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SECRET

THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th November 1982

Perhaps from some unconscious sense of deference, the market chose to mark the 15th anniversary of sterling's 1967 devaluation by a pause in the recent relentless pressure on the rate. For a brief period in the morning when the German banks were selling and there were rumours in the market that the Saudi oil price might be reduced a continuation of the slide seemed likely but the danger passed and thereafter the day was rather quiet. A tentative feeling began to emerge that this past week's 4% fall against the deutschemark and in effective terms might represent sufficient adjustment for the time being and that the rate might consolidate around DM4.10. If anything, the focus switched a little to Europe where both the French franc and the lira received heavy support to retain their position in the middle of EMS. Sterling's ERI closed 0.1 higher at 87.9.

Sterling closed a quiet night in New York yesterday at 1.6005. This morning the rate opened at 1.5975 and quickly encountered selling from German banks which took the pound back to 1.5960. With some good buying in London and some demand from Europe to cover short positions taken yesterday, the rate soon began to recover, reaching 1.6055 in mid-morning. Rumours then began circulating that the Saudis might lower their oil price and this prompted some renewed professional and commercial selling from Europe, but the scale was not comparable with that of the past few days. With the dollar strengthening itself at this time on firmer Euro dollars, the rate fell steadily bottoming at 1.5960 shortly before noon. The absence of any confirmation of these reports and some modest demand from the U.S. during an uneventful afternoon saw sterling return above 1.60, to end the day at 1.6017. Three month Euro dollars closed 1/16% firmer at 9 15/16% and sterling's forward premium remained at 7/8%.

The pound ended marginally firmer in Europe, closing at 4.11 1/2 in Germany, 3.52 in Switzerland and 11.61 1/2 in France. The dollar was broadly unchanged, closing at 2.5670, 2.1980 and 7.2517 respectively. EMS widened to 2 3/16% but was otherwise unchanged between the Belgian franc (49.83) and the guilder (2.7950). The French sold \$305mn. (of which \$39mn. was in deutschemarks), the Italians \$183mn. and the Irish \$24mn. The yen eased a little to 263.20.

Gold remained dormant, fixing at \$409.25 and \$408.50.

Operations:	Market (net)	+ \$2mn.
	Interest	+ 30
	Sundries	+ 2
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		+ \$34mn.
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18th November 1982

TRS



US BOND AND MONEY MARKETS

Thursday, 18th November 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100¼ (+¼) 9¾%  
5-year: 108¼ (+½) 10 7/16%  
10-year: 100¾ (+⅞) 10 7/16%  
30-year: 100¼ (+1⅝) 10 3/8%

Euro-dollars (Today's opening  
London bid)

7-day: 9 9/16%  
1-month: 9 1/2%  
3-months: 9 3/4%  
6-months: 9 15/16%

Federal Reserve Operations:

Four day repurchase agreement for  
systems account with Fed. funds at  
9½%. Stop rate 9.01%

3-month Treasury Bills 8¼%  
3-month US bank CDs 9%  
Differential ¾%

Indicators

U.S. personal income +0.7% (after + 0.3% in September)

Comment:

The market opened little changed and remained within  
¼ point of the prior close through the morning in quiet trading.  
Soon after the Fed's. repos, with the Funds rate declining, the  
market began to move ahead, as hopes rose for an early cut in  
the discount rate.

19th November 1982

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