

FE 2/24

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

FRIDAY, 25 JUNE 1982

A quiet Friday. The dollar strengthened sharply in New York last night and early on in the Far East as end-half-year pressures drove Euro-dollar rates even higher. Today, although the dollar again set new recent highs in London, it did not capitalise on its gains and break decisively into new higher ground, as at times seemed likely. Sterling remained very much on the sidelines and there was little reaction to the trade figures. The ERI closed 0.1 lower at 91.3.

As the dollar recovered in New York last night, sterling fell back to close at 1.7365. This morning the rate opened at 1.7243 and immediately started to give ground in early business, as the dollar moved up, falling to 1.7160 at the low. Some modest demand from an oil company was seen at the lower levels and the rate had recovered by noon to 1.7215. During a very quiet afternoon, when little business was seen, the pound rose gently as the dollar fell back from its best levels to close at the high for the day of 1.7255. Three month Euro-dollars gained 3/8% to close at 16 9/16%. Sterling's forward premium widened to 13 9/16% and the covered differential in favour of London narrowed to 1/16%.

Sterling was very firm on the continent, gaining 3/4% in Switzerland (3.66 1/2) and 1/4% in Germany (4.29 1/4) and France (11.89 5/8). The dollar rose over 1% in each of these centres to close at 2.1240, 2.4880 and 6.8947 respectively (after a new all time low for the French franc of 6.9225). EMS closed fully stretched between the French franc at the top and the Deutschemark at the bottom, with the Lira (1401.50) 2 5/8% above the Deutschemark. The only intervention was by the French who bought Deutschemarks worth \$118 mn. The Bank of Japan supported the Yen to the extent of \$30 mn. in New York last night but they did not intervene in Tokyo this morning where the Yen closed at 257.15; it weakened to 257.72 in London.

The higher financing costs and the strength of the dollar caused the gold price to ease back in quiet trading. Fixings were at \$304 and \$305.50.

Operations:            IDA            + \$6 mn.

25 June 1982  
TRS

US BOND AND MONEY MARKETS

Friday, 25th June 1982

Federal Funds

Opening: 14 5/8%  
Range: 14 5/8% - 15%  
Close: 14 5/8%

US Governments (NY closing bids)

2-year: 99 1/4 (+ 1/16) 14 7/8%  
5-year 96 1/16 (+ 1/16) 14 7/8%  
10-year: 95 1/4 (- 1/8) 14 5/8%  
30-year: 98 5/8 (- 1/8) 14 3/16%

Euro-dollars (Today's opening  
London bid)

7-day: 15 5/8%  
1-month: 15 13/16%  
3-months: 16 11/16%  
6-months: 16 7/8%

Federal Reserve Operations:

\$1.5 bn. customer repurchase  
agreement with Fed funds at 15%.  
Stop rate 13.85%.

Indicators

M1 - \$2.3 bn

US trade deficit in May \$3.3 bn. (against \$0.3 bn. in April)

Comment:

The market opened firmly, but quickly lost momentum. The Federal Reserves' action was less than expected and as a result prices drifted 1/8% - 1/2% lower during the course of the afternoon. Following the money announcement (\$2.3 bn. down against a market view of no change) prices moved higher to leave them at the close little changed on the day.

25 June 1982  
OP

OP