

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 15th September 1982

Another uneventful day on the exchanges. The deteriorating situation in the Lebanon seemed to have no impact on the dollar which, after easing throughout the morning on softer Euro-dollar rates, ended the day off its lows following a more modest (0.5%) decline in US industrial production in August than had been expected. Pressures within EMS evaporated and the French franc firmed after the announcement of a \$4bn. bank credit to boost reserves. Sterling was rather on the sidelines; the ERI rose by 0.1 to 91.7.

Sterling closed in New York last night at 1.7065 and opened in London this morning at 1.7083. After touching 1.7066 in early business, the pound rose steadily throughout the morning, despite some further official selling from Europe, breaking through 1.71 in mid-morning. Some demand for sterling against deutschemarks was seen around this time and the rate rose steadily, reaching 1.7166 in the early afternoon as the US bond market opened on a firm note. The rate closed at 1.7140 but following Fed action to drain liquidity from the domestic market, it was later quoted down to 1.7065. Three-month Euro-dollars ended the day 1/16% easier at 12% and sterling's forward premium was 1 1/4%.

The pound was unchanged in both Germany (4.28 1/2) and Switzerland (3.65 1/2) but a little easier in France (12.11 1/2). The dollar lost 1/4% in each of these centres, closing at 2.5004, 2.1312 and 7.0665 respectively. In EMS the French franc improved to 2.82 1/2 on its cross-rate against the deutschemark and to only 1/2% below the punt (1.3650) which, as usual, was at the top of the band. The Danish crown (8.8412) remained at the bottom, 1 1/2% from the punt and 2 15/16% from the lira (1407.87). The French recouped \$107mn. (of which \$55mn. was in deutschemarks) while the Irish sold \$12mn. (half in deutschemarks). Elsewhere, the Swedes sold \$68mn. Tokyo was closed for Respect for the Aged Day; the yen closed in London at 262.05.

Gold fell sharply in New York last night following predictions of an oil price fall to \$12 per barrel. It fixed in London at \$444.75 and \$443.25.

Operations:      Market      +      \$10mn.

15th September 1982.

TRS



US BOND AND MONEY MARKETS

Wednesday, 15th September 1982

Federal Funds

Opening: 10 $\frac{3}{8}$ %  
Range: 10 $\frac{1}{8}$ % - 11 $\frac{1}{2}$ %  
Close: 11 $\frac{1}{2}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Overnight reverse repurchase  
agreement with Fed Funds at 10 $\frac{1}{2}$ %.  
Stop rate 10.68.

Bought \$275mn. Treasury Bills for  
a customer.

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

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

Differential 2 $\frac{1}{4}$ %

Indicators

Industrial Production -0.5% in August

Comment:

The market moved up at the start, with the long bond gaining  $\frac{1}{2}$ . The smaller-than-expected decline in industrial production brought prices down  $\frac{1}{8}$ . The Fed's action was unexpected - draining liquidity in the same week in which they had earlier added liquidity - and prices immediately fell up to  $\frac{1}{2}$ . The market continued lower until late afternoon when it recovered slightly.

The new \$6.5bn. 2-year was auctioned at an average of 12.20% (after earlier in the day being traded on a "when-issued" basis at 11.75%).

16th September 1982.

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