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SECRET

THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th April 1982

A surprisingly quiet and stable day on the exchanges. Although the \$7.lbn. increase in US money supply announced on Friday night exceeded all but the most pessimistic estimates, the market was relieved to have passed the week containing the bulge caused by social security payments and the dollar opened rather easier. After a quiet morning, it softened further during the afternoon helped by a strong performance from the US bond market and a Fed Funds rate below 15%. With no progress over the weekend in Mr. Haig's peace mission, sterling opened unchanged against an easier dollar and was extremely stable thereafter. Throughout the day the ERI was steady at 89.9, down 0.4 from Friday.

Rumours of a settlement of the Falklands issue late on Friday in London failed to be substantiated during the New York afternoon and sterling fell back against an easier dollar to close at 1.7615. This morning the rate opened at 1.7610 and traded narrowly either side of this level, touching 1.7584 at the low and 1.7620 at best. Some modest two-way business was seen but the market was generally featureless. The rate closed at 1.7618. After the close a report from a member of the Argentine Junta that a settlement on the Falklands might be in sight caused some strong short-covering demand for sterling to develop in New York and the rate was quoted up to 1.7720. Three-month Euro-dollars closed $\frac{3}{8}\%$ lower at 15 $\frac{3}{8}\%$. With sterling inter-bank rates 3/16% firmer at 14 1/16%, sterling's forward premium narrowed to 1 $\frac{5}{8}\%$ and the covered differential in favour of London widened to 5/16%.

Sterling lost about $\frac{1}{2}\%$ on the Continent, closing at 4.25 $\frac{1}{2}$ in Germany, 3.46 in Switzerland and 11.05 $\frac{1}{2}$ in France. After remaining very steady throughout the morning, the dollar, too, ended weaker in these centres, as the bond market rally commenced, closing at 2.4140, 1.9640 and 6.2750 respectively. With another weekend safely passed, pressure on the Belgian franc (45.56) abated and it closed only 2 1/16% below the deutschemark in EMS. The Italians tightened exchange controls and the lira (1328.62) improved to less than 2% below the deutschemark within the arrangement. There was no intervention in EMS but the Swedes sold \$65mn. On the back of good Far East demand, the yen improved sharply, closing at 245.77 in London.

Despite the opening of the London Gold Futures Market, gold was rather quiet and the fixings, at \$356.75 and \$357, were swift. Later, as hopes for a Falklands settlement rose, the price fell back through \$350 to \$348.

Operations:	Market	+ \$34mn.
	Nigeria	+ 50
	Iran	+ 10
	Interest	+ 10
	IDA	+ 9
	Sundries	- 1

+ \$112mn.

Overnight + \$9mn.

19th April 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 19th April 1982

Federal Funds

Opening: 15%
Range: 14½% - 15%
Close: 14¾%

US Governments (NY closing bids)

2-year: 100 (+¾) 14¾%
5-year: 100¾ (+½) 13¾%
10-year: 105½ (+1) 13¾%
30-year: 106¾ (+1½) 13¾%

Euro-dollars (Today's opening
London bid)

7-day: 15¾%
1-month: 15¾%
3-months: 15¾%
6-months: 15¾%

Federal Reserve Operations:

Three-day repurchase agreements
for system account with Fed Funds
at 14¾%. Stop rate 14.28%.

Indicators

Comment:

The size of the bulge in money supply now known, the market opened up strongly this morning, the long bond showing a gain of a point from Friday. When there was no retail buying, prices surrendered about half their gains and the market then quietened down. In the late morning, however, some retail demand appeared and encouraged by the Fed action and a falling Funds rate the market moved ahead, closing near its highs.

20th April 1982.

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