

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 27th August 1982

Markets were disappointed at the size of the Fed.'s discount rate cut (to 10%) and perhaps worried about tonight's money supply; the dollar has regained some strength, particularly after the opening of the New York money markets. Sterling withstood an oil company sale in mid-session but eased, on the dollar's showing, in ERI terms to 91.7. The base rate cuts were expected.

There was a sharp movement down in New York last night to 1.7487 but by the close the pound had recovered to 1.7560. It opened quietly enough this morning at 1.7530 and moved very little until an order by an oil company to sell about £40mn. brought some downward pressure: the rate was 1.7495 at noon. The further decline this afternoon was a dollar movement which petered out near the close. Sterling ended the week in London at 1.74 (after a mid-afternoon low of 1.7355). Eurodollars were firm at the opening and rose sharply this afternoon, closing at 11 3/16% for three months. Although interbank sterling was little changed at 10 3/4% the forward margin was moved out to a premium for sterling of 13/16% p.a., opening up a covered differential 3/8% in London's favour.

The pound edged up to 4.28 3/4 in Germany and rose to 3.63 in Switzerland, but eased in Paris to 12.03 3/4 as the franc put up a better performance without support: it improved in dollar terms to 6.9187. The lira drew away from the narrower margins, closing at 1390 - some 2 7/16% above the deutschemark, which eased to 2.4640 (after 2.4720). The punt (1.3970) headed EMS again, the system narrowing therefore to about 1 13/16%. The Belgians bought \$50mn. whilst the Italians (\$71mn.) and Danes (\$24mn.) were sellers. The Swiss franc eased to 2.0860, the yen to 256.22.

Gold reached \$430 last night in New York on demand, reported to be of the order of 10 tons, out of Comex. It opened in London at \$426 and fixed at \$425.25 but slipped on concern over US interest rates to set a price of \$418 at the second session.

Operations:	Market	+\$11mn.
	Government	
	(Canc.reqt.)	+ 14
	Sundries	+ 1
		<u>+\$26mn.</u>
Overnight and Bank Holiday		<u>+\$10mn.</u>

27th August 1982.

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US BOND AND MONEY MARKETS

FRIDAY, 27TH AND MONDAY, 30TH AUGUST

Federal Funds

	<u>Friday</u>	<u>Monday</u>
Opening:	9½%	10%
Range:	9½-10¼%	9¾-10¼%
Close:	9¾%	10¼%

US Governments (NY closing bids)

2-year:	99¾	(-11/16)	12%
5-year:	103¾	(-1¾)	12½%
10-year:	105¾	(-1¼)	12¾%
30-year:	112¼	(-1 7/16)	12¾%

Euro-dollars (Today's opening London bid)

7-day:	10½%
1-month:	10 13/16%
3-months:	11 3/8%
6-months:	12 3/8%

Federal Reserve Operations:

Friday \$1.2bn. customer repurchase agreement with Fed.Funds at 9¾%. Stop rate 8.95%.

US three-month Treasury Bills: 8¾%
US bank three-month CDs: 10½%

Indicators

Friday: M1 +1.4bn.

Comment:

On Friday, the market opened slightly lower, despite the Fed.'s reduction in the discount rate the previous day. The market remained weak throughout the day reacting to the higher Fed.Funds rate and higher expectations for money supply - justified by the actual increase announced later. On Monday, the market was very quiet with short issues moving little; the longer end fared rather better with the long bond up ¾ on the day.

31st August 1982.
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