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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 25th October 1982

Markets were dismayed at the Fed's failure to cut their discount rate on Friday evening and at the unexpectedly large (\$3.2bn.) increase in M1. Euro-dollar rates moved up sharply today and the dollar soared to new recent highs in all centres in rather nervous trading on the exchanges. Sterling saw some reasonable two-way business during the morning but suffered from the conversion of the proceeds of a large borrowing in the afternoon, falling to a six-year low against the dollar. The ERI closed down 0.4 at 92.4.

As the dollar rose in New York on Friday evening following the release of the money supply figures, sterling fell back to 1.6912. This morning the rate opened at 1.6862 and slipped to 1.6828 in early business as the dollar strengthened generally at first in Europe. However, as the dollar fell back from its opening levels helped by a slight easing in Euro-dollar rates, sterling recovered to trade around 1.68½ for most of the morning, reaching 1.6857 at best. The US bond market opened on a weak note, strengthening the dollar in the early afternoon, and when the conversion order also entered the market, sterling gave ground for the balance of the day. The rate dipped to a low of 1.6795 before closing at 1.6798. Three-month Euro-dollars closed 5/16% firmer at 10 1/16% and sterling's forward premium was 13/16%.

The pound was unchanged in both Germany (4.29¼) and Switzerland (3.69¼) but shed ¾% in France (12.09¾). The dollar rose 1% in these centres, to close at 2.5550 in Frankfurt (after a high of 2.5555), 2.1927 in Zurich and 7.2010 in Paris. There was little pressure in EMS where the Belgian franc (49.35) closed 1½% below the guilder (2.7758) after sales of \$13mn. and guilders worth \$17mn. The Italians sold \$60mn. but the lira nevertheless closed at another all-time low of 1456.20. The Norwegians sold \$27mn. The yen was weak and received support from the Bank of Japan in New York on Friday night, when they sold \$30mn. and in Tokyo this morning where they sold \$135mn. The yen closed at 276.60 in London today having earlier fallen to a five-year low of 277.25.

Gold slipped back in the face of the stronger dollar, fixing at \$420.50 and \$418.60. Later the price was quoted down to \$413.

Operations:	Market	+	\$5mn.
	Government	-	38
	South Africa	-	15
	BIS	+	9
	Sundries	+	6
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		-	\$33mn.
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25th October 1982.

TRS

US BOND AND MONEY MARKETS

Monday 25th October

Federal Funds

Opening: 9 3/8%
Range: 9 3/8 - 9 1/2%
Close: 9 3/8%

US Governments (NY closing bids)

2-year: 99 3/8 (- 1/8) 10 1/8%
5-year: 106 3/8 (- 1/2) 10 15/16%
10-year: 112 5/8 (- 1) 11 1/2%
30-year: 123 1/2 (- 1 1/4) 11 1/4%

Euro-dollars (Today's opening
London bid)

7-day: 9 3/4%
1-month: 9 13/16%
3-months: 10 1/8%
6-months: 10 5/16%

Federal Reserve Operations:

\$1.5bn customer repurchase
agreements with Fed Funds at 9 1/2%
Stop rate 9.09%.

3-month Treasury Bills 7 15/16%
3-month US bank CDs 9 3/8%
Differential 1 7/16%

Indicators

Comment:

The absence of the expected discount rate cut cast a pall over trading in the bond market. The market opened a point down at the start and remained in a narrow range in quiet trading throughout the day, giving a little more ground before the close.

26 October 1982

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