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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th November 1982

It was a rather confusing day on the exchanges. The pressure on sterling continued but it took a different form with investors clearly looking to book profits in gilts and switch into deutschemarks and yen, rather than dollars. The result was that while sterling today fell relatively modestly against the dollar, it continued to lose ground rapidly against the other major currencies and in effective terms, the ERI closing 0.9 lower at 89.4. The dollar's weakness was itself all the more perverse given the disappointingly strong growth in both measures of money supply released last night, the absence of the hoped-for cut in the discount rate and Chemical Bank's prime rate increase to join the other majors at 12%.

Sterling came under pressure in New York last night and, despite further support, fell to 1.6275 (DM4.20 $\frac{2}{3}$) by the close there. This morning the rate opened at 1.6250 and, after touching 1.6225, moved up steadily for most of the first part of the day. Although there continued to be some portfolio disinvestment, probably by Middle East operators, it was not on the scale of yesterday and commercial activity seemed to be active but two-way. Sales of sterling against deutschemarks and yen were partially balanced by some buying from U.S. banks in London and, with the dollar easing elsewhere, the rate reached 1.6292 at best in mid-morning. The pace of the dollar's fall then quickened as heavy late demand from Tokyo took the yen sharply higher. The sentiment towards sterling changed about the same time with some moderate selling from South Africa and the rate fell back to 1.6226 shortly before noon, despite the dollar's weakness elsewhere. The pattern of the afternoon was similar, with the yen continuing to improve and sterling struggling to hold its own around the 1.6230 level before ending at 1.6250. Later, as the IMM came in to sell sterling, the rate fell to 1.6202 despite some official support. Three month Euro dollars closed unchanged at 10 $\frac{1}{2}$ %, and sterling's forward premium remained at 1 1/16%.

The pound fell 1 $\frac{1}{2}$ % in Switzerland against a firm Swiss franc (3.57), 1 $\frac{1}{8}$ % in Germany (4.18 $\frac{3}{8}$) and 1% in France (11.82 $\frac{1}{4}$). For its part, the dollar fell 1% in Zurich (2.1975), $\frac{3}{8}$ % in Frankfurt (2.5745) but only $\frac{1}{2}$ % in Paris (7.2747) where the Bank of France provided \$175mn. (of which \$49mn. was in deutschemarks) in support of the franc. EMS closed 2 3/16% wide between the Belgian franc (49.87) and the guilder (2.7990). The Danes bought deutschemarks worth \$13mn. The yen again strengthened more rapidly than any other major currency, rising 1 $\frac{1}{2}$ % to close at 264.15.

Gold firmed a little in quiet trading. Fixings were at \$404 and \$407.50.

Operations:	Market	-	\$33mn.
	Iraq	+	8
	Government	+	7
	Sundries	-	3
		-	<u>\$21mn.</u>
	Overnight	-	<u>\$48mn.</u>

16th November 1982

TRS

US BOND AND MONEY MARKETS

Tuesday, 16th November 1982

Federal Funds

Opening: 9½%
Range: 9¼%-9⅝%
Close: 9¼%

US Governments (NY closing bids)

2-year: 99⅞ (+⅜) 9¾%
5-year: 107⅞ (+⅜) 10⅝%
10-year: 99¼ (+⅝) 10⅝%
30-year: 98¼ (+⅜) 10 9/16%

Euro-dollars (Today's opening
London bid)

7-day: 9¾%
1-month: 9¾%
3-months: 9⅞%
6-months: 10 1/16%

Federal Reserve Operations:

Bought Treasury notes and bonds
with Fed. funds at 9½%
\$1bn. customer repurchase agreement
with Fed. funds at 9½%.
Stop rate 9.38%.

3-month Treasury Bills 8½%
3-month US bank CDs 9⅞%
Differential ⅝%

Indicators

Industrial Production - 0.8% in October
Wholesale prices (PPI) + 0.5% in October

Comment:

The market opened weaker, but returned to the previous night's closing levels shortly after the industrial production announcement. The coupon pass and rumours, subsequently denied, that a White House spokesman had said that the Fed. would cut the discount rate, moved prices up and the market closed at its high.

17th November 1982

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