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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 31st August 1982

The dollar began the week very strongly yesterday in the Far East and continued firm for the rest of the day. The latest increase (of \$1.4bn.) in US M1 indicated that the July "bulge" would not very easily be washed out and this in turn lent support to the view that the decline in American interest rates had been halted; this week's auctions were another factor and fears of unrest at today's Solidarity rallies added further fuel. But today there was a slight reaction, which left the dollar a little lower than yesterday. Sterling encountered some demand both on the Bank Holiday and from Far East sources this morning. Due to the stronger dollar, however, the ERI fell to 91.4.

In New York on Friday evening the pound closed at 1.7305. Yesterday it fell to 1.7082, but only as a reflection of the dollar's strength across the board. Today, it began at 1.7135, dipped to 1.7105 at first but then, helped by good demand, rose to 1.7215 just before noon. In a quieter second session the rate eased back to close at 1.7173. Euro-dollars hardened yesterday and had risen to 11 9/16% for three months by this evening - a full 1% increase in a week. Interbank sterling rose to 10 15/16% and the forward premium narrowed to 3/4% p.a., leaving the covered differential marginally in London's favour.

Having touched 4.30 yesterday, the pound closed at 4.28 1/2 today against the deutschemark; compared with Friday evening, it rose to 3.64 15/16% in Switzerland but eased to 12.02 1/2 in France. The dollar made net gains since Friday, hardening to 2.4950 in Germany, 7.0025 in France and 2.1250 in Switzerland. EMS had a steady time, remaining between the deutschemark and the punt (1.3780), some 1 1/2% apart. The French and Dutch bought deutschemarks yesterday, equivalent to \$69mn. and \$14mn. respectively; the Germans sold \$5mn.; the Italians bought \$61mn. Today, the French sold \$16mn., the Italians bought another \$69mn. and the Dutch bought deutschemarks worth \$20mn. The yen had weakened by this evening to 260.12.

Gold ran back down to \$395.50 in New York on Friday before closing \$8 higher. It improved again yesterday but failed to hold its opening level of \$414.25 in London today. Fixings were at \$409.60 and \$411.50.

Operations:	Market	+	\$24mn.
	IDA	+	23
	Sundries	+	3
			<hr/>
		+	\$50mn.
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The result for August is a rise in reserves of \$170mn. to an absolute level of \$18,113mn., after net new public sector borrowing of \$48mn. The overbought forward position fell by \$9mn. to \$883mn.

31st August 1982.

DAHB

US BOND AND MONEY MARKETS

Tuesday, 31st August 1982

Federal Funds

Opening: 10½%
Range: 10½% - 10¾%
Close: 10½%

US Governments (NY closing bids)

2-year: 99½ (-) 12%
5-year: 103½ (-½) 12¾%
10-year: 105½ (-½) 12¾%
30-year: 112½ (-½) 12¾%

Euro-dollars (Today's opening
London bid)

7-day: 11%
1-month: 11 1/16%
3-months: 11 9/16%
6-months: 12 9/16%

Federal Reserve Operations:

Overnight repurchase agreement for
system account with Fed Funds
at 10½%. Stop rate 7.85%.

US 3-month Treasury Bills 8¾%

US bank 3-month CDs 10¾%

Indicators

US leading indicators +1.3%

Comment:

The market opened ¼-½ below the previous day's close with Fed Funds up at 10½%. Following a quiet morning, the market got a welcome boost from the Fed's execution of overnight repos, but drifted back down prior to the results of the 5-year Treasury Notes auction. With the auction stronger than expected, the market jumped in late trading to close near the previous day's close.

The new \$4.75bn. 5-year was auctioned at an average of 12.68%.

1st September 1982.

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