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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 3rd December 1982

Further evidence of the continuing weakness of the US economy was provided today by the quantum leap in US unemployment from 10.4% to 10.8% of the workforce, another post-war record. It reinforced the market view that, following the cuts in Europe yesterday, the next downward move in US interest rates would not long be delayed and the dollar fell further. The approach of the weekend and the relative strength of the deutschemark led to pressures in EMS where considerable support was necessary for the French and Belgian francs and the punt. Sterling's recovery remained fragile and some sizeable selling was seen at times. The ERI closed 0.2 lower at 86.8.

As the dollar fell swiftly in New York last night sterling moved up to close there at 1.6475. This morning the rate opened at 1.6445 and, having touched 1.6449, came under selling pressure from Germany and France, perhaps on Middle Eastern account. The rate moved back to 1.64, although the dollar was not strengthening elsewhere and traded a little nervously either side of this level throughout the morning. New York seemed set at first to take the dollar higher but after the release of the unemployment figures, it weakened as Euro-dollar rates began to foreshadow a cut in the discount rate, and the pace of its fall quickened as the afternoon wore on. Sterling, however, failed to react, with an oil company selling in a thin market and, the rate drifted back to 1.6360 before recovering to close at 1.6390 with the help of some modest support. Three-month Euro-dollars fell  $\frac{1}{2}\%$  to  $9\frac{1}{2}\%$  - a new  $2\frac{1}{2}$  year low - and sterling's forward discount was  $\frac{1}{2}\%$ .

The pound was weaker in Europe, losing  $\frac{1}{2}\%$  in Germany (3.98 $\frac{3}{4}$ ) and Switzerland (3.41) and  $\frac{3}{8}\%$  in France (11.30 $\frac{1}{2}$ ). The dollar lost 1% in each of these centres to close at 2.4330, 2.0810 and 6.90 respectively. By the close EMS was 2  $\frac{5}{16}\%$  wide between the Belgian franc (47.74) and the guilder (2.6755), the Belgians having sold \$78mn. (of which \$23mn. was in guilders and \$8mn. in deutschemarks), while the Dutch bought Belgian francs worth \$11mn. The French franc weakened to 2.84 on its cross-rate against the deutschemerk despite heavy support totalling \$318mn., of which \$80mn. was in deutschemarks. The punt, too, required support of \$51mn. of which \$27mn. was in sterling. Elsewhere, the Swedes sold \$63mn. and the Norwegians bought \$41mn. The yen improved to 246.97.

Gold was quite an active market but it traded mostly below its best levels of yesterday. Fixings were at \$440.75 and \$441.75.

Operations:	Market	-	\$20mn.
	Germany	+	27
	IDA	+	6
	Interest	+	5
	Sundries	-	3
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		+	\$15mn.
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3rd December 1982.  
TRS

US BOND AND MONEY MARKETS

Friday, 3rd December 1982

Federal Funds

Opening: 8 $\frac{1}{8}$ %  
Range: 8 $\frac{1}{4}$ % - 8 $\frac{7}{8}$ %  
Close: 8 $\frac{3}{4}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening  
London bid)

7-day: 9 1/16%  
1-month: 9 5/16%  
3-months: 9 $\frac{1}{2}$ %  
6-months: 9 11/16%

Federal Reserve Operations:

\$1bn. customer repurchase agreement  
with Fed Funds at 8 $\frac{7}{8}$ %. Stop rate  
8.82%.

3-month Treasury Bills 7 $\frac{7}{8}$ %

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

Differential  $\frac{3}{4}$ %

Indicators

Unemployment 10.8% in November (October 10.4%)

M1 -\$1.3bn.

Comment:

With unemployment higher than the market's expectations and hopes rising for an early cut in the discount rate, prices moved strongly ahead during the morning and by mid-afternoon the long-end of the market was 1 $\frac{1}{2}$  points higher. The money figures were a slight disappointment and, with no reduction in the discount rate, prices moved lower before the close.

6th December 1982.

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