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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th September 1982

Fears that growth in money supply is again becoming a problem in the US and concerns about the effect on US interest rates from the large Treasury financing requirements due to be announced tomorrow took the dollar sharply higher on the exchanges today. Most European currencies fell to new lows, although tension within EMS itself eased. Sterling traded comfortably and the ERI closed unchanged at 91.7, after 91.5 at the start.

Although the \$0.9bn. increase in M1 was less than the market had feared, the dollar continued firm in New York on Friday night and sterling fell back to close at 1.7080. As the dollar strengthened further in the Far East this morning, the pound opened at 1.7020 and fell to 1.7005 in early business. Some good demand in London, both on professional account and from an oil company, was evident at the lower levels and the rate recovered quickly in mid-morning to 1.7063 at best, before some sizeable official selling from Europe took it back to 1.7033 shortly before noon. Little business was seen during an uneventful afternoon and the pound closed at 1.7038. Euro-dollar rates were  $\frac{1}{2}\%$  firmer than on Friday, three-months closing at  $12\frac{3}{8}\%$ . Sterling's forward premium widened to  $1\frac{1}{2}\%$ .

Sterling was firm on the Continent, closing at 4.30 in Germany,  $12.15\frac{1}{2}$  in France and 3.67 in Switzerland. The dollar rose  $1\%$  in each of these centres, to close at 2.5240 in Frankfurt, 7.1365 in Paris (after a new low of 7.1435) and 2.1540 in Zurich. EMS narrowed to  $1\frac{1}{2}\%$  between the Danish crown (8.91, after 8.94) at the bottom and the punt (1.3540) at the top, with the lira at a record low of 1418.62,  $2\frac{7}{8}\%$  above the crown. The French sold deutschemarks worth \$99mn. and \$60mn. and the Germans sold \$13mn. The yen fell  $1\%$  to close at a five-year low of 264.40.

Gold fell back on the firmer dollar, fixing at \$440 in the morning and, after a very lengthy session, at \$439 in the afternoon.

Operations: Sundries - \$5mn.

13th September 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 13th September 1982

Federal Funds

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

US Governments (NY closing bids)

2-year:  $99\frac{1}{2}$  ( $+\frac{1}{8}$ )  $11\frac{7}{8}\%$   
5-year:  $100\frac{5}{8}$  ( $+\frac{1}{2}$ )  $12\frac{7}{16}\%$   
10-year:  $106\frac{1}{4}$  ( $+\frac{7}{8}$ )  $12\frac{1}{2}\%$   
30-year:  $114\frac{1}{8}$  ( $+1\frac{1}{2}$ )  $12\frac{1}{4}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $11\frac{3}{16}\%$   
1-month:  $11\frac{9}{16}\%$   
3-months:  $12\frac{3}{16}\%$   
6-months:  $13\frac{3}{16}\%$

Federal Reserve Operations:

Overnight repurchase agreement  
for system account with Fed Funds  
at  $10\frac{1}{2}\%$ . Stop rate  $9.65\%$ .

3-month Treasury Bills  $8\frac{1}{4}\%$

3-month US bank CDs  $11\frac{1}{8}\%$

Differential  $2\frac{7}{8}\%$

Indicators

Retail Sales  $-0.9\%$  in August

Comment:

The high Fed Funds rates and worries over the money supply moved prices down initially. Later in the morning, however, the market started to improve on short covering purchases and the move upwards was fuelled by the Fed's operations and the retail sales announcement.

14th September 1982.

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