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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 8th December 1982

Diminishing hopes of an early cut in the US discount rate and, perhaps, the commencement of the normal end-year demand, caused the dollar to reverse dramatically its recent steady decline on the exchanges. Action by the Fed to drain liquidity from the domestic market in New York yesterday was primarily responsible for the change in expectations and, although the dollar opened little changed from last night's London closes, it strengthened steadily in Europe today. Sterling had a much more comfortable day, and the scale of selling was not comparable with that seen earlier in the week. The firmness of interbank sterling rates was an important factor in sterling's strength around the middle of the day and the absence of the rumoured increase in base rates was survived without too much difficulty. The ERI closed 0.4 higher at 86.2, after 86.5 at noon.

The dollar strengthened in New York last night following the Fed's intervention but sterling closed there unchanged at 1.6285. This morning the rate opened at 1.6286 but soon moved above 1.63 as the dollar eased further at first in Europe. The atmosphere was calmer than earlier in the week and some of the sellers of the past two days soon appeared to cover part of their sales. Although the rate touched 1.6290 during the first hour of the morning as the dollar began to strengthen elsewhere, sterling traded generally with a firmer tone. As yesterday, there was some sizeable official demand from Europe and as sterling interbank rates tightened and rumours of base rate increases spread through the market, the rate rose despite the dollar's strength in other centres. In mid-morning sterling reached 1.6387 but it had relapsed to 1.6346 by noon. The absence of any increase in base rates, together with some easing in interbank rates during the afternoon, caused some disappointment but the US were modest buyers of sterling and, with the dollar strengthening further in Europe on an unexciting performance by the US bond market, sterling held most of its gains on the Continent, although it fell back against the dollar. By the close the rate had drifted down to 1.6253. Three-month Euro-dollars were 1/16% firmer at 9 3/8% and sterling's forward discount widened to 1 1/8%.

The pound recovered some of its losses of the past few days in Europe, closing 1% firmer in Germany, Switzerland and France, at 3.97 1/2, 3.37 1/2 and 11.25. The dollar rose 1 1/2% in these centres to close at 2.4435, 2.0752 and 6.9225 respectively. In EMS, the guilder (2.6027) regained top place, 2 3/16% above the Belgian franc (47.83). The Belgians sold guilders worth \$2mn. and \$21mn.; the Dutch bought Belgian francs worth \$52mn. The Irish sold \$4mn. The yen eased to 243.05.

Some profit-taking, together with selling from Eastern Europe, brought gold back from yesterday's levels as the dollar strengthened. Fixings were at \$449.25 and \$445.

Operations:	Market (net)	-	\$16mn.
	Interest	+	7
	Iran	+	6
	IDA	+	5

+ \$2mn.

8th December 1982.

TRS

Overnight	-	\$48mn.
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US BOND AND MONEY MARKETS

Wednesday, 8th December 1982

Federal Funds

Opening: 8 1/2%
Range: 8 3/8% - 9%
Close: 8 3/4%

US Governments (NY closing bids)

2-year: 100 1/8 (- 3/16) 9 7/8%
5-year: 99 1/8 (- 3/8) 10 3/8%
10-year: 99 3/8 (- 3/4) 10 5/8%
30-year: 98 1/4 (- 1) 10 5/8%

Euro-dollars (Today's opening
London bid)

7-day: 8 13/16
1-month: 9 3/16
3-months: 9 3/8
6-months: 9 5/8

Federal Reserve Operations:

Bought \$375mn. Treasury Bills for a
customer

3-month Treasury Bills 8%
3-month US bank CDs 8 5/8%
Differential 5/8%

Indicators

Comment:

The market moved down throughout the day in fairly light activity, as hopes for an early reduction in the discount rate receded, and worries about the size of the government deficit still to be financed in 1982 increased.

The Treasury announced plans to auction \$7bn. 2-year on 15th December and \$5bn. 4-year on 16th December. A 7-year note is scheduled to be auctioned on 21st December and a 20-year note on 22nd December.

9th December 1982

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