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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th July 1982

Activity on the exchanges picked up today and the dollar resumed its upward march. Concerns about a potential large industrial failure in Germany (a victim of President Reagan's embargo on the Soviet pipeline) and its implications for the German banks caused the deutschemark to weaken, while another lacklustre performance by the US bond market also helped the dollar. Sterling, although benefitting from a little investment demand, moved back with the other currencies and the ERI fell 0.2 to 91.2.

Sterling opened very firm at 1.7315 this morning but soon began to ease back as the dollar strengthened. During a quiet morning, some expectations that the next move in UK interest rates might be down helped to generate a little investment demand from Europe and the rate gave ground slowly, falling to 1.7250 at noon. New York at first seemed set to take the dollar lower and sterling moved briefly to 1.7321 in the early afternoon but, when the bond market began to fall back, the dollar recovered swiftly. Sterling lost a little ground at this time in a thin market, falling to 1.7232 before closing at 1.7250. Three-month Euro-dollars closed  $\frac{1}{8}\%$  lower at 15 $\frac{3}{4}\%$ . Sterling's forward premium widened to 3 $\frac{1}{2}\%$  and the covered differential was  $\frac{1}{4}\%$  in favour of London.

The pound was almost unchanged in Europe, closing at 4.28 $\frac{1}{2}$  in Germany, 3.65 $\frac{1}{2}$  in Switzerland and 11.88 $\frac{3}{4}$  in France. The dollar gained  $\frac{3}{8}\%$  in Frankfurt and Paris, to close at 2.4855 and 6.8895 respectively, and  $\frac{1}{2}\%$  in Zurich to 2.1170. The deutschemark slipped to the bottom of EMS again, fully-stretched against the French franc at the top and 3 $\frac{1}{2}\%$  from the lira (1394.75). The French bought deutschemarks worth \$105mn. and the Danes bought \$10mn. The yen closed at 257.35.

The firmer dollar and news that the labour dispute in the mines in South Africa had been settled caused the gold price to ease. Fixings were at \$313.10 and \$311.

|             |          |   |             |
|-------------|----------|---|-------------|
| Operations: | Interest | + | \$13mn.     |
|             | Iran     | + | 7           |
|             | Sundries | - | 5           |
|             |          |   | <hr/>       |
|             |          | + | \$15mn.     |
|             |          |   | <hr/> <hr/> |

6th July 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 6th July 1982

Federal Funds

Opening: 14½%  
Range: 14¾% - 14½%  
Close: 14¾%

US Governments (NY closing bids)

2-year: 99½ (-3/16) 14¾%  
5-year: 96¾ (-¼) 14¾%  
10-year: 96½ (-¼) 14 7/16%  
30-year: 100¾ (-¾) 14%

Euro-dollars (Today's opening  
London bid)

7-day: 15 1/16%  
1-month: 15 7/16%  
3-months: 15 13/16%  
6-months: 16¾%

Federal Reserve Operations:

Overnight repurchase agreement for  
system account with Fed Funds at  
14½%. Stop rate 12.7%.

US 3-month Treasury Bills 13¾%  
US bank 3-month CDs 15¾%

Indicators

Comment:

The market opened close to Friday's post money levels, but with no investor interest, the market weakened under the weight of the recent supply of new issues. The Fed's action had little effect either on activity or prices and the market finished the day ¼ to ¾ below Friday's levels.

7th July 1982.

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