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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 6th October 1982

Most of the major currencies remained in a narrow range on the exchanges today, holding gains made against the dollar in New York last night. The yen continued weak amidst conflicting statements from senior Japanese officials as to the government's policies. Unusually, activity in the markets was concentrated on a normally rather minor sector as, following a 4% devaluation of the Finmark, all the Nordic currencies came under pressure. The base rate cuts fully discounted already, sterling was firm and the ERI, benefitting from the weakness of the Scandinavians, rose 0.3 to 92.1.

The dollar weakened in New York last night as Fed. Funds moved below 10% and sterling rose there to close at 1.6940. This morning the rate opened at 1.6907 and having briefly touched 1.6887, as the dollar initially firmed, moved back above 1.69, helped by some good commercial demand. The base rate changes had negligible effect and when the dollar began to ease in the afternoon, helped again by low Fed. Funds and falling euro-dollar rates, sterling moved up to 1.6935. Some useful demand was seen from a number of sources, including US banks, and the rate ended on a firm note at 1.6933. Three month euro-dollars fell  $\frac{1}{8}$ % to close at 11 9/16% and sterling's forward premium was  $1\frac{1}{8}$ %.

The pound gained further ground in Europe, rising  $\frac{3}{8}$ % in France (12.17 $\frac{3}{8}$ ) and  $\frac{1}{8}$ % in Germany (4.30 $\frac{3}{8}$ ) but was almost unchanged in Switzerland (3.70 $\frac{3}{8}$ ). The dollar lost about  $\frac{3}{8}$ % in these centres, closing at 7.1917, 2.5430 and 2.1870. EMS was 1 13/16% between the Belgian franc (49.36) at the bottom and the guilder (2.78) at the top, with the lira (1432.70) 3 $\frac{3}{8}$ % from the franc. The Italians sold \$26mn. and the Germans and Irish \$12mn. each, while the Dutch bought deutschemarks worth \$8mn. Elsewhere, the devaluation of the Finmark served to intensify the pressure on the Swedish crown, which closed at an all time low of 6.3227, despite support of \$257mn. The Norwegian crown (7.0460) also fell sharply with purchases of \$68mn. by the Norges Bank, purportedly for reasons of domestic liquidity, adding to the pressure. The yen set another five-year low, closing in Tokyo at 274.80 after sales of \$297mn. by the Bank of Japan; it improved to 273.85 in London. The Fed. sold \$21mn. in New York last night, of which \$11mn. against yen was matched by similar sales by the Bank of Japan.

Gold strengthened as Euro-dollar rates eased, fixing at \$402.50 and \$404.

Operations:	Market	+ \$31mn.
	Iran	+ 12
	Interest	+ 6
	New Zealand	- 34
	Sundries	+ 1
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		+ \$16mn.
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	Overnight	+ \$10mn.
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6th October 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 6th October 1982

Federal Funds

Opening:  $9\frac{1}{4}\%$   
Range:  $8-9\frac{1}{4}\%$   
Close:  $8\%$

US Governments (NY closing bids)

2-year:  $101\frac{1}{4}$  ( $+\frac{3}{8}$ )  $11\frac{1}{8}$   
5-year:  $104\frac{1}{4}$  ( $+\frac{5}{8}$ )  $11\frac{1}{2}$   
10-year:  $111\frac{1}{8}$  ( $+1\frac{1}{8}$ )  $11\frac{3}{4}$   
30-year:  $119\frac{5}{8}$  ( $+1\frac{3}{8}$ )  $11\frac{5}{8}$

Euro-dollars (Today's opening  
London bid)

7-day:  $10\frac{1}{2}\%$   
1-month:  $11\%$   
3-months:  $11\frac{7}{16}\%$   
6-months:  $11\frac{1}{2}\%$

Federal Reserve Operations:

Reserve repurchase agreements for  
system account with Fed Funds  $9\frac{1}{2}\%$ .  
Stop rate 9.81

3-month Treasury Bills  $8\frac{1}{16}\%$   
3-month US bank CDs  $10\frac{11}{16}\%$   
Differential  $2\frac{5}{8}\%$

Indicators

Comment:

Although trading again largely off the Funds rate the rally was much more broadly based than recently with some good retail interest. The Fed action caused only a temporary sell-off and the market recovered to reach new highs during the afternoon, helped by the futures market breaking through an important resistance point.

TRS

7th October 1982