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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 23rd September 1982

Although the easing of minimum reserve requirements by the Bundesbank today was widely expected, the size of the German current account deficit in August (-DM 3.2bn.) came as a surprise to the market. A further reduction in price inflation in the US (consumer prices up only 0.3% in August) was probably also a factor in the strength of the dollar on the exchanges today, as was the renewed weakness of the yen. As yesterday, there was some good two-way commercial business in sterling; the ERI closed 0.1 higher at 91.8.

Sterling closed at 1.7170 in New York last night and opened more or less at the same level, at 1.7172, today against a rather firmer dollar. Having touched 1.7175 in early business, the rate gave ground slowly throughout the morning as the dollar strengthened led by some heavy selling of yen from Eastern Europe. There was some two-way interest in sterling by oil companies during the morning but some more widespread commercial selling was seen shortly before noon, when the rate reached 1.7110. As the dollar continued to strengthen throughout the afternoon, following the release of the CPI and despite renewed strength in the US bond market, sterling remained steady around the 1.71 level, dipping only to 1.7096 under pressure of some modest selling from the Middle East. The rate recovered to close at 1.7117. Three-month Euro-dollars closed 3/16% firmer at 11 11/16% and sterling's forward premium was 1%.

The pound gained 1/8% in Europe, closing at 3.67 1/2 in Switzerland, 4.29 in Germany and 12.12 1/2 in France. The dollar rose nearly 1/8% in these centres, to end at 2.1447, 2.5061 and 7.0850. EMS again widened, to 1 9/16%, between the Belgian franc (48.48) at the bottom and the punt (1.3645) at the top with the lira (1411.75) 3 1/16% from the franc. The Belgians sold \$54mn. (of which \$13mn. was in deutschemarks) and the Italians \$50mn. The Swedes, following the recent general election, again needed to give support to their crown, selling \$78mn. With Tokyo closed, the yen was sold heavily in Europe; it fell 1/8% to close at 264.22.

As the dollar strengthened, gold eased back in quiet trading. The fixings were at \$437.25 and \$435.85.

Operations:	Market	+	\$14mn.
	Iran	+	22
	BIS	+	9
	Interest	+	5
	Sundries	+	2
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		+	\$52mn.
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US BOND AND MONEY MARKETS

Thursday, 23rd September 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 101 $\frac{1}{8}$  (+ $\frac{1}{8}$ ) 11 $\frac{1}{2}$ %  
5-year: 102 $\frac{3}{8}$  (+ $\frac{1}{8}$ ) 12%  
10-year: 109 $\frac{1}{2}$  (+1) 12 1/16%  
30-year: 118 $\frac{1}{4}$  (+ $\frac{1}{4}$ ) 11 $\frac{3}{4}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 10 $\frac{3}{4}$ %  
1-month: 11 1/16%  
3-months: 11 11/16%  
6-months: 12 $\frac{3}{8}$ %

Federal Reserve Operations:

3-month Treasury Bills 7 $\frac{1}{4}$ %  
3-month US bank CDs 10 11/16%  
Differential 3 7/16%

Indicators

Consumer Price Index +0.3% in August

Comment:

Market activity throughout the morning was volatile, about an underlying upward trend. The market moved further up during the afternoon on the expectation of a good auction for the 20-year bond. However, once the actual auction results were known, the market fell back  $\frac{1}{4}$ - $\frac{3}{8}$ .

The new \$2.75bn. 20-year was auctioned at an average of 11.68%.

24th September 1982.

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