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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 30th November 1982

The influence of U.S. interest rates on the exchanges appeared to diminish today as dealers focussed on more fundamental considerations. Forecasts of a record U.S. trade deficit in 1983 and Governor Poehl's speech predicting further upheavals on the exchanges when the dollar weakened outweighed the effects of the disappointingly large increase in M1 (+ \$2.8bn.) announced last night. After holding firm throughout the morning, the dollar dropped sharply in the afternoon and this movement gathered pace in late business. As the spotlight turned towards the dollar, sterling moved away from the centre of the stage and the atmosphere improved. The ERI rose 0.4 to 86.7.

Although the dollar strengthened in New York last night following the release of the money supply figures, sterling held firm to close there at 1.6085. The dollar made further gains in the Far East and sterling opened in London this morning at 1.6058 and touched 1.6055 in early business. Some good professional buying interest soon developed and when some commercial demand on oil company account, appeared as well, the rate began to move ahead quite quickly, although the dollar was not easing elsewhere at this time. Within an hour or so the rate had reached 1.6132 and it remained around 1.61½ for most of the remainder of the morning. Right from the outset New York was looking to take the dollar lower and as the deutschemark, in particular, began to forge ahead, sterling was bid up to 1.6165 shortly after noon. Thereafter, however, interest in sterling seemed to decline and although the dollar continued to fall rapidly in other centres, sterling remained on the sidelines, trading narrowly around 1.61½ but losing some of its earlier gains on the continent. The rate ended at 1.6146. Later, as the rush out of the dollar gathered pace, sterling rose very swiftly, in line with the other European currencies, to touch 1.6310. Three month Euro dollars were ½% firmer at 9½% and sterling's forward discount was ¼%.

Although below its best levels of the day, sterling nevertheless closed with modest gains in Europe, ending at 4.00½ in Germany, 3.44½ in Switzerland and 11.32½ in France. The dollar closed with losses of ⅓% in each of these centres, at 2.4817, 2.1320 and 7.0162. Later, however, it was quoted down to DM 2.4650. The Danish crown (8.7225) replaced the guilder (2.7332) at the top of EMS, 2 1/16% above the Belgian franc (48.64), as the Italians bought \$130mn., the Danes \$8mn. and the Irish sold \$22mn. Unusually, the yen failed to keep pace with the improvement shown by the other major currencies. It closed at 252.07, the Bank of Japan having sold \$81mn. in Tokyo this morning.

Gold was easier in the morning but recovered this afternoon as the dollar weakened. Fixings were at \$428.25 and \$436.

Operations:	Market	-	\$18mn.	
	Government	+	19	
	(Cancelled requirement)			
	Interest	+	6	
	Sundries	+	5	
			<hr/>	
			+ \$12mn.	
			<hr/>	
	Overnight	+	\$ 5mn.	

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The result for November is a fall in reserves of \$487mn. to a level of \$18,006mn. after net repayments of public sector borrowing of \$135mn. The overbought forward position fell by \$107mn. to \$588mn.

TRS
30th November 1982

US BOND AND MONEY MARKETS

Tuesday, 30th November 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$ (-) 10%
5-year: 99 $\frac{7}{8}$ (+ $\frac{1}{4}$) 10 5/16%
10-year: 98 $\frac{5}{8}$ (+ $\frac{1}{8}$) 10 $\frac{3}{8}$ %
30-year: 97 $\frac{1}{2}$ (+ $\frac{3}{8}$) 10 11/16%

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$2.5bn. customer repurchase
agreement with Fed. funds at
8 $\frac{3}{4}$ %. Stop rate 8.31%.

3-month Treasury Bills 8 5/16%
3-month US bank CDs 8 7/8%
Differential 9/16%

Indicators

Leading indicators + 0.2% (September revised to +1.1%).

Comment:

During a fairly quiet but firm morning session, the market moved up $\frac{1}{8}$ - $\frac{1}{2}$. However the higher funds rate caused prices to weaken and by late afternoon prices were back to around their previous closing levels. At 4.30 the Commerce Department revised its earlier release of leading indicators from +0.6 to +0.2, triggering a mild rally.

1st December 1982

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