

2/2-4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 15th November 1982

Sterling came under heavy pressure on the exchanges today, as the effects of the recent campaign in some sections of the press and industry for a lower exchange rate combined with less optimism about future declines in US interest rates to change investor sentiment. The selling was steady and widespread, covering both professional and commercial operators as well as portfolio investors. Although the pressure was contained with the aid of some official support, the pound fell over two cents before bottoming at another six-year low and at the the close it continued to look vulnerable. The ERI fell 1.0 to 90.3.

Having closed at 1.6557 in New York on Friday night, the pound opened at 1.6532 in London today. From the start, in an essentially rather quiet market, there was small scale selling from professionals in both Switzerland and Germany and the rate immediately began to give ground. The large London professional banks were soon active, too, in selling sterling in a market in which there were few buyers and, as the morning wore on, large commercial operators began to follow suit. Within an hour the rate had fallen a cent with the dollar unchanged elsewhere and the pace of the decline quickened with some Middle East holders also selling sterling. In mid-morning the rate bottomed at 1.63 and then recovered quickly to 1.6350 with the aid of some official assistance. However, another wave of selling commenced around this time, with a large holder of gilts switching out of sterling and the rate fell back again to touch a six-year low of 1.6285 shortly before noon. Although 1.63 was rumoured to be a chart point for the IMM, the afternoon was relatively quiet and the rate remained around 1.6325 in subdued trading, closing at that level. Three-month Euro-dollars closed 3/16% firmer at 10 1/8% and sterling's forward premium was 1 1/16%.

The pound fell sharply in Europe, losing 1 1/8% in Germany (4.23), 1% in Switzerland (3.63 1/2) and France (11.95). The dollar was steady in these centres, ending at 2.5912, 2.2267 and 7.3180. EMS narrowed to 2 1/16% between the Belgian franc (50.16) and the guilder (2.8161). The Belgians sold \$73mn. (of which \$8mn. was in deutschemarks and \$5mn. in guilders), the Italians also sold \$73mn. and the Irish \$21mn. The yen closed at 268.05, the Bank of Japan having sold \$28mn. in Tokyo this morning.

Gold was quiet, fixing at \$404.50 and \$403.25.

Operations:	Market	-	\$46mn.
	Iran	+	20
	Interest	+	6
	Sundries	+	6
			<hr/>
		-	\$14mn.
			<hr/>
	Overnight	-	\$36mn.
			<hr/>

15th November 1982.

TRS



US BOND AND MONEY MARKETS

Monday, 15th November 1982

Federal Funds

Opening:  $9\frac{5}{8}\%$   
Range:  $9\frac{1}{2}\% - 9\frac{3}{4}\%$   
Close:  $9\frac{5}{8}\%$

US Governments (NY closing bids)

2-year:  $99\frac{1}{2}$  ( $-\frac{1}{4}$ )  $10\%$   
5-year:  $107\frac{1}{4}$  ( $-\frac{5}{8}$ )  $10\frac{3}{4}\%$   
10-year:  $98\frac{1}{2}$  ( $-\frac{7}{8}$ )  $10\frac{3}{4}\%$   
30-year:  $97\frac{3}{4}$  ( $-1\frac{1}{2}$ )  $10\frac{5}{8}\%$

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Overnight repurchase agreement  
for system account with Fed Funds  
at  $9\frac{3}{4}\%$ . Stop rate  $9.42\%$ .

3-month Treasury Bills  $8\frac{1}{2}\%$   
3-month US bank CDs  $9\frac{1}{4}\%$   
Differential  $\frac{3}{4}\%$

Indicators

M1 +\$2.7bn.  
M2 +\$13.0bn. in October (a.r. 7%)

Comment:

The market opened  $\frac{1}{8}-\frac{1}{4}$  lower, and drifted further down through the morning in light trading. The temporary decline in the Funds rate to  $9\frac{1}{2}\%$  generated a small improvement to leave prices  $\frac{1}{8}-\frac{3}{8}$  lower prior to the money announcement. The money figures disappointed, with many in the market viewing M2 as too high to justify an immediate cut in the discount rate.

16th November 1982.

OP

o'