

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 7th December 1982

Trading was hectic at times as the pressure on sterling continued today on the exchanges. There were no new factors in the market but the bearish sentiment towards sterling persisted for much of the day and selling, particularly during the morning when the dollar itself was weakening, was heavy and widespread. The firmness of interbank sterling rates and rumours of a base rate increase helped to steady the rate around mid-day, and during the latter part of the afternoon, when the dollar was recovering, the tone improved a little. The ERI closed 0.2 lower at 85.8 after an (unpublished) 85.4 during the morning.

Further support was necessary for sterling in New York last night before the close there at 1.6250. This morning the rate strengthened in the latter part of the Hong Kong day, following a statement from Sheik Yamani that the Saudis would hold the oil price at \$34, and the pound opened in London at 1.6362. As yesterday, heavy selling was seen from the outset, with the large American banks in London particularly aggressive. The German and Italian professionals soon joined in and the rate fell back quickly to 1.63 although the dollar was not moving elsewhere. After a pause, an international oil company in conjunction with a Swiss bank came in to sell large amounts of sterling and the rate gave further ground, despite some sizeable support, falling to 1.6265. Another brief pause for consolidation was followed by the arrival of some South African banks who depressed the rate to 1.6225 (DM 3.90½) in mid-morning before some profit-taking was seen and the pressure eased. With sterling interbank rates moving higher and some official demand for sterling in Europe also providing support at this time, the rate recovered to 1.6265 again and then ran up to 1.6305 at noon as the base rate rumours circulated. When these were not fulfilled and New York and Chicago started to sell, the rate fell back again, reaching 1.6250 in early afternoon as the dollar itself began to strengthen. However, the US pressure was short-lived and sterling remained above its worst levels for the balance of the day, ending at 1.6284. Three-month Euro-dollars fell 3/16% to 9 5/16% and sterling's forward discount widened to 1%.

Although it had fallen by a further 1% in mid-morning, by the close sterling's losses against the Continental currencies had been trimmed to ¼%; it closed at 3.93 in Germany, 3.34½ in Switzerland and 11.13½ in France. The dollar ended easier in each of these centres at 2.4132, 2.0527 and 6.8362 respectively, although it strengthened again after the close. EMS was little changed, with the Danish crown (8.4915) 2½% above the Belgian franc (47.37). The Belgians bought guilders worth \$21mn. and the French bought \$54mn., while the Italians sold \$28mn. and the Irish \$13mn. The Swedes bought \$55mn. The yen rose another 1% to 242.30.

Gold continued its recent rally on the back of some good demand from the Middle East. Fixings were at \$458.15 and \$454.50.

Operations:	Market	-	\$126mn.
	Interest	+	17
	Iran	+	9
	EEC	+	8
	Sundries	+	1
		-	<u>\$91mn.</u>

7th December 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 7th December 1982

Federal Funds

Opening:  $8\frac{1}{2}\%$   
Range:  $8\% - 8\frac{5}{8}\%$   
Close:  $8\frac{1}{4}\%$

US Governments (NY closing bids)

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

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Two-day reverse repurchase  
agreement with Fed Funds at  $8\frac{3}{8}\%$ .  
Stop rate 8.60%.

3-month Treasury Bills  $8\%$

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

Differential  $\frac{5}{8}\%$

Indicators

Comment:

Prices opened slightly higher, but drifted lower through the morning. The Fed's matched sales caused the market to lose further ground during the afternoon, despite the decline in the Fed Funds rate.

8th December 1982.

OP JC