

2/2 4
THE DEPUTY GOVERNOR

SECRET

9 3/8 2 3/4 Bank note - 8
+ 1/2 increase
+ 1/6 come
\$ 1.0255
DM 3.91 3 3/4
3.91
1

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 6th December 1982

The fragility of sterling's recovery at the end of last week was made clear today. Against a background of widespread speculation in the press about reductions in oil prices, a report that the UK's export trade with Saudi Arabia might be in jeopardy provoked a day of widespread nervous selling. At no time was the market disorderly, nor was there any air of panic, but the selling was persistent with, seemingly, no buyers, other than the official hand, in the market. Although the dollar was weaker elsewhere, sterling fell over a cent during the course of the day, losing considerable ground against the Continental currencies. The ERI fell 0.8 to 86.0.

Although markets were disappointed at the absence of a cut in the Fed's discount rate on Friday and the more modest (\$1.3bn.) decline in M1 than anticipated, the dollar eased in New York from the London closes and sterling ended there at 1.6430. This morning heavy selling of sterling commenced in the latter part of the Hong Kong day and, although the dollar had weakened further, the pound opened in London at 1.6375. Right from the start the rate gave ground as concerns about the implications of the Saudi report spread through the market, with considerable selling from professional banks in Germany and Switzerland. As the morning wore on commercial accounts and an oil company in London also came in as sellers and, although there were periods when the rate seemed to consolidate for a while with the help of support, the slide was soon resumed. By noon the rate had fallen to 1.6318 against a significantly weaker dollar and it drifted lower during the afternoon when there was steady selling from New York. At the low the rate touched 1.6265 before closing at 1.6280. Later, as the dollar recovered some of its losses elsewhere the rate fell to 1.6160. Three-month Euro-dollars were unchanged at 9½% and sterling's forward discount was ¾%.

The pound fell very sharply in Europe, closing at its lowest levels in most centres since the Spring of 1979: in Germany the loss was 1¼% (3.93¾), in Switzerland 1¾% (3.36¼) and in France 1¾% (11.15). The dollar lost ¼% in each of these centres, to close at 2.4195, 2.0655 and 6.8485 respectively. In EMS, the Danish crown (8.5025) replaced the guilder (2.6682) at the top, 2 3/16% above the Belgian franc (47.48). The French sold \$116mn. and the Irish \$24mn., of which \$6mn. was in deutschemarks. The yen kept pace with the improvement in the deutschemark to close at 244.67.

Gold followed the silver price higher, fixing at \$443 and \$445.25.

Operations: Market - \$100mn.
Overnight - \$50mn.

6th December 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 6th December 1982

Federal Funds

Opening: $8\frac{1}{4}\%$
Range: $8\frac{1}{8}\%$ - $8\frac{3}{8}\%$
Close: $8\frac{5}{8}\%$

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

3-month Treasury Bills $7\frac{7}{8}\%$
3-month US bank CDs $8\frac{5}{8}\%$
Differential $\frac{3}{4}\%$

Indicators

Comment:

The market opened $\frac{1}{8}$ - $\frac{3}{8}$ above Friday's, following Press pessimism about the state of the economy. Late in the day, as Fed Funds traded lower and Kaufman was reported as predicting lower interest rates in 1983, the market improved further to close at its high.

7th December 1982.

OP 00