FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th April 1982

Sterling had another wretched day as fears for the survival of the Government itself provoked further widespread selling. The pound lost another two cents to the dollar, falling to its lowest level for nearly five years. As often, each successive new low point seemed to excite fresh stop-loss selling. The ERI fell by 1% on the day from 90.3 to 89.4.

The pound enjoyed a brief technical recovery to 1.7735 in New York yesterday before closing there little changed at 1.7660. There was no further selling pressure. This morning, however, Far Eastern operators again launched a vigorous attack, Hong Kong, at least, reopening for the first time since the weekend. Sterling opened in London at 1.7615 and touched 1.7590 on the early exchanges before recovering to 1.7623. Early European sellers included commercial names and the presence of these for the first time in any size intensified the pressure on the pound. The rate fell to 1.7550 by mid-morning before steadying. Further selling in advance of New York's return took sterling back to around 1.75. The afternoon session was restricted in volume by heavy snow on the East Coast and mid-West of the United States. Nonetheless, the pound fell to 1.7470 late in the day before closing at 1.7490. The forward premium narrowed sharply to 1 5/16% p.a. as three-month sterling deposits firmed by ⅜% to 14%. Comparable Euro-dollars eased by 1/16% to 15 5/16% and interest parity prevailed on the covered comparison.

The pound lost 1% to the deutschemark (4.22¼) and 1⅛% to the French franc (10.96⅞) but only ¼% to the Swiss franc (3.44⅜). The last of these remained relatively weak falling to 1.9690 (later 1.9722) against the dollar and 0.81 9/16 to the deutschemark. Swiss banks again reduced deposit rates. The Swiss National Bank did not intervene. The deutschemark eased to 2.4141. The Bundesbank sold $30mn. early this morning but did nothing further. The Belgian franc (45.56) closed 2 1/16% below the deutschemark in EMS. The Belgians did not intervene but the Italians sold $95mn., the Danes $45mn., and the French $47mn. and $10mn.-worth of deutschemarks. The Bank of Japan sold $50mn. in New York yesterday and $240mn. in Tokyo this morning. The yen closed there at 248.90. This afternoon it strengthened sharply to 247 before retreating again to close at 247.62.

Gold was again an active and volatile market with New York's futures market still extremely oversold and prone to sudden short-covering. That market ran the metal up by $10 to $347 yesterday before profit-taking in the Far East brought the price back to $342.50 in London early this morning. The renewed pressure on sterling carried gold nervously higher to fix at $346.25 and the market moved narrowly until the later fixing set a level of $345.50. Soon after, gold was trading around $350 and moments later another quantum leap saw business at $358.50. The close was around $354.

Operations:	Market	-	$151mn.
	Ghana	-	14
	National Coal Board (PSB G'teed)	+	90
	Iraq	+	26
	Iran	+	7
	Sundries	+	5
		-	$37mn.

6th April 1982.

JGH

Jgh

US BOND AND MONEY MARKETS

Tuesday, 6th April 1982

Federal Funds

Opening:	14⅜%
Range:	13¾% - 14⅜%
Close:	14%

Euro-dollars (Today's opening London bid)

7-day:	15%
1-month:	15 5/16%
3-months:	15⅜%
6-months:	15⅜

US Governments (NY closing bids)

2-year:	99 7/16	(-⅛)	14 7/16%
5-year:	99 1/16	(-¼)	14¼%
10-year:	102 5/16	(-¼)	14 3/16%
30-year:	102	(-⅜)	13¾%

Federal Reserve Operations:

Two-day matched sales with Funds at 14%. Stop rate 14.30%.

Indicators

Comment:

The market closed officially at 2 p.m. (EST) due to heavy snow in New York. With dealers thin on the ground, however, the market was sluggish and professionals tended to lighten positions ahead of the long weekend. The market did not respond to the lower Funds rate - which was due largely to an excess of float on account of the bad weather - nor to the Fed's operation which was designed to offset the technical surplus.

7th April 1982.

JGH

Jgh