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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 14th July 1982

Activity picked up further on the exchanges today but the atmosphere was at times rather nervous. Despite some slight easing in US interest rates, the dollar remained firm as the US bond market surrendered early gains. In contrast to most days recently, sterling was a very active market and some good demand was seen. The ERI closed unchanged at 91.3.

The dollar weakened in New York last night, following a 1½% decline in retail sales in June, and sterling closed there at 1.7275. With the dollar recovering in the Far East, the pound opened in London at the low for the day of 1.7215 but soon rose to trade around 1.72½, helped by demand from Germany. As earlier in the week, a Japanese bank was a sizeable buyer of sterling, perhaps for portfolio investment purposes, and some commercial interest was also seen. At best, in the early afternoon, when Fed Funds opened at 12½% and the dollar eased generally, sterling moved to 1.7281. However, the dollar's weakness was short lived and the rate fell back towards the end of the day, to close at 1.7230. Three-month Euro-dollars shed 3/16% to close at 14¾%. Sterling's forward premium narrowed to 2½% and a covered differential of 3/16% opened in favour of London.

Sterling was a touch firmer on the Continent, closing at 4.30½ in Germany, 11.95¼ in France and 3.67½ in Switzerland. The dollar was similarly slightly stronger at 2.4987, 6.94 and 2.1332 respectively. The Danish krone (8.6365) claimed top place in EMS, 2% above the deutschemark, with the lira (1398.50) 3 5/16% above the latter. The Italians bought \$100mn. and the Germans sold \$15mn. Elsewhere, the Swedes sold \$45mn. The yen, helped by some demand from Eastern Europe, closed at 256.67.

Gold enjoyed another volatile day's trading but was steady in the fixings which were at \$353.75 and \$352.75.

Operations:	Market	+	\$11mn.
	Iran	+	15
	Sundries	+	<u>1</u>
		+	<u>\$27mn.</u>

14th July 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 14th July 1982

Federal Funds

Opening: 12 $\frac{3}{4}$ %
Range: 12 $\frac{1}{2}$ % - 13%
Close: 13%

US Governments (NY closing bids)

2-year: 100 $\frac{3}{8}$ (+ $\frac{1}{8}$) 14 $\frac{1}{8}$ %
5-year: 98 $\frac{1}{2}$ (+ $\frac{1}{8}$) 14 $\frac{1}{8}$ %
10-year: 98 $\frac{1}{2}$ (+ $\frac{1}{8}$) 14%
30-year: 102 $\frac{3}{8}$ (+ $\frac{1}{8}$) 13 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 13 $\frac{3}{4}$ %
1-month: 14 3/16%
3-months: 14 $\frac{3}{4}$ %
6-months: 15 1/16%

Federal Reserve Operations:

Bought Treasury Bills for system
account with Fed Funds at 13%.
Bought \$350mn. Treasury Bills for
a customer.

US 3-month Treasury Bills 12 $\frac{1}{2}$ %
US bank 3-month CDs 14 $\frac{3}{8}$ %

Indicators

Comment:

Prices moved erratically over the course of the morning in light trading. The absence of the Fed at mid-day, with Fed Funds at 13%, caused mild disappointment but no major impact. The Fed's bill purchase for system account in the early afternoon also had little effect on prices. Shortly afterwards the market traded lower and remained weak for most of the afternoon before recovering to close little changed on the day.

15th July 1982.

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