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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 30th September 1982

The exchanges were quieter today. The dollar eased from firm overnight levels helped by renewed signs of weakness in the US economy (a decline of 0.9% in leading indicators in August, the first fall for four months). Its earlier strength had largely been attributable to unexpected action by the Fed yesterday to drain liquidity from the domestic market and to the weakness of the yen which received massive support in Tokyo this morning. Expectations of an early cut in the clearing banks' base rates weakened sterling and the ERI closed 0.1 lower at 91.5.

The pound closed a quiet evening in New York yesterday at 1.6945. This morning the rate opened at 1.6940 against a firm dollar and rose to 1.6962 in early trading. Unfounded rumours that one of the major clearers had reduced its base rate provoked some weakness and sterling fell quickly to 1.6890 under pressure of some commercial selling from abroad and professional activity in London. When the rumours were not confirmed, the rate recovered slowly as the dollar eased back elsewhere, helped during the afternoon by an improving US bond market. By the close at 1.6947 the rate had more or less returned to its opening level. Three-month Euro-dollars rose $\frac{1}{8}\%$ to close at $11\frac{1}{2}\%$ and sterling's forward premium widened accordingly to $1\frac{1}{8}\%$.

The pound eased a little further in Europe, closing at 4.28 $\frac{1}{2}$ in Germany, 12.09 in France and 3.67 $\frac{1}{2}$ in Switzerland. The dollar ended a little firmer than yesterday in these centres, at 2.5265, 7.1340 and 2.1682 respectively. In EMS, the guilder (2.7645) moved to top position, 1 $11/16\%$ above the Belgian franc (48.03), with the lira (1422.75) 3 $7/16\%$ from the franc. The Italians sold \$88mn., the Belgians \$38mn. (of which \$9mn. was in guilders) and the Irish \$9mn., while the Danes and Dutch bought deutschemarks worth \$16mn. and \$12mn. respectively. Elsewhere, the Swedish crown was again weak, despite action to increase domestic interest rates, and \$110mn. of support was necessary. The yen fell to 269.40 in Tokyo this morning, where the Bank of Japan sold \$544mn.; it improved to 268 in London.

Gold fell back through \$400 in New York last night and failed to break through that level in London today. Fixings were at \$394.75 and \$397.

Operations: Sundries + \$2mn.

The result for September is a rise in reserves of \$186mn. to an absolute level of \$18,299mn., after net repayments of public sector borrowing of \$23mn. The overbought forward position rose by \$57mn. to \$940mn.

30th September 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 30th September 1982

Federal Funds

Opening: 10 $\frac{3}{4}$ %
Range: 10% - 12%
Close: 12%

US Governments (NY closing bids)

2-year: 101 $\frac{1}{2}$ (+ $\frac{1}{4}$) 11 $\frac{1}{2}$ %
5-year: 103 $\frac{3}{8}$ (+ $\frac{1}{2}$) 11 $\frac{3}{4}$ %
10-year: 110 (+ $\frac{3}{8}$) 12%
30-year: 118 $\frac{1}{4}$ (+ $\frac{5}{8}$) 11 $\frac{3}{4}$ %

Euro-dollars (Today's opening
London bid)

7-day: 10 $\frac{7}{8}$ %
1-month: 11%
3-months: 11 5/16%
6-months: 11 15/16%

Federal Reserve Operations:

Overnight repurchase agreement for
system account with Fed Funds at
11 $\frac{1}{4}$ %. Stop rate 10.18%.

Sold \$300mn. Oct.-Nov. Treasury
Bills, bought \$100mn. Apr.-Sept.
Treasury Bills for customers.

3-month Treasury Bills 7 $\frac{3}{4}$ %
3-month US bank CDs 10 $\frac{1}{2}$ %
Differential 2 $\frac{3}{4}$ %

Indicators

US leading indicators -0.9% (after +1.3% in July).

Comment:

The market opened lower on the high Fed Funds rate, but the decline brought in buyers and was quickly reversed. The market continued higher throughout the morning, but changed little during the afternoon.

1st October 1982.

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