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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 5th August 1982

An active day on the exchanges with sharp movement in rates taking place on a good volume of business. The strong movement into the dollar continued amidst rumours in Germany of the collapse of the rescue package for AEG. In a surprising development, there was some token intervention last night by the Fed in New York. Sterling was actively traded and suffered from the run into the dollar more than the other major currencies as the effect of demands by the CBI and some sections of the press for a lower exchange rate was felt in the market. The ERI dropped 0.6 to 91.0.

Sterling closed in New York last night at 1.7325 as the dollar eased back from its strongest levels. This morning the rate opened at 1.7337 and traded up quickly at first on some buying from Germany, to reach 1.7365 at best. However, as the deutschemark weakened in mid-morning on rumours of the AEG package difficulties and the dollar started to firm generally, sterling began to slip back as heavy pressure developed out of Switzerland and the earlier buyer from Germany reversed his position. Despite some demand on oil company account, the pound fell to 1.7254 by noon. New York came in also as buyers of dollars and with the Swiss returning to increase the pressure in early afternoon the rate fell quickly as the dollar strengthened further, bottoming at 1.7155 in mid-afternoon. The rate closed at 1.7165.

Three month Euro dollars were unchanged at 12 7/16% but sterling's forward premium narrowed to 1 5/16%, the covered differential being 1/16% in favour of London.

Sterling was generally easier on the Continent, losing 3/8% in Germany (4.26%) and France (11.85%), but was unchanged in Switzerland (3.63%). The dollar gained a further 1% in each of these centres, closing at 2.4865, 6.9085 and 2.1195 respectively. In EMS the deutschemark remained at the bottom 1 15/16% below the French franc and 3 3/8% from the lira (1387.62). The only intervention was by the Irish who bought \$6mn. Last night in New York the Fed sold \$5mn. against deutschemarks and \$6mn. against yen. The Bank of Japan sold \$37mn. in New York yesterday evening and \$126mn. in Tokyo today, where the yen closed at 259.05. It held up better than the European currencies today, closing in London at 259.57.

Gold rallied in New York last night and opened at \$350 in London today. It could not, however, hold the higher levels in the face of the strength of the dollar and fell back to fix at \$348.25 and \$346.50.

Operations: Sundries - \$2mn.

5th August 1982

TRS

US BOND AND MONEY MARKETS

Thursday, 5th August 1982

Federal Funds

Opening:  $10\frac{1}{2}\%$   
Range:  $10\frac{1}{2}\%$ -  $10\frac{3}{4}\%$   
Close:  $10\frac{3}{8}\%$

US Governments (NY closing bids)

2-year: 100  $(-\frac{1}{8})$   $13\frac{1}{8}\%$   
5-year:  $100\frac{1}{2}$   $(-\frac{1}{2})$   $13\frac{5}{8}\%$   
10-year:  $100\frac{3}{8}$   $(-\frac{1}{2})$   $13\frac{5}{8}\%$   
30-year:  $105\frac{1}{4}$   $(-\frac{1}{4})$   $13\frac{1}{4}\%$

Euro-dollars (Today's opening  
London bid)

7-day: 11  $\frac{1}{16}\%$   
1-month: 11  $\frac{1}{2}\%$   
3-months: 12  $\frac{7}{16}\%$   
6-months: 13  $\frac{5}{16}\%$

Federal Reserve Operations:

U.S. 3-month Treasury Bills  $10\frac{1}{4}\%$   
U.S. 3-month CDs  $11\frac{5}{8}\%$

Indicators

Comment:

After opening  $\frac{1}{8}$ - $\frac{1}{4}$  lower, prices subsequently moved little in quiet trading. The general tone in the market remains cautious.

6th August 1982

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