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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th November 1982

Sterling's continued decline as German banks, in particular, resumed substantial selling from the outset this morning was arrested when opening sterling interbank indications showed a general $\frac{1}{2}\%$ rise. Barclays base rate increase, followed by the increase in the Bank's dealing rates, brought an over-reaction which, in spite of the larger upward adjustment in Midland's base rate, was partly reversed in rather nervous end-week conditions, which also affected the dollar's performance. The French, Belgian and Italian currencies remained under pressure. The opening ERI for sterling was at a new low of 84.9; by noon, when the pound was virtually at its high point, 87.0 had been regained but by the close the day's net gain had been pared to 0.8, at 86.4.

There was small selling interest in the Far East and sterling was down to 1.5802 at today's opening in London. Almost immediately there were more heavy offerings and, despite some sizeable official support, the rate fell fairly fast to 1.5695 at which time the brokers were indicating higher opening sterling interbank rates. This steadied the pound which had recovered about a cent, in spite of a generally firmer dollar, by the time Barclays announced their base rate of 10%. Strong demand, including some from yesterday's oil company seller, took business up to 1.6080 immediately after mid-day when a reaction set in, running the rate down to 1.5895. In uncertain conditions 1.60 was again breached before the close at 1.5970. Most of the earlier official support was recouped. In later trading, the rate eased to 1.5925. Three-months' forward sterling moved to a discount of 5/16%.

In Europe the pound ranged widely and, at times, wildly. Against the deutschemark, for example, it moved between just below 3.96 and just above 4.06 $\frac{1}{2}$, closing at 4.02 11/16; later it fell to around 4.00. In France the closing level was 11.39 1/16% and in Switzerland 3.44 $\frac{1}{2}$. The dollar had a strange day, moving confidently ahead until mid-session, then declining to leave it little changed compared to last night. The deutschemark was 2.5345 at worst but closed at 2.5215. The Bundesbank sold \$19mn. at the fixing. EMS stayed about 2 3/16% wide but has redistributed its members within a 1% band below the florin, leaving the Belgian franc still stranded. Today, the National Bank sold \$51mn. and florins worth \$11mn.; the Dutch bought Belgian francs worth \$1mn. The French were also active, selling \$219mn. and deutschemarks worth \$5mn., their franc closing at 7.1325. The Italians sold \$127mn. (and corrected yesterday's report to a sale of \$46mn.). The Irish bought \$9mn. The yen touched 247.80 in Tokyo before easing to 250.15; it closed in London at 250.35.

Gold fixed this morning at \$413.75 and then began a rally which took it to \$417.75 at the second session and on to \$422.25 later in New York.

Operations:	Market (net)	-	\$14mn.
	South Africa	-	7
	Iran	+	20
	Interest	+	8
	Sundries	-	1

26th November 1982.

DAHB

Overnight

+ \$6mn.

- \$20mn.

US BOND AND MONEY MARKETS

Friday, 26th November 1982

Federal Funds

Opening: $8\frac{1}{2}\%$
Range: $8\frac{1}{4}\%$ - $8\frac{3}{4}\%$
Close: $8\frac{3}{4}\%$

US Governments (NY closing bids)

2-year: $100\frac{1}{4}$ (+ $\frac{1}{16}$) $9\frac{3}{4}\%$
5-year: $99\frac{5}{8}$ (+ $\frac{1}{8}$) $10\frac{3}{16}\%$
10-year: 100 (+ $\frac{3}{8}$) $10\frac{1}{2}\%$
30-year: $99\frac{1}{8}$ (+ $\frac{1}{4}$) $10\frac{1}{2}\%$

Euro-dollars (Today's opening
London bid)

7-day: $8\frac{13}{16}\%$
1-month: $9\frac{1}{8}\%$
3-months: $9\frac{5}{8}\%$
6-months: 10%

Federal Reserve Operations:

3-month Treasury Bills 8%
3-month US bank CDs $8\frac{5}{8}\%$
Differential $\frac{5}{8}\%$

Indicators

Trade deficit \$5.3bn. (after \$4.2bn. in September)

Comment:

With trading virtually non-existent prices remained throughout the day close to the previous closing levels.

29th November 1982.

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