

SECRET

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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 20th August 1982

Rumours last night in New York that one or more large US banks had incurred severe losses over Mexico caused the dollar to weaken sharply. The expected successful passage (later confirmed) of the President's bill to increase taxes by \$100bn. was also a depressing factor. Today the exchanges were quiet but nervous and the dollar stabilised at its new, lower levels. There were some reports that limits for US banks were being reduced and this may have inhibited trading. Sterling opened very firm and closed comfortably. The ERI rose 0.2 to 91.5, after 91.9 at the opening.

As the dollar fell in New York last night sterling moved up to close at 1.7420. This morning the rate opened at 1.7490 and touched 1.7505 in early business when there was some strong demand from Germany. As this dried up, the rate gradually settled back, although the dollar was scarcely moving elsewhere. By mid-morning the rate had drifted to 1.7395 but it recovered to 1.7430 by noon. The afternoon was uneventful and the rate eased back again to close at 1.7395. Three-month Eurodollars were unchanged at 10¼% but sterling's forward discount widened to 5/16%.

The pound was easier in Europe, losing ½% in Switzerland (3.60%) and ¼% in Germany (4.27) and France (11.93¼). The dollar closed over 1% easier in each of these centres at 2.0745, 2.4550 and 6.8625 respectively. There was pressure again on the French franc in EMS where the punt (1.4015) closed 1¼% above the deutschemark which improved to only 2¼% from the lira (1384.50). The French sold \$127mn. and deutschemarks worth \$221mn., the Germans sold \$10mn. and the Danes \$8mn., while the Italians bought \$23mn. and the Irish \$3mn. The yen closed at 255.77.

Gold rallied sharply in active trading. Concerns about the health of US banks sparked off some strong buying and this in turn provoked widespread short covering. After fixing at \$379 in the morning, the price reached \$390 in early afternoon before fixing at \$386.50.

Operations:	Market	+\$10mn.
	Interest	+ 16
	Sundries	+ 4
		<u>+\$30mn.</u>

20th August 1982.

TRS
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US BOND AND MONEY MARKETS

FRIDAY, 20TH AUGUST 1982

Federal Funds

Opening: 8 $\frac{3}{8}$ %
Range: 8 $\frac{1}{2}$ -9%
Close: 9%

US Governments (NY closing bids)

2-year:	103 1/16	(-1/16)	11 5/16%
5-year:	106	(+1/8)	12 1/8%
10-year:	107 11/16	(-1/16)	12 3/8%
30-year:	114	(+1/8)	12 1/4%

Euro-dollars (Today's opening
London bid)

7-day: 9 1/8%
1-month: 9 11/16%
3-months: 10 3/16%
6-months: 11 1/8%

Federal Reserve Operations:

US three-month Treasury Bills: 7 1/4%
US bank three-month CDs: 9 5/8%

Indicators

M1 -\$100mn.
Some prime rates to 13 $\frac{1}{2}$ % from 13%.
Durable goods +3.2% (c.f. -1.6% June).

Comment:

A quieter day. An initial strength was sapped by modest profit-taking and disappointment at the lack of Fed. action. There was some recovery on anticipation of a discount rate cut but in its absence the market eased again.

23rd August 1982.

DAHB

DAHB