

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th November 1982

Whether or not the Fed's discount rate is cut shortly, as many in the market expect, there is a growing contingent who believe that the dollar has at last turned down, and they were reinforced in their views today by very heavy demand for yen, particularly from institutional investors. Helped by the Bank of Japan, who provided vigorous assistance this morning in Tokyo, the yen strengthened by a further 2% today and again led the dollar lower against the other major currencies. In Europe, the Belgians took advantage of the easier dollar to cut interest rates by $\frac{1}{2}$ % but the Italians tightened exchange controls to reduce outflows. Sterling saw some reasonable two-way business but again, due to the strength of the yen, lost 0.1 in effective terms, the ERI closing at 91.6.

As the dollar eased in New York last night, sterling rose to close there at 1.6665. This morning the rate opened at 1.6630 and, having touched 1.6617 in early business, settled to trade around the opening level for most of the morning. Although there was some demand for sterling from US banks in London, the main feature of the morning was some selling against yen for investment purposes and at this time the pound failed to keep pace with the improvement shown by the other major currencies. However, when New York came in as buyers of sterling the rate moved ahead quite quickly, reaching 1.6685 at best in the early part of the afternoon. As the dollar recovered somewhat on profit-taking towards the end of the day, sterling drifted back to close at 1.6656. Three-month Euro-dollars closed unchanged at $9\frac{1}{4}$ % and sterling's forward premium was $\frac{1}{8}$ %.

The pound was unchanged in Europe closing at 4.28 $\frac{1}{2}$ in Germany, 12.10 $\frac{1}{4}$ in France and 3.68 $\frac{1}{2}$ in Switzerland. The dollar lost $\frac{1}{2}$ % in each of these centres to close at 2.5725, 7.2662 and 2.2127 respectively. In EMS, despite the $\frac{1}{2}$ % cut in their discount rate, the Belgian franc (49.84) improved to 2% from the guilder (2.8015). The French sold \$85mn., the Italians \$65mn. and the Belgians guilders worth \$17mn., while the Danes bought \$42mn. (of which \$39mn. was in deutschemarks). Elsewhere, the Swedes sold \$75mn. The Bank of Japan assisted the yen's upward passage by sales of \$240mn. in Tokyo this morning and it continued to strengthen in London in active trading, closing at 266.80.

Gold remained in a very narrow range, fixing at \$412 and \$411.

Operations:	Market	+	\$15mn.
	Interest	+	9
	C.Agents	+	8
	Sundries	+	4
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		+	\$36mn.
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10th November 1982.
TRS

US BOND AND MONEY MARKETS

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Federal Funds

Opening: 9 $\frac{1}{4}$ %
Range: 9 $\frac{1}{4}$ % - 10%
Close: 10%

US Governments (NY closing bids)

2-year: 100 (-) 9 $\frac{1}{4}$ %
5-year: 108 $\frac{1}{8}$ (- $\frac{1}{8}$) 10 7/16%
10-year: 99 $\frac{1}{2}$ (- $\frac{1}{8}$) 10 $\frac{1}{2}$ %
30-year: 99 $\frac{1}{8}$ (- $\frac{1}{8}$) 10 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 9 11/16%
1-month: 9 9/16%
3-months: 9 $\frac{3}{4}$ %
6-months: 9 $\frac{7}{8}$ %

Federal Reserve Operations:

Bought Treasury Bills with Fed Funds
at 10%.
Bought \$250mn. Treasury Bills for
a customer.

3-month Treasury Bills 8 $\frac{1}{4}$ %
3-month US bank CDs 9 $\frac{1}{8}$ %
Differential $\frac{7}{8}$ %

Indicators

Retail sales +0.6% in October (after revised +0.6% in September)

Comment:

The market opened little changed at most maturities, but with the long end around $\frac{1}{4}$ higher following the previous day's successful auction. Prices held steady through the morning and early afternoon in light trading, but the Fed's bill pass disappointed - the market had been hoping for a coupon pass - and prices declined to close at their lows.

11th November 1982.

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