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SECRET

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd December 1982

The extent to which the exchanges seem currently to have moved away from their long standing preoccupation with interest rates was well demonstrated today. In an apparently perverse move, concerted and, in some cases, larger-than-expected cuts in discount rates in a number of European countries (Germany, Switzerland, Holland and Austria) were followed by a sharp weakening of the US dollar. While the reductions had the effect of renewing hopes for a further cut in US discount rate this Friday, the 1% fall in Germany was taken, initially at least, as a sign of the government's confidence that the relative strength of the German balance of payments position was sufficient to offset the impact on the deutschemark of the adverse interest rate differential. For the most part, sterling was on the sidelines and activity was well below the level of recent days. The ERI closed 0.2 higher at 87.0.

In quiet trading the dollar firmed in New York last night and sterling closed there at 1.6260. This morning the rate opened at 1.6268 and traded narrowly around this level during an uneventful morning, falling no lower than 1.6248. With dealers expecting a cut of ½% in German discount rate, the dollar tended to firm as the time for the announcement drew near. When news of the 1% cut hit the tapes, the deutschemark, after a brief pause, perversely began to strengthen and the dollar fell back. Sterling was rather slow to respond as a large German bank came in as a seller against deutschemarks and the rate moved only reluctantly above 1.63, touching 1.6335 at best; it closed at 1.6321. Later, however, as the dollar weakened sharply, sterling moved up to 1.64. Three-month Euro-dollars were unchanged at 9½% and sterling's forward discount was ¼%.

The pound was marginally firmer in some places in Europe, ending at 4.01 in Germany, 11.35½ in France and 3.42½ in Switzerland. Although the dollar, at 2.4570, 6.9545 and 2.0985 respectively, was not much below yesterday's closing levels, it was well below its firmer opening levels of the day and later, against the deutschemark, was quoted down to DM 2.4435. The ½% cut in Dutch discount rate enabled the Danish crown (8.6445) to return to the top of EMS, 2 1/16% above the Belgian franc (48.25). The French bought \$18mn. (of which \$13mn. was in deutschemarks) and the Danes bought \$10mn., while the Irish sold sterling worth \$5mn. and the Belgians sold guilders worth \$3mn. The yen closed at 248.12.

Gold slipped back overnight as the dollar strengthened but moved up sharply today in London following the cuts in European interest rates. After fixing at \$435.75 in the morning, some good buying from the Far East helped the price to reach \$446.25 at the second fix.

Operations:	Market	-	\$14mn.
	IDA	+	9
	Interest	+	8
	Ghana	-	5
	Sundries	-	4
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		-	\$6mn.
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2nd December 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 2nd December 1982

Federal Funds

Opening: 9%
Range: 8 $\frac{7}{8}$ % - 9 $\frac{1}{8}$ %
Close: 9%

US Governments (NY closing bids)

2-year: 100 1/16 (+3/16) 9 $\frac{7}{8}$ %
5-year: 99 $\frac{3}{8}$ (+ $\frac{3}{8}$) 10 $\frac{1}{4}$ %
10-year: 99 $\frac{3}{8}$ (+ $\frac{3}{4}$) 10 $\frac{5}{8}$ %
30-year: 98 (+ $\frac{3}{4}$) 10 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Bought \$200mn. Treasury Bills and
\$400mn. Treasury Notes for
customers.

3-month Treasury Bills 8%
3-month US bank CDs 8 $\frac{3}{4}$ %
Differential $\frac{3}{4}$ %

Indicators

Comment:

The market traded higher in moderate activity, following the reductions in discount rates announced earlier in the day in Germany and elsewhere.

3rd December 1982.

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