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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th November 1982

Once again the dollar soared to new highs on the exchanges today as the mid-term elections did not prove the turning point in its fortunes which some operators had apparently expected. Short dollar positions, taken in anticipation of sweeping Democratic gains which would lead to changes in economic policy, were hastily covered in rather volatile trading, while some sectors of the market seemed to become less confident of a cut in the discount rate tomorrow. Sterling suffered some sizeable selling during the morning and fell to another six-year low against the dollar. The base rate cuts were generally expected. The ERI fell 0.1 to 92.3.

As the dollar was bid up in New York last night sterling fell back to close there at 1.6735. This morning the rate opened at the high for the day of 1.6745 and gave ground steadily as the dollar moved towards new high levels in Europe. By mid-morning, when there was some sizeable selling by a UK oil company and some other commercial selling in London, the rate had fallen to 1.67 and it dipped to 1.6665 following the cut in Barclays base rate. However, as the dollar's advance temporarily ran out of steam, the rate settled thereafter to trade for most of the balance of the day around 1.66 $\frac{3}{4}$. With the US bond market improving cautiously in the afternoon, the dollar eased back from its best levels and sterling improved slightly to close at 1.6692. Later, as the IMM came in to buy dollars sterling slipped to a new six-year low of 1.6640. Three-month Euro-dollars closed 1/16% higher at 9 11/16% and sterling's forward premium was $\frac{3}{8}$ %.

The pound was marginally firmer in Europe, closing at 4.29 $\frac{1}{2}$ in Germany, 3.70 $\frac{3}{4}$ in Switzerland and 12.11 in France. The dollar gained $\frac{3}{8}$ % in these centres to close at 2.5715 in Frankfurt, 2.2207 in Zurich and 7.2550 (after a new high of 7.2662) in Paris. EMS widened slightly to 2 1/16% between the Belgian franc (49.81) and the guilder (2.7977). The Italians sold \$76mn. (the lira having set a new all-time low of 1476.15) while the French and the Danes bought deutschemarks worth \$49mn. and \$14mn. respectively. The yen slipped to a new five-year low of 278.75 before closing at 277.12.

In the face of the dollar's strength gold held up fairly well, fixing at \$426 and \$424.75.

Operations:	Interest	+	\$5mn.
	Sundries	+	2
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		+	\$7mn.
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4th November 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 4th November 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (-) 9 11/16%
5-year: 108 $\frac{7}{8}$ (+ $\frac{1}{8}$) 10 5/16%
10-year: 117 (-) 10 13/16%
30-year: 129 $\frac{1}{4}$ (+ $\frac{1}{4}$) 10 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 9 9/16%
1-month: 9 $\frac{1}{2}$ %
3-months: 9 $\frac{5}{8}$ %
6-months: 9 $\frac{3}{4}$ %

Federal Reserve Operations:

3-month Treasury Bills 7 11/16%
3-month US bank CDs 8 $\frac{7}{8}$ %
Differential 1 3/16%

Indicators

Comment:

A quiet day during which the market reacted primarily to the Funds rate and the auction results. After a firm start to the day the market gave ground around noon as the Funds rate moved higher and the Fed failed to appear. When Funds moved down again in the afternoon and optimism grew about the outcome of the 10-year auction the market improved, closing at its highs.

The new \$4bn. 10-year was auctioned at an average price of 10.50%.

5th November 1982.

TRS