rate before mid-November, which helped the US bond market to soar to new highs, had no adverse effect on the dollar. Sterling saw some good two-way business; the ERI ended 0.1 down at 92.4.

The pound opened at 1.6841 this morning and moved up to 1.6855 in early business as the dollar initially eased. Despite falling Euro-dollar rates, the dollar's weakness proved short-lived and with an oil company selling sterling during the morning the rate gave ground. Although there was some demand for sterling against deutschemarks from Eastern Europe at the lower levels, the rate continued to ease, bottoming at 1.6785 shortly after noon as a large German bank also came in as a seller. During a less active afternoon the rate remained around 1.68, ending at 1.6794. Three-month Euro-dollars recovered some of their earlier losses to close only 1/16% lower at 9 3/8% and sterling's forward premium was 9/16%.

The pound was virtually unchanged in Europe, closing at 4.29 in Germany, 3.69 1/4 in Switzerland and 12.09 1/4 in France. The dollar was firmer in each of these centres at 2.5546, 2.2017 and 7.20 respectively. EMS narrowed to 1 15/16% between the Belgian franc (49.43) and the guilder (2.7795). The Belgians sold \$10mn., while the French bought deutschemarks worth \$200mn. and the Danes bought \$26mn. With Tokyo closed for Culture Day, the yen was quiet, easing to 276.37.

Gold opened on a firm note, with some good Middle East demand during the morning when it fixed at \$433.50. The higher levels were not, however, maintained in the face of the dollar's strength in the afternoon and the second fixing was at \$427.50.

Operations:	Market	+	\$14mn.
	Iran	+	14
	Interest	+	6
	Government	-	18
	Sundries	-	3
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		+	\$13mn.
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3rd November 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 3rd November 1982

Federal Funds

Opening: 9 $\frac{3}{8}$ %  
Range: 9 $\frac{3}{8}$ % - 10%  
Close: 9 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$  (+ $\frac{1}{8}$ ) 9 11/16%  
5-year: 108 $\frac{1}{4}$  (+ $\frac{1}{4}$ ) 10 $\frac{3}{8}$ %  
10-year: 117 (+ $\frac{1}{4}$ ) 10 13/16%  
30-year: 129 (+1 $\frac{1}{2}$ ) 10 $\frac{3}{4}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 9 $\frac{1}{2}$ %  
1-month: 9 7/16%  
3-months: 9 9/16%  
6-months: 9 11/16%

Federal Reserve Operations:

Bought \$275mn. Treasury Bills for  
a customer.

3-month Treasury Bills 7 $\frac{3}{4}$ %  
3-month US bank CDs 8 15/16%  
Differential 1 3/16%

Indicators

Comment:

A very volatile day's trading. The market ignored the election results, focussing instead on the expected cut in the discount rate and surging at the long end, partly on technical considerations. By mid-morning the long bond had reached a new high of 130 $\frac{3}{8}$ , up nearly 3 points from Monday. Confidence collapsed as quickly in the afternoon as Funds moved higher and much of the gains had been lost by the close.

The new \$6bn. three-year was auctioned at an average price of 9.86%.

4th November 1982.

TRS