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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 27th October 1982

An uneventful day with rates in a narrow range. Hopes of a cut in the Fed's discount rate were revived in New York last night and for much of the day the dollar was rather softer than on most days recently. However, as the US bond market started to slide in the afternoon it was, by the close, beginning to firm again. Sterling saw little trading; the ERI closed 0.1 lower at 92.5.

Sterling closed at 1.6865 in New York last night against a slightly easier dollar. This morning, with the dollar softening further in the Far East and at first in London, the rate opened unchanged at 1.6865 but quickly moved up to 1.6893. Thereafter it remained in a narrow range around 1.68 $\frac{1}{2}$, easing down in the afternoon to touch 1.6848 before closing at 1.6850. Three-month Euro-dollars shed $\frac{1}{4}$ % to close at 9 15/16% and sterling's forward premium was $\frac{3}{8}$ %.

The pound was little changed in either France (12.09 $\frac{1}{2}$) or Switzerland (3.69 $\frac{3}{8}$) but lost $\frac{1}{8}$ % in Germany (4.28 $\frac{3}{8}$). The dollar closed at 7.1765 in Paris, 2.1933 in Zurich and 2.5435 in Frankfurt. EMS narrowed to 2% but remained between the Belgian franc (49.15) and the guilder (2.7630), with the lira (1450.70) just below the latter but requiring support of \$202mn. This apart, the Belgians sold guilders worth \$14mn., while the French bought deutschemarks worth \$16mn. and the Irish bought \$12mn. The yen opened firmer on rumours of an increased swap facility with the Fed but had weakened by the end of the day to close at 276.10.

Gold was firm in the morning but fell back later as the US bond market weakened. Fixings were at \$422.25 and \$417.75.

Operations:	Market	+	\$1mn.
	Interest	+	8
	Government	-	5
	Sundries	-	2
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		+	\$2mn.
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TRS

US BOND AND MONEY MARKETS

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Federal Funds

Opening: $9\frac{1}{8}\%$
Range: $9\% - 9\frac{3}{4}\%$
Close: $9\frac{1}{2}\%$

US Governments (NY closing bids)

2-year: $99\frac{5}{8}$ (-) $9\frac{15}{16}\%$
5-year: $107\frac{1}{4}$ ($+\frac{1}{8}$) $10\frac{3}{4}\%$
10-year: 114 (-) $11\frac{5}{16}\%$
30-year: 124 ($-\frac{1}{2}$) $11\frac{3}{16}\%$

Euro-dollars (Today's opening
London bid)

7-day: $9\frac{5}{8}\%$
1-month: $9\frac{5}{8}\%$
3-months: 10%
6-months: $10\frac{3}{16}\%$

Federal Reserve Operations:

3-month Treasury Bills $7\frac{15}{16}\%$
3-month US bank CDs $9\frac{3}{8}\%$
Differential $1\frac{7}{16}\%$

Indicators

US trade deficit of \$4.2bn. in September (c.f. -\$7.1bn. in August).

Comment:

A rather thin and volatile day with the market tracking the Funds rate but essentially waiting for the refunding. Prices improved during the morning, fell in the afternoon as the Funds rate moved higher and improved following the refunding announcement.

The quarterly refunding was in line with market expectations:

\$6bn. 3-year notes auction - 3rd November
\$4bn. 10-year notes auction - 4th November
\$3bn. 30-year bonds auction - 9th November
\$13bn. of which \$8.4bn. is new cash.

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TRS