

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 14th December 1982

The $\frac{1}{2}\%$ cut, to $8\frac{1}{2}\%$, in the Fed's discount rate announced late last night in New York took markets totally by surprise and reversed the strong upward movement in Euro-dollar rates and in the dollar seen over the past few days. Having opened well below last night's London closes, the dollar fell a further $\frac{1}{2}\%$ in active trading on the exchanges today. Although sterling benefited from the easier dollar, as so often in these circumstances, it failed to keep pace with the improvement shown by the other European currencies, despite some good official demand and some sizeable investment interest. The ERI closed unchanged at 85.9, after 86.1 at the opening.

News of the discount rate cut came as the markets were closing in New York last night and sterling was marked up to 1.6140 on no real business. This morning the rate opened at 1.6162 and, after holding the opening levels in initially rather quiet trading, started to slip back as the dollar strengthened elsewhere. With some sizeable selling from Germany against deutschemarks, the rate fell to 1.6125 in mid-morning, as the dollar reached its best levels of the day, but it soon recovered to settle around 1.61 $\frac{1}{2}$. Shortly after noon some good demand for sterling from a number of official quarters in Europe came into the market and with the dollar then easing elsewhere, sterling started to move ahead. 1.62 was breached in the early afternoon and the pound reached 1.6225 at best, as the dollar hit its lows for the day in other centres. By the close the rate had drifted down to 1.6196. Later, however, with the dollar fairly steady against the other European currencies, sterling began to fall back and some modest support was necessary. Three-month Euro-dollars fell $7/16\%$ to $9\ 7/16\%$ and although sterling interbank rates moved back from their recent high levels, sterling's forward discount widened to $15/16\%$.

The pound was easier in Europe, losing $\frac{1}{2}\%$ in Germany ($3.95\frac{1}{2}$) and France ($11.20\frac{1}{2}$) and $\frac{1}{2}\%$ against a strong Swiss franc ($3.36\frac{1}{2}$). The dollar closed $1\frac{1}{4}\%$ lower in these centres at 2.4405, 6.9175 and 2.08 respectively. EMS widened to 2% between the Belgian franc (47.73) and the guilder (2.6825), with the French selling \$70mn. and the Germans \$8mn., while the Italians bought \$57mn. The yen improved $1\frac{1}{4}\%$ to 244.02.

The discount rate cut sparked off widespread short-covering in gold in the Far East and the price traded above \$450 for a while earlier in the day. However, it could not quite hold its best levels at the fixings, which were at \$449.25 and \$449.40, and the price later slipped a little further.

Operations:	Market	-	\$55mn.
	Finland	+	40
	Germany	+	27
	Holland	+	8
	Interest	+	6
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		+	\$26mn.
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14th December 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 14th December 1982

Federal Funds

Opening: $8\frac{1}{2}\%$
Range: $8\frac{3}{8}\%$ - $8\frac{5}{8}\%$
Close: $8\frac{3}{8}\%$

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

7-day: 9%
1-month: $9\frac{1}{4}\%$
3-months: $9\frac{3}{8}\%$
6-months: $9\frac{5}{8}\%$

Federal Reserve Operations:

3-month Treasury Bills $7\frac{3}{4}\%$
3-month US bank CDs $8\frac{1}{2}\%$
Differential $\frac{3}{4}\%$

Indicators

Comment:

In active trading, the market moved in a narrow range through the morning. By noon, prices were down $\frac{1}{4}$ point at the long end. When an expected coupon pass failed to materialise in the afternoon, prices declined further to close at their lows.

15th December 1982.

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