FE 2/2 4

SECRET

1.59¼

GKW.

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd November 1982

The tentative stability sterling appeared to have established at the end of last week was destroyed over the weekend by authoritative-sounding articles in the weekend press alleging that Ministers and officials were contemplating a larger depreciation. From the commencement of business in the Far East in the early hours sterling was heavily sold and the pressure continued for much of the early part of the day in London. At worst the rate fell 4 cents below the London close on Friday, against a dollar which was itself weaker elsewhere following the ½% cut in the Fed's discount rate and a similar fall in prime rates, to 11½%, today. Sterling's ERI fell 1.7 to 86.7, after 86.5 at noon.

The pound eased a little in New York on Friday evening to close there at 1.6177. Following articles in the Sunday Times suggesting that the authorities would not be unhappy with a further devaluation of sterling and the publicity given to the Opposition's plans for a 30% devaluation of sterling, the pound was, predictably, under pressure from the outset in the Far East. With heavy selling, particularly from the branches of US banks in Singapore and Hong Kong, the rate fell within an hour or so by over 3 cents from Friday's New York close to touch a new six-year low of 1.5815 before settling to trade very nervously between 1.58 and 1.59 for the remainder of the Far East day despite sizeable support. By the London opening the rate had recovered to 1.5940 but new waves of selling commenced with the entry of the European banks. Although in the main the large professional banks were not taking substantial short positions, there was smaller scale selling from all quarters with widespread commercial interest mainly against the deutschemark. Having touched 1.5955 in early business, the rate rapidly fell away, bottoming at 1.5865 in mid-morning. The dollar was, however, easing quite quickly elsewhere at this time and although the dollar/sterling rate stabilised, sterling continued to lose ground in Europe, touching DM 4.01¾ at times. By late morning markets had quietened and the rate began to recover, reaching 1.5918 at noon, as dealers took profit on earlier sales and waited for New York. Surprisingly, there was none of the expected pressure from the US and the rate continued to rise slowly in the afternoon, despite the dollar strengthening elsewhere. Although prime rates, led by Chase Manhattan, moved down ½% to 11½% the dollar recouped much of its earlier losses during the afternoon and sterling in turn regained some ground in Europe. At best the rate reached 1.5950 before closing at 1.5940. Three-month Euro-dollars were 3/16% down at 9⅝% and sterling's forward premium was ⅝%.

The pound fell sharply in Europe, losing 1¾% in Germany (4.04⅞) and France (11.45) and 1⅜% in Switzerland (3.48¾). The dollar was a little easier in each of these centres at 2.5402, 2.1880 and 7.1830 respectively. EMS narrowed to 1 15/16% between the Belgian franc (49.32) and the guilder (2.7763), enabling the Belgians to recoup guilders worth $21mn. and $15mn., while the Danes bought deutschemarks worth $19mn. and Swiss francs worth $7mn. The Irish sold $56mn. There was no intervention today from the French but they sold $83mn. in New York on Friday night. The yen rose another 1% to 255.15.

Gold seemed unaffected by lower US interest rates, fixing at $413.40 and $410.50.

Operations:	Market	-	$131mn.
	BIS	+	32
	Interest	+	11
	Government	+	5
22nd November 1982.	Sundries	+	1
TRS		-	$82mn.

US BOND AND MONEY MARKETS

Monday, 22nd November 1982

Federal Funds

Opening:	8¾%
Range:	8⅝% - 8¾%
Close:	8⅝%

US Governments (NY closing bids)

2-year:	100 5/16	(-3/16)	9¾%
5-year:	108¼	(-½)	10 7/16%
10-year:	100	(-1⅛)	10½%
30-year:	99⅛	(-1½)	10½%

Euro-dollars (Today's opening London bid)

7-day:	9 1/16%
1-month:	9⅛%
3-months:	9⅝%
6-months:	9 13/16%

Federal Reserve Operations:

$1.2bn. customer repurchase agreement with Fed Funds at 8¾%. Stop rate 8.51%.

3-month Treasury Bills 8%
3-month US bank CDs 8 11/16%
Differential 11/16%

Indicators

Most major banks reduced their prime rates by ½% to 11½%

Comment:

The market opened ⅛-¼ below Friday's close. With the long-awaited discount rate cut out of the way, market participants saw no imminent good news and lightened up their positions. Further selling in the afternoon caused the market to weaken and prices closed at their lows.

23rd November 1982.

OP *OP*