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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 13th August 1982

The Fed.'s action yesterday to supply reserves prompted late selling of dollars by the IMM, setting the scene for a firmer opening by other currencies this morning. Rates moved only narrowly until mid-afternoon when, in spite of an easier tone in the US money markets, the dollar was bid up sharply, perhaps on short-covering. Sterling met some demand at first, partly countered by oil company selling, but ended the day with the ERI unchanged at 90.9 (after 91.1 at noon).

The sell-off of dollars helped the pound to close at 1.71 in New York last night. It opened in London today at 1.7081. Although initially drifting down to 1.7058 the buying interest moved the rate back up through 1.71 and by early afternoon 1.7149 had been reached. The dollar's late rally brought a swift reversal to a close of 1.7020 (after 1.7015). Eurodollars opened well offered and eased further during the day (as did Fed.Funds this afternoon): the closing level for three months' money was 12 5/16%. Interbank sterling for the same period eased to 11 3/8%; the forward discount for the dollar was 1%.

On balance sterling moved ahead in Europe, advancing to 4.27 7/8 in Germany and to 11.92 1/4 in France but edging back to 3.65 7/16 in Switzerland. Compared to last night, the dollar was a net loser, easing to 2.5140, 7.0050 and 2.1470 in these centres. EMS widened to 2% but this may be because the punt (at the top, at 1.3720) rarely reflects the dollar's movements after 3 pm. The deutschemark remained at the bottom, with the lira (1402.50) still 3 11/16% stronger. The Germans sold \$12 mn., the Irish \$3 mn. The yen ended the week at 262.50.

Gold moved up in North American markets late yesterday but traded quietly in London yet again. Fixings were at \$337.75 and \$338.

Operations:	Market	+ \$7mn.
	N.Scot.HEB	
	(PSB)	+ 8
	Interest	+ 8
	Mauritius	- 5
	Sundries	+ 4
		<hr/>
		+ \$22mn.

13th August 1982.

DAHB

US BOND AND MONEY MARKETS

Friday, 13th August 1982

Federal Funds

Opening: 10½%  
Range: 10-10½%  
Close: 10¼%

US Governments (NY closing bids)

2-year: 101¾ (+¾) 12 3/16%  
5-year: 102¾ (+1½) 13%  
10-year: 103¾ (+2¼) 13 1/16%  
30-year: 109 (+2¼) 12 13/16%

Euro-dollars (Today's opening  
London bid)

7-day: 10½%  
1-month: 10¾%  
3-months: 11½%  
6-months: 12½%

Federal Reserve Operations:

\$800mn. customer repurchase  
agreements with Fed.Funds at 10½%.  
Stop rate 9.8%. Bought \$400 mn.  
Treasury Notes for a customer.

US three-month Treasury Bills 9½%  
US bank three-month CDs 11 7/16%

Indicators

M1 + \$2.0 bn.  
Fed. discount rate reduced to 10½% from 11%.  
Some prime rates to 14½% from 15%.  
US industrial production fell 0.1% in July (c.f. -0.7% in June)  
Producer prices rose 0.6% in July (c.f. +1.0% in June).

Comment:

It was a quiet, professional morning with the market moving higher on a low Funds' rate and breaking through the important 107 barrier on the long bond. The Fed. action was neutral and prices were about 1 point higher at money supply time. News of the discount rate cut caused the market to rocket and it finished just below its highs.

16th August 1982.  
TRS