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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th December 1982

Although the increase in US money supply announced on Friday night (M1 +\$1.8bn.) was below most market forecasts, Euro-dollar rates firmed further and the dollar strengthened under the influence of end-year considerations. Another weekend safely over, tension in EMS disappeared and the band narrowed sharply. Sterling was in good commercial and official demand and although it fell back against the dollar, it remained steady in Europe. The ERI closed 0.2 lower at 85.9.

Sterling lost ground in New York on Friday night to close there at 1.6120. This morning there was some early pressure in the Far East and the rate opened in London at 1.6107 against an unchanged dollar. However, the dollar soon began to strengthen in Europe and, after touching 1.6115, the rate fell back to trade around 1.6080 for most of the morning. With some good buying on oil company account and, as on some days last week, further official demand for sterling, the rate improved modestly against the major Continental currencies. The entry of New York, who were again bidding for dollars, saw some selling of sterling from the IMM and a further strengthening of the dollar. The pressure, however, proved short-lived and although the rate dipped to 1.6035 in the afternoon, it closed relatively comfortably, at 1.6045. Three-month Euro-dollars were 3/16% firmer at 9½% and sterling's forward discount was 13/16%.

The pound was steady in most of Europe, closing at 3.96½ in Germany and 11.23½ in France, but it gained ¾% to 3.38½ in Switzerland. The dollar gained ¾% in each of these centres to end at 2.47, 7.0025 and 2.1097 respectively. EMS narrowed to 1½% between the Belgian franc (40.33) and the guilder (2.7227). The French sold \$54mn. in New York on Friday night and \$57mn. today (of which \$20mn. was in deutschemarks) and the Germans sold \$27mn. The yen eased to 246.50.

Gold remained firm despite the dollar's strength, fixing at \$438½ both morning and afternoon.

Operations:	Market	-	\$40mn.
	Germany	+	27
	Iraq	+	8
	Sundries	+	9
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		+	\$4mn.
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13th December 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 13th December 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$ (+ $\frac{5}{8}$) 9 $\frac{1}{2}$ %
5-year: 100 (+1) 10 $\frac{1}{8}$ %
10-year: 100 $\frac{7}{8}$ (+1 $\frac{5}{8}$) 10 $\frac{3}{8}$ %
30-year: 100 (+2 $\frac{1}{8}$) 10 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Three-day repurchase agreement for
system account with Fed Funds at
9%. Stop rate 8.66%.

Discount rate reduced from 9% to
8 $\frac{1}{2}$ %.

3-month Treasury Bills 7 $\frac{3}{4}$ %

3-month US bank CDs 8 $\frac{1}{2}$ %

Differential $\frac{3}{4}$ %

Indicators

Comment:

The market rose slowly through the day in light activity, gaining support from the Fed's three-day repurchase agreement. The unexpected cut in the discount rate moved prices sharply higher in late trading.

14th December 1982.

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