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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th December 1982

Movements on the exchanges followed much the same course as yesterday. The dollar continued to strengthen on end-year factors and the unlikelihood, as most participants now see it, of the Fed moving to lower the discount rate in the immediate future. Attention was further distracted from sterling by the weakness of the Belgian franc which required sizeable support to maintain the 2½% margin in EMS. Sterling had a much more comfortable day and there was none of the heavy selling seen earlier in the week. Although the ERI closed 0.4 lower at 85.8, this was largely a function of the lower dollar/sterling rate.

Sterling encountered some heavy selling pressure from the IMM in New York last night and the rate fell sharply, despite robust support, to close at 1.6105 (DM 3.94). This morning the pound opened at 1.6155 but fell back to 1.6090 in the early going in the face of some selling from Switzerland as the dollar strengthened generally at first. However, the dollar then eased temporarily again in Europe and when sterling enjoyed some good buying interest from the Indian sub-continent, the rate quickly recovered, rising steadily throughout the morning to reach 1.6205 at best shortly before noon. In contrast to the past few days, there was no sustained selling of sterling and the market, although quite active, was two-way. With New York bidding aggressively for dollars throughout the afternoon, the rate eased back slowly, regaining some of last night's losses against the Continentals and the yen. The rate closed at the low for the day 1.6116. Three-month Euro-dollars were 3/16% higher at 9 9/16% and sterling's forward discount narrowed to 15/16%.

The pound closed with modest losses from yesterday in Europe; in Germany and France it was ¾% lower at 3.95¾ and 11.21¼ and in Switzerland ¼% lower at 3.36¾. The dollar gained a further ¾% in each of these centres to end at 2.4555, 6.9575 and 2.0875 respectively. EMS was under some pressure for much of the day, with the Belgian franc requiring considerable support to remain within the 2½% band; by the close the franc (48.10) was 2 3/16% from the guilder (2.6987), the Belgians having spent \$111mn. (of which \$70mn. was in guilders), while the Dutch bought Belgian francs worth \$42mn. The Italians sold \$67mn. and the Irish \$13mn. The yen suffered most from the strength of the dollar, closing 1% lower at 245.40.

Gold fell steadily as the dollar strengthened. Fixings were at \$442.50 and \$437.50.

Operations:	Market	+	\$4mn.
	BIS	+	23
	Iran	+	12
	Interest	+	5
	Sundries	+	4
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		+	\$48mn.
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9th December 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 9th December 1982

Federal Funds

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

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

7-day: $9\ 1/16\%$
1-month: $9\frac{3}{8}\%$
3-months: $9\ 9/16\%$
6-months: $9\frac{3}{4}\%$

Federal Reserve Operations:

Bought Treasury Bills for system
account and \$600mn. Treasury Bills
for a customer.

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

Indicators

Comment:

Prices were little changed until mid-afternoon. Despite the Bill Pass being widely expected, the market subsequently rose to close at its highs.

10th December 1982.

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