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THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 10th December 1982

A rather quiet day on the exchanges, with thin and erratic trading. The dollar, which had weakened yesterday evening following Fed action to inject liquidity into the domestic market, strengthened this afternoon after a disappointingly large increase in wholesale prices (+0.6%) and another uninspiring performance from the bond market. The pressures apparent yesterday in EMS intensified today, with the Belgian franc at its margin throughout the day against the guilder and the French franc receiving heavy support to protect its deutschemark cross-rate. Sterling traded in a narrow range but with little conviction, despite some good official demand from Europe. The ERI rose 0.3 to 86.1.

The dollar eased in New York last night following the Fed's intervention and sterling moved up with the other European currencies, to end at 1.6215. This morning the rate opened at 1.6165 and traded around this level, not moving outside the range 1.6140-1.6185. As on some days earlier in the week, there was some good official demand for sterling around mid-day but some support was also necessary at times. The rate ended at 1.6158. Three-month Euro-dollars were  $\frac{1}{8}\%$  firmer at 9 11/16% and sterling's forward discount was  $\frac{1}{8}\%$ .

The pound was a little firmer in some places in Europe, gaining  $\frac{1}{4}\%$  in France (11.25 $\frac{1}{2}$ ) and  $\frac{1}{8}\%$  in Germany (3.96 $\frac{1}{2}$ ) but it was unchanged in Switzerland (3.37 $\frac{3}{8}$ ). After some erratic trading in the intervening 24 hours, the dollar ended broadly unchanged in these centres at 6.9650, 2.4545 and 2.0880. In EMS the Belgian franc (48.20) required heavy support to hold its 2 $\frac{1}{2}\%$  margin against the guilder (2.7037): the Belgians sold \$101mn. and the Dutch bought Belgian francs worth \$86mn. The Bank of France, too, supported their franc heavily at around DM 2.84, selling \$401mn., while the Germans sold \$14mn. at their fixing. The yen made good some of yesterday's losses, to close at 244.67.

Gold continued its slide of the past few days, fixing at \$439 and \$435.75.

Operations:	Market	-	\$57mn.
	IDA	+	12
	EEC	+	8
	Turkey	+	7
	C.Agents	+	5
	Sundries	+	1
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		-	\$24mn.
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10th December 1982.

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US BOND AND MONEY MARKETS

Friday, 10th December 1982

Federal Funds

Opening: 8 $\frac{3}{4}$ %  
Range: 8 $\frac{1}{2}$ % - 8 $\frac{3}{4}$ %  
Close: 8 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$  (- $\frac{1}{8}$ ) 9 $\frac{3}{4}$ %  
5-year: 99 (- $\frac{1}{4}$ ) 10 $\frac{3}{8}$ %  
10-year: 99 $\frac{1}{2}$  (- $\frac{1}{2}$ ) 10 $\frac{5}{8}$ %  
30-year: 97 $\frac{7}{8}$  (-1) 10 $\frac{5}{8}$ %

Euro-dollars (Today's opening London bid)

7-day: 9 3/16%  
1-month: 9 7/16%  
3-months: 9 $\frac{5}{8}$ %  
6-months: 9 13/16%

Federal Reserve Operations:

\$700mn. customer repurchase agreement with Fed Funds at 8 $\frac{1}{2}$ %.  
Stop rate 8.72%.

3-month Treasury Bills 8 1/16%  
3-month US bank CDs 8 13/16%  
Differential  $\frac{3}{4}$ %

Indicators

M1 +\$1.8bn.  
M2 +\$18.4bn. in November.  
PPI +0.6% in November (after +0.5% in October)  
Retail Sales +2.3% in November (after +0.6% in October)

Comment:

Prices opened  $\frac{1}{4}$  lower in response to the higher than expected PPI figure and moved steadily down throughout the day, with the market further disappointed by the Fed's action and by the retail sales announcement. With M1 slightly better than expectations and M2 as expected, prices edged higher before the close.

13th December 1982.

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