

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th April 1982

Sterling met with another active session, falling prey again to every whiff of rumour on the situation over the Falklands. The dollar meanwhile turned very much firmer once more as short-term interest rates tightened and fears of excessive monetary growth and fiscal disorder took priority over more evident signs of recession. Sterling's ERI fell from 90.2 to 89.9.

The pound closed unchanged at 1.7655 in New York yesterday. This morning it opened easier against both the dollar (1.7598), which was generally firmer, and deutschemark (4.25 $\frac{1}{2}$ ). The morning session saw active two-way business but sellers were predominant, from the Middle East especially. The pound traded down to 1.7552 but had bounced back to 1.7615 by late morning. Early this afternoon, stories that Argentine ships were heading for the Falklands saw sterling sold down to 1.7525 but it recovered eventually to close at 1.7555. Later still, short-covering in New York saw sterling crest 1.76 again. The three-months' premium was 1 $\frac{1}{2}$ % p.a., Euro-dollars gaining 1/16% to 15 9/16% and sterling deposits hardening by 3/16% to 13 15/16%. The covered differential was  $\frac{1}{4}$ % in London's favour.

The pound lost  $\frac{1}{4}$ % in both France (11.06 $\frac{1}{2}$ %) and Germany (4.25 $\frac{1}{2}$ %) but gained  $\frac{1}{4}$ % in Switzerland (3.46 $\frac{1}{2}$ %). The dollar firmed in these countries to 6.3050, 2.4244 and 1.9742 respectively. EMS closed almost fully-stretched between the deutschemark and Belgian franc (45.83). The Belgians sold a cocktail worth \$67mn. The Italians spent \$59mn. Elsewhere the Swedes sold \$41mn. and the Japanese spent \$107mn. in Tokyo. The yen eased to 248.32. The dollar set a record high in Italy (1333.25), a 50-year high in Sweden (5.9815) and a 10-year high in Belgium (45.83).

Gold traded around \$370 in New York yesterday but failed to breach that level and reacted today in consequence as the cost of carry rose. Fixings were \$362.50 and \$363.25.

Operations:	Market	-	\$54mn.
	EEC	-	53
	India	+	9
	Sundries	+	6
			<hr/>
		-	\$92mn.
			<hr/>
	Overnight	+	\$7mn.
			<hr/>

15th April 1982.

JGH

US BOND AND MONEY MARKETS

Thursday, 15th April 1982

Federal Funds

Opening: 15 $\frac{3}{4}$ %  
Range: 15 $\frac{5}{8}$ % - 15 $\frac{7}{8}$ %  
Close: 15 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{5}{8}$  (-) 14 5/16%  
5-year: 100 (+ $\frac{1}{8}$ ) 14%  
10-year: 104 (+ $\frac{3}{8}$ ) 13 $\frac{7}{8}$ %  
30-year: 105 $\frac{1}{8}$  (+ $\frac{5}{8}$ ) 13 5/16%

Euro-dollars (Today's opening  
London bid)

7-day: 15 $\frac{5}{8}$ %  
1-month: 15 $\frac{1}{2}$ %  
3-months: 15 7/16%  
6-months: 15 7/16%

Federal Reserve Operations:

Four-day repurchase agreements for  
system account with Fed Funds at  
15 $\frac{3}{4}$ %. Stop rate 15.32%.

Indicators

US industrial production in March -0.8% (c.f. +1.2% in  
February, revised from +1.6%).

Comment:

With Funds higher than expected at 15 $\frac{3}{4}$ %, the market opened on a weak note. There was little reaction to industrial production and prices moved in a narrow range during the morning in quiet trading. The completion of a large purchasing programme of long paper by a state agency and the Fed action both helped the market in the afternoon when there was some retail buying. The short end, however, remained depressed by the high Funds rate. The market closed at its highs.

16th April 1982.

TRS