

FE 2/24.

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th April 1982

The departure of Her Majesty's fleet from home shores and the subsequent departure of the Foreign Secretary from office were both occasions for nervous selling of sterling, the one in the first hour of London's day, the other in the first of New York's. A careful official presence ensured that the pound was not wanting for a friend but it fell nonetheless to its lowest level for eight months against the dollar, which itself derived renewed strength from sterling's weakness. The ERI dropped from 91.0 to 90.3.

The pound closed at 1.7890 on Friday in New York, where the dollar was a little softer following a sharp decline in Federal Funds (from 16½% to 14½%) and announcement of a \$3bn. reduction in M1. This morning sterling opened at 1.7790 and quickly encountered selling from Far Eastern and European professionals, trading down to 1.7705 before the impact of the official cushion encouraged some cheap buying. The pound recovered to 1.7763 and spent the rest of the morning relatively comfortably around 1.7750. Early this afternoon, with the dollar already firmer against the return of New York, confirmation of the resignation of the Foreign Secretary brought sterling under renewed pressure. The day's first hour was replayed in New York as pounds were traded down to 1.7674 before the official hand induced a recovery to around 1.77. A late surge in the dollar, however, drove sterling back to 1.7665, its lowest level since last August, before closing at 1.7683. Three-month Euro-dollars (15½%) lost 1/16% but comparable sterling (13½%) was firmer by ¼%. The forward premium narrowed by only ½% to 1 15/16% p.a. so that sterling re-established a modest intrinsic premium.

The pound fell ½% in Switzerland (3.45½) and Germany (4.26½) and lost ¼% to the recuperant French franc (11.08½). The deutschemark fell to 2.4103 (after 2.4130). The Swiss franc eased to 1.9525 (after 1.9550) but was held at 0.91 to the deutschemark. The Swiss swapped in \$230mn., while perhaps running off other maturities. The French franc (6.27) closed at the day's low on the dollar and well below its best against the deutschemark. EMS widened late in the day to 2½% between the deutschemark and Belgian franc (45.50). The Irish bought \$6mn. Elsewhere the Norwegians took in \$30mn. (forward). The yen weakened, again without official support, to 248.57.

Gold was bid up by \$10 early this morning in response to the deterioration in relations between the United Kingdom and Argentina. Having failed to breach \$340, however, the metal retreated as sterling recovered and was fixed at \$336. A second unsuccessful tilt at \$340 preceded the later fixing at \$337.50 and a final rally was cut short by the dollar's closing advance.

Operations:	Market	-	\$64mn.
	Interest	+	10
	Sundries	-	1
			<hr/>
		-	\$55mn.
			<hr/> <hr/>

5th April 1982.

JGH

US BOND AND MONEY MARKETS

Monday, 5th April 1982

Federal Funds

Opening: 14 $\frac{1}{4}$ %
Range: 14 $\frac{1}{4}$ % - 14 $\frac{3}{4}$ %
Close: 14 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 99 9/16 (-) 14 $\frac{3}{8}$ %
5-year: 99 5/16 (-1/16) 14 3/16%
10-year: 102 9/16 (-3/16) 14 $\frac{1}{8}$ %
30-year: 102 $\frac{3}{8}$ (- $\frac{1}{2}$) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{8}$ %
1-month: 15 $\frac{1}{4}$ %
3-months: 15 5/16%
6-months: 15 5/16%

Federal Reserve Operations:

Indicators

Comment:

The bond market responded positively to the lower Funds rate and witnessed light professional short-covering throughout the morning. Shorts gained $\frac{1}{4}$ point and the long bond regained all and more of an opening $\frac{1}{2}$ point mark-down. In the afternoon, however, a slightly higher Funds rate induced profit-taking and the gains were largely erased.

JGH
6th April 1982.

JGH