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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th December 1982

The steady weakening of the dollar evident before Christmas continued over the holiday, helped by the modest (\$0.6bn.) increase in M1 announced on Monday and the ½% cut in Chase Manhattan's prime, to 11%, on Tuesday. Today rates remained in a relatively narrow range in rather thin and spasmodic activity and the dollar consolidated at its new lower levels, helped by end-year tightness in U.S. short term interest rates. Sterling, which was in some good demand from the IMM yesterday, held its generally better levels today with some reasonable commercial demand. The ERI closed 0.2 higher at 84.3.

From the London closing level of 1.6060 on Friday, sterling moved up in New York on Tuesday to trade there as high as 1.6310 before closing there last night at 1.6280. Today the rate opened at 1.6320 but quickly fell back to 1.6235 in the early going. Then, when some good demand on oil company account and for a Middle Eastern central bank came into the market, the rate recovered swiftly to 1.6307 before relapsing again to 1.6225 at noon as the buying orders were completed and some commercial selling was seen. This intensified in the early part of the afternoon as the dollar strengthened generally helped by the tightness of the Fed. Funds market and sterling slipped to 1.6198 at the low. As yesterday, however, there was some moderate U.S. demand for sterling and the rate stayed comfortably for much of the afternoon around the 1.62½ level before ending the day at 1.6250. Three month Eurodollars were ¼% below Friday at 9 5/16% and sterling's forward discount narrowed to 1 1/16%.

Over the past three days the pound has firmed slightly in some places in Europe, to close at 3.23½ in Switzerland and ¼% better at 3.85½ in Germany; in France it was marginally weaker at 10.91½. Over the same period the dollar has lost about ¾%, closing at 1.9930, 2.3709 and 6.7145 respectively. In EMS, the French franc seized top position, 2½% above the Belgian franc (46.67). Today the French bought \$170mn. (of which \$16mn. was in deutschemarks) to add to the \$294mn. (\$75mn. of which was in deutschemarks) they purchased over the preceding two days. The Belgians sold French francs worth \$20mn. and the Danes bought Belgian francs worth \$2mn. In addition, over Monday and Tuesday, the Italians sold \$48mn. (net), the Germans bought \$50mn. outright forward, and the Danes sold \$12mn. The yen continued to outpace the improvements shown in Europe, rising 2½% since last Friday to 232.87.

Gold was quite an active market and the price continued to strengthen as the dollar eased, fixing today at \$456.75 and \$460.50.

| | | |
|-------------|------------|-----------|
| Operations: | Market | + \$51mn. |
| | Interest | + 11 |
| | Government | - 28 |
| | BIS | - 6 |
| | Sundries | + 6 |
| | | <hr/> |
| | | + \$34mn. |
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29th December 1982

TRS

US BOND AND MONEY MARKETS

Wednesday, 29th December 1982

Federal Funds

Opening: 9%
Range: 8½-10%
Close: 8½%

US Governments (NY closing bids)

2-year: 99¾ (-) 9½%
5-year: 99¾ (-½) 10 3/16%
10-year: 100¼ (-½) 10 7/16%
30-year: 98¾ (-⅝) 10 1/2%

Euro-dollars (Today's opening
London bid)

7-day: 9¾%
1-month: 9 3/16%
3-months: 9¼%
6-months: 9 7/16%

Federal Reserve Operations:

Overnight repurchase
agreements for system account with
Fed. Funds at 9¾%. Stop rate
9.42%. Bought \$375mn. Treasury
Bills for a customer.

3-month Treasury Bills 8 3/16%
3-month US bank CDs 8 5/8%
Differential 7/16%

Indicators

U.S. trade deficit in November - \$4.09bn.

Comment:

Fed. Funds were exceptionally tight for most of the day under end-year pressures and prices eased slowly in very quiet trading.

30th December 1982

TRS