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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th November 1982

Fed action in New York last night to inject liquidity into the domestic market revived hopes of a cut in the US discount rate tonight and brought the dollar lower on the exchanges today. This helped to reduce further the pressure on the pound which had been assisted, too, by the firm statement yesterday from the Chancellor in the House rejecting a policy of depreciation. The ERI rose 0.5 to 88.4.

As the dollar eased in New York following the Fed's intervention, the pound rose to close there at 1.6105. This morning it opened at 1.6115 and, as the dollar weakened from the outset on lower Euro-dollar rates, quickly began to move higher. Much of the interest was professional buying from Western Europe but there was also some small commercial demand offset by selling from Eastern European banks. The rate reached 1.6177 in late morning but then eased back as the dollar itself temporarily firmed. During a very quiet afternoon, when the dollar weakened further on a lower Fed Funds rate and hopes for a reduction in US discount rate, sterling moved steadily ahead, helped by some buying from the US and on oil company account. The rate rose throughout the latter part of the day to close at its high of 1.6211. Three-month Euro-dollars closed 3/16% lower at 9 13/16% and sterling's forward premium narrowed to 2 3/8%.

The pound was firmer in Europe, closing 1/8% higher in Germany (4.12 1/2), 3/8% in France (11.66 1/2) and 1/2% in Switzerland (3.53 3/8). The dollar fell 1% in each of these centres to 2.5430, 7.1965 and 2.1815. EMS closed fully stretched between the Belgian franc (49.51) and the guilder (2.7765), the Belgians having sold \$56mn. (of which \$48mn. was in guilders). The French again defended the franc at around 2.83 against the deutschemark, selling \$127mn. (of which \$10mn. was in deutschemarks). The Italians sold \$83mn. and the Irish \$57mn. Elsewhere, the Swedes sold \$95mn. As on most days recently, the yen improved faster than the other currencies, gaining 2 1/2% to 257.67.

Gold rallied in the Far East but again did not move in London, fixing at \$417 and \$417.60.

Operations:	Market	+	\$22mn.
	Sundries	+	1
			<hr/>
		+	\$23mn.
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Heavy selling of £. V. heavy
 ERI 88.4 → 86.9 → 86.2
 \$ 1.6240 → ⁵⁸¹⁵ 1.6105 → 1.59
 DM 4.13 → 4.03 → 4.02
 (almost at near low apr. DM)
 Sea 132 today.
 -6% ERI on week ago, -8%
 ¥ -6% DM, -4% \$.

*\$ rising slightly elsewhere
 as Discount Rate cut & DM
 weaker.
 Kuwait -3/16 @ 9 1/16 for 3m.
 DMs not quite stretched between
 BF & Dutch Guilder.
 Yen rose about \$600 mil last week.*

19th November 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 19th November 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$ (+ $\frac{1}{4}$) 9 $\frac{3}{8}$ %
5-year: 108 $\frac{3}{4}$ (+ $\frac{1}{2}$) 10 5/16%
10-year: 101 $\frac{1}{8}$ (+ $\frac{3}{8}$) 10 5/16%
30-year: 100 $\frac{5}{8}$ (+ $\frac{3}{8}$) 10 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 9 $\frac{1}{4}$ %
1-month: 9 $\frac{1}{4}$ %
3-months: 9 9/16%
6-months: 9 $\frac{3}{4}$ %

Federal Reserve Operations:

Bought \$250mn. Treasury Bills for
a customer

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

Indicators

M1 - \$100mn.
M2 October revised to +\$13.5bn. (from \$13.0bn.)
Discount rate reduced by $\frac{1}{2}$ % to 9%
GNP 3rd quarter unchanged (revised from +0.8%)

Comment:

Despite the Fed Funds rate declining to 8 $\frac{3}{8}$ % during the afternoon, the market was only $\frac{1}{4}$ higher than the previous night's close prior to the announcement on the discount rate cut. The market's initial reaction was of slight disappointment that the cut had only been $\frac{1}{2}$ %, but prices then began to move slowly but steadily higher and the market closed on a strong note.

22nd November 1982.

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