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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 16th September 1982

Markets were quiet but rather confused today over recent Fed policy and the implications for US interest rates. Action to tighten liquidity in the US domestic market yesterday, following on Monday's unexpected injection of funds, took dealers by surprise and the dollar in Europe today held gains made overnight in New York. There was little business in sterling and the ERI closed 0.1 down at 91.6.

The dollar moved up sharply in New York yesterday evening following the Fed's entry and sterling fell back to close there at 1.7042. This morning, with Euro-dollar rates $\frac{1}{4}\%$ up on yesterday, the dollar opened firm and seemed set at first to move higher. From an opening level of 1.7040 sterling fell back to 1.7022 in the early going but with operators seemingly reluctant to take the dollar above its recent highs, it began to ease back, helped by a weakening in Euro-dollars. Sterling was marked up with the other currencies, reaching 1.7075 shortly before noon but failed to improve thereafter. Some modest selling in a thin market following the release of the money supply figures took the pound back to 1.7043 during the afternoon and the rate closed at 1.7053. Three-month Euro-dollars closed $\frac{3}{16}\%$ up on yesterday at $12 \frac{3}{16}\%$ and sterling's forward premium widened to $1 \frac{5}{16}\%$.

The pound gained a little ground in Europe, closing $\frac{1}{4}\%$ firmer in Germany ($4.29\frac{3}{8}$) and Switzerland ($3.66\frac{1}{4}$) but with a more modest gain in France ($12.11\frac{1}{8}$). The dollar gained $\frac{3}{4}\%$ in these centres, closing at 2.5178, 2.1480 and 7.1062 respectively. EMS widened to $1\frac{3}{8}\%$ between the punt (1.36) at the top and the Danish crown (8.89) at the bottom, with the lira (1415.75) $2 \frac{15}{16}\%$ above the latter. The only intervention was by the Dutch who bought \$4mn.- worth of deutschemarks. The Swedes sold \$41mn. The yen closed $\frac{3}{8}\%$ weaker at 263.85.

Gold traded quite actively with reports of some demand from the Middle East during the morning. Fixings were at \$447.25 and \$448.50.

Operations:	Market	+	\$3mn.
	Sundries	+	<u>2</u>
		+	<u><u>\$5mn.</u></u>

16th September 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 16th September 1982

Federal Funds

Opening: 10½%
Range: 10⅜% - 10¾%
Close: 10⅜%

US Governments (NY closing bids)

2-year: 100½ (+⅛) 12%
5-year: 100½ (+⅛) 12½%
10-year: 106¼ (+¼) 12½%
30-year: 114⅝ (+⅝) 12⅝%

Euro-dollars (Today's opening
London bid)

7-day: 11%
1-month: 11 5/16%
3-months: 12%
6-months: 12⅞%

Federal Reserve Operations:

Overnight repurchase agreement for
system account with Fed Funds at
10⅜%. Stop rate 8.90%.

3-month Treasury Bills 8¼%
3-month US bank CDs 11%
Differential 2⅜%

Indicators

Capacity utilisation -.5 to 69.4%

Comment:

In a thin and mostly professional market, prices remained in a ¼ point range below the previous night's close throughout the morning, as the market nervously awaited the day's Fed action. The system repos moved prices up ⅛-¼ and the long end improved further on light volume through the afternoon.

17th September 1982.

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