

SECRET

THE DEPUTY GOVERNOR

G&FE

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st July 1982

Unexpected action by the Fed yesterday to tighten liquidity in the US domestic market, by draining reserves from the system there, led to higher Euro-dollar rates today and the dollar recovered some of its recent losses. The level of activity was, however, again low. Sterling remained very steady and the ERI closed 0.1 down at 91.2.

As the dollar strengthened in New York yesterday evening following the Fed's intervention, sterling fell back with the other currencies to close there at 1.7347. The dollar continued to gain ground in the Far East and sterling opened in London at 1.7290 but soon settled into a narrow trading range between 1.73 and 1.73½. Once again no sizeable professional or commercial business was seen in sterling, and with the dollar steady elsewhere in Europe, there was little movement in the rate. During a quiet afternoon the pound rose briefly to touch 1.7361 before closing at 1.7347. Three-month Euro-dollars were 5/16% firmer over the day at 15 15/16%. Sterling's forward premium widened to 3% and the covered differential in favour of London narrowed to 1/16%.

The pound was a touch firmer in some places in Europe, closing at 4.27½ in Germany and 11.86½ in France but was a little lower in Switzerland (3.64). The dollar gained around ½% in the first two of these centres, closing at 2.4657 and 6.0407 respectively but was little changed in Switzerland (2.0982). EMS narrowed to 2½%, with no change in the French and German outriders but the lira (1385.62) improved to 2 15/16% above the deutschemark. The French bought deutschemarks worth \$24mn. and the Irish bought \$5mn. Elsewhere, the Swiss bought yen worth \$10mn. and the Norwegians \$95mn. There was no intervention today by the Bank of Japan and the yen closed at 255.37.

Gold fell back as the silver price surrendered its recent gains. Fixings were at \$311.75 and \$310.25.

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|-------------|----------|-------------|
| Operations: | Market | + \$18mn. |
| | BIS | + 9 |
| | Sundries | + 2 |
| | | <hr/> |
| | | + \$29mn. |
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1st July 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 1st July 1982

Federal Funds

Opening: 14 $\frac{3}{8}$ %
Range: 14 $\frac{1}{2}$ % - 15%
Close: 15%

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$ (-) 14 $\frac{5}{8}$ %
5-year: 96 $\frac{1}{8}$ (- $\frac{1}{4}$) 14 $\frac{5}{8}$ %
10-year: 96 $\frac{1}{2}$ (- $\frac{3}{8}$) 14 $\frac{3}{8}$ %
30-year: 100 $\frac{3}{8}$ (- $\frac{1}{2}$) 13 15/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{8}$ %
1-month: 15 $\frac{3}{8}$ %
3-months: 15 13/16%
6-months: 16 $\frac{1}{8}$ %

Federal Reserve Operations:

Overnight repurchase agreements
for system account with Fed Funds
at 14 $\frac{3}{8}$ %. Stop rate 12 $\frac{1}{8}$ %.

Bought \$300mn. Treasury Bills for
a customer.

Indicators

Comment:

The market, after opening slightly lower, remained steady throughout a quiet morning. Around mid-day prices improved and the market was further encouraged by the Fed's action. However, at around the time of the auction for the new 7-year notes, prices began to drift down, moving back to close to the previous day's closing levels. The auction results came out very late, and the market had little opportunity to react to the fairly weak bids.

2nd July 1982.

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