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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th July 1982

Following a disappointing money supply figure from the US on Friday (M1 -\$0.1bn.) the dollar steadied on the exchanges today and recovered a little of its recent losses. A  $\frac{1}{2}\%$  cut in prime rate to  $15\frac{1}{2}\%$  by Manufacturers Hanover appeared to have little impact. Sterling was rather on the sidelines all day but, having withstood some commercial selling during the morning, it held up well against a strengthening dollar in the afternoon. The ERI rose 0.2 to close at 91.2.

There was little reaction to the money supply on Friday evening in New York where sterling closed at 1.7647. The dollar firmed this morning in the Far East and the pound opened in London at 1.7630. During a quiet morning the rate drifted lower in light trading although the dollar at that stage was tending to ease in Europe, particularly against the deutschemark following the publication of a DM 4.8bn. German trade surplus for June. As on many days last week, some sizeable selling was seen from a Japanese bank and the rate fell to a low of 1.7590 shortly after noon. During the afternoon, despite a Fed Funds rate of  $10\frac{3}{4}\%$ , the dollar strengthened generally as the US bond market gave up more of its recent gains. Sterling however remained very stable around the 1.76 level, closing at 1.7615. Three-month Euro-dollars were  $3/16\%$  firmer at  $12\ 15/16\%$ . Sterling's forward premium was unchanged at  $1\frac{1}{8}\%$  and the covered differential in favour of London narrowed to  $\frac{1}{8}\%$ .

Sterling was a little firmer on the Continent, gaining  $\frac{3}{8}\%$  in France (11.81 $\frac{1}{4}$ ),  $\frac{1}{4}\%$  in Germany (4.24 $\frac{1}{4}$ ) and rather less in Switzerland (3.57 $\frac{3}{4}$ ). The dollar was stronger in each of the first two centres, at 6.7060 and 2.4085 respectively, but was unchanged in Zurich (2.0307). EMS remained only  $1\frac{3}{4}\%$  wide, with the French franc at the top and the guilder (2.6622) replacing the deutschemark at the bottom,  $3\frac{3}{8}\%$  from the lira (1351.25). The Belgians bought \$36mn. and the Danes sold \$22mn. The yen closed at 250.95.

Gold slipped back on the firmer dollar, fixing at \$357 and \$352.25.

Operations:	Market	+	\$5mn.
	IDA	+	6
	Australia	+	5
	Sundries	+	3
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		+	\$19mn.
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26th July 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 26th July 1982

Federal Funds

Opening:  $10\frac{3}{8}\%$   
Range:  $10\frac{3}{8}\%$  -  $10\frac{3}{4}\%$   
Close:  $10\frac{3}{4}\%$

US Governments (NY closing bids)

2-year:  $99\frac{1}{2}$  ( $-\frac{1}{4}$ )  $13\frac{3}{8}\%$   
5-year:  $99\frac{1}{4}$  ( $-\frac{1}{4}$ )  $13\frac{3}{8}\%$   
10-year:  $98\frac{1}{4}$  ( $-\frac{1}{4}$ )  $14\%$   
30-year:  $103\frac{1}{4}$  ( $-\frac{1}{4}$ )  $13\frac{1}{2}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $11\frac{1}{2}\%$   
1-month:  $12\%$   
3-months:  $13\%$   
6-months:  $14\%$

Federal Reserve Operations:

US 3-month Treasury Bills  $11\%$   
US bank 3-month CDs  $12\%$

Indicators

Comment:

Having been disappointed by the money supply figure on Friday, the market started the week in a pessimistic mood, believing that most of the good news was past and worrying about the large Treasury refunding which is to come. The market opened  $\frac{1}{8}$ - $\frac{1}{4}$  lower and moved down throughout the day in light trading, closing at the lows for the day.

27th July 1982.

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