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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th April 1982

Sterling had a much better day. With American and Far Eastern markets quiet, Europe produced cheap commercial buyers and some professional short-covering. Signs of increasing diplomatic attempts to settle the dispute over the Falkland Islands helped to improve the tone. The yen, like sterling, scored a sharp gain. The dollar was otherwise a touch easier but pressures re-emerged within EMS. Sterling's ERI rose from 89.4 to 90.0.

The pound closed at 1.7500 yesterday in New York where any serious activity was curtailed by the snowfall. Far Eastern markets were strangely quiet and the pound opened in London at 1.7510. The opening exchanges, too, saw little activity but a fair-sized French commercial buyer eventually drove the rate up to 1.7565 before sellers appeared. A large professional in London gave a fair wind to the pound and he drew in other professional and commercial buyers from Continental Europe. The pound crested 1.76 before pausing for breath and, with the official fireman fanning the flames, traded on up to 1.7650 before one or two commercial sellers induced some profit-taking amongst the professionals. Sterling settled near to 1.76 and fluctuated narrowly around that level until New York returned. Americans did not disturb the calm. One large Swiss seller of pounds was confidently absorbed in London. Late in the day news of the initiative by the US Secretary of State in the Falklands dispute pushed the pound up to 1.7650 before closing comfortably at 1.7645. Three-month Euro-dollars (15 7/16%) were firmer by ⅛%, sterling deposits (13⅝%) easier by ⅜%. The forward premium widened by 9/16% to 1⅞% p.a. and a small covered differential opened up in London's favour.

The pound restored most of yesterday's losses, advancing by ½% in Switzerland (3.46⅛), ¾% in Germany (4.25¼) and 1% in France (11.08½). The deutschemark firmed slightly to 2.4101 (but this after 2.4061): the dollar remained reluctant to yield, reflecting the uncertain mood of the bond market. Traders are not disposed to go into the long weekend (and a highly unpredictable money supply out-turn) either short of dollars or long of bonds. The Swiss franc improved against both the dollar (1.9615) and deutschemark (0.81⅜), the Swiss swapping in $150mn. The French franc (6.2820), however, came under renewed speculative pressure and fell to 2.60⅝ on the deutschemark. The French sold $99mn.-worth of deutschemarks and $80mn. $80mn., too, was spent by the Italians, while the Danes sold $15mn. The Belgians lost only $13mn.-worth of deutschemarks but raised Discount Rate by 1% to 14% and Lombard Rate by 1½% to 15%. Their franc (45.51) closed 2⅛% adrift of the deutschemark at the foot of EMS. The yen improved sharply, without further support, to 245.82.

Gold touched $360 in New York yesterday and, while failing to breach that level yet remained comparatively firm. Fixings were $356.75 and $354.

Operations:	Market	-	$34mn.
	IMF Oil Facility	-	36
	Iraq	+	18
	Interest	+	12
	Sundries	+	1
		-	$39mn.

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7th April 1982.
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US BOND AND MONEY MARKETS

Wednesday, 7th April 1982

Federal Funds

Opening:	13½%
Range:	13⅜% - 14¾%
Close:	14½%

US Governments (NY closing bids)

2-year:	99 7/16	(-)	14 7/16%
5-year:	99 3/16	(+⅛)	14 3/16%
10-year:	102⅜	(+1/16)	14 3/16%
30-year:	102¼	(+¼)	13 11/16%

Euro-dollars (Today's opening London bid)

7-day:	15%
1-month:	15 7/16%
3-months:	15½%
6-months:	15 9/16%

Federal Reserve Operations:

1. Overnight matched sales with Fed Funds at 13⅜%. Stop Rate 13.56%.
2. Purchase of $300mn. Treasury Bills for Customer account with Fed Funds at 14½%.

Indicators

Comment:

The market remained lethargic and inclined to drift lower for choice - especially in the short end - as the street continued to lighten their positions. All this continued in the face of a surprisingly low Funds rate and modest Central Bank buying from Europe, the Middle East and Far East. Dealers remain wary of Friday's money supply announcement (-$2bn. to +$3bn. covers all expectations; no change to +$1bn. covers most) and the following week's bulge and depressed by the continuing debate over the budget deficit and the ever-escalating forecasts. After the Fed's intervention Funds moved sharply higher. Nonetheless there was sufficient short-covering towards the close to erase any losses on the day.

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8th April 1982.

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