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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th November 1982

Sterling plunged further today in hectic trading as more commercial and institutional holders raced to follow the disinvestment path charted by the mainly professional operators of the past two days. There were no new factors to accelerate the exodus but press articles and statements by Government Ministers last week, implying relative unconcern at the prospect of a lower exchange rate, were adduced as reasons. In contrast to yesterday, most of the flow today seemed to be into deutschemarks rather than yen. Meanwhile, the dollar eased elsewhere as hopes for an early cut in the discount rate revived and longer term concerns about the future course of the US balance of payments also came to the surface. The result of these factors was a dramatic 1.6 fall in sterling's ERI to 87.8, its lowest level for over a year.

Sterling was under pressure in New York last night as the IMM came in as sellers. The rate closed there at 1.6145 after some moderate official support. Today sterling opened at the high for the day of 1.6165 and traded narrowly around 1.61½ in the first hour with little activity. Suddenly a wave of commercial sellers appeared from Italy and these were quickly joined by professional operators from Zurich, Paris and the Eastern Bloc. The rate began to fall sharply and the pace quickened as UK commercials also joined in. Although the rate was steadied at various points by some official support, it fell rapidly towards 1.60, bottoming for a while at 1.6010 in mid-morning. As the effects of the official demand and some professional buying at around this level impacted on the market there was some recovery to 1.6052 in the late morning but the respite proved temporary. Heavy selling by a Swiss bank on behalf of a UK portfolio investor precipitated another slide which carried the rate down to 1.5930 shortly before noon. Early New Yorkers were also sellers of sterling but fairly soon some demand appeared and the rate began a cautious recovery, despite the dollar's strength elsewhere. With some Middle East demand and the IMM as buyers, together with short covering of earlier sales by Europeans, the rate rose slowly to close at 1.6005. Three-month Euro-dollars fell ¼% to close at 9¾% and sterling's forward premium was ⅞%.

The pound fell particularly sharply against the European currencies today tumbling 2% in Germany (4.10½), 1½% in Switzerland (3.51½) and 1¾% in France (11.60¾). The dollar, after weakening in the morning, strengthened towards the end of the day, to end with losses of ⅜% in each of these centres at 2.5646, 2.1967 and 7.25 respectively. EMS narrowed to 2 1/16% between the Belgian franc (49.67) and the guilder (2.79). There was little intervention: the Danes bought \$60mn. (of which \$19mn. was in yen and \$3mn. in deutschemarks), while the Italians sold \$48mn. and the Irish \$7mn. Elsewhere, the Norwegians bought \$80mn. and the Swedes sold \$49mn. The yen was in less demand than on most recent days and closed at 262.80.

Gold was quiet and steady. Fixings were at \$412.60 and \$412.50.

Operations:	Market	-	\$141mn.
	Interest	+	8
	Crown Agents	+	5
	Sundries	+	4
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		-	\$124mn.
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17th November 1982.

TRS

US BOND AND MONEY MARKETS

Wednesday, 17th November 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (- $\frac{1}{8}$) 9 $\frac{7}{8}$ %
5-year: 107 $\frac{1}{4}$ (+ $\frac{1}{8}$) 10 $\frac{1}{2}$ %
10-year: 99 $\frac{1}{2}$ (+ $\frac{3}{8}$) 10 $\frac{5}{8}$ %
30-year: 98 $\frac{5}{8}$ (+ $\frac{1}{2}$) 10 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 9 11/16%
1-month: 9 $\frac{5}{8}$ %
3-months: 9 $\frac{7}{8}$ %
6-months: 10 1/16%

Federal Reserve Operations:

Bought \$200mn. Treasury Bills for
a customer.

3-month Treasury Bills 8 7/16%
3-month US bank CDs 9 $\frac{1}{8}$ %
Differential 11/16%

Indicators

Capacity utilisation 68.4 (-0.7)
Housing starts +1%

Comment:

The market opened $\frac{1}{4}$ - $\frac{1}{2}$ higher, in response to Funds at 9 $\frac{1}{8}$ % and a New York Times report of Volcker's speech in Boston (in today's Times), and moved higher until mid-morning. The higher levels encouraged profit-taking and prices drifted lower through the afternoon.

The new \$6 $\frac{3}{4}$ bn. two-year was auctioned at an average yield of 9.91%.

18th November 1982.

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