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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

~~TUESDAY~~
Thursday, 20th April 1982

Yesterday afternoon's optimism over a settlement of the Falklands issue did not last overnight. Although again steady within a narrow range throughout the day, sterling was a nervous market and the rate fell in late business. Meanwhile, the dollar weakened as US interest rates fell following a strong performance by the bond market and improving hopes of a compromise by the administration on the budget deficit issue. Sterling's ERI slipped 0.1 to 89.8.

As the latest rumour that the Falklands dispute would shortly be settled ran its course in New York last night, sterling was traded up to 1.7750 before closing at 1.7725 against a generally easier dollar. This morning the atmosphere had changed and after opening at the same rate and touching 1.7735 in early business, some modest professional selling from Europe took sterling back to the 1.77 level. With the dollar tending to ease elsewhere, sterling remained very stable, moving only to 1.7683 at the low before returning to 1.77 at noon. During a quiet afternoon, on the back of some small commercial demand, sterling rose to 1.7728 and closed at 1.7710. After the close, following the Prime Minister's statement to the House that the Government had rejected the Argentine settlement terms, some nervous selling of sterling developed from New York and the rate fell to 1.7637. Three-month Euro-dollars shed $\frac{3}{8}\%$ to 15%. With sterling inter-bank rates comparably lower, at 13 $\frac{11}{16}\%$, the forward premium and the covered differential were both unchanged at $\frac{1}{8}\%$ and $\frac{5}{16}\%$ respectively.

Sterling was rather mixed on the Continent, easing $\frac{1}{4}\%$ in Germany (4.24 $\frac{1}{2}$) and Switzerland (3.45 $\frac{1}{2}$) but was a little firmer in France (11.06 $\frac{1}{2}$). The dollar was sharply weaker in the first two centres, at 2.3954 and 1.9492 but lost less ground in Paris (6.2490) where the franc was relatively soft following a 1% reduction, to 16%, in the Bank of France's intervention rate. EMS widened to 2 $\frac{3}{16}\%$ between the Belgian franc (45.26) and the deutschemark. The only intervention was by the Italians who, despite the weekend's exchange control measures, spent a further \$152mn. Elsewhere, the Swedes sold \$7mn. and the Norwegians bought \$16mn. The yen continued yesterday's improvement, gaining over 1% to close at 242.65.

After touching \$336 in New York last night when Falklands peace hopes were at their zenith, the gold price recovered to \$345.75 at the morning fixing in London. The second fixing was at \$343 and by the close the price seemed to be heading lower.

Operations:	Market	-	\$18mn.
	Ireland	+	53
	Iran	+	11
	Sundries	+	5
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		+	\$51mn.
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20th April 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 20th April 1982

Federal Funds

Opening: 14½%
Range: 14⅞% - 14½%
Close: 14⅞%

US Governments (NY closing bids)

2-year: 100⅞ (+⅞) 14%
5-year: 100⅞ (+⅞) 13 11/16%
10-year: 105¼ (+⅞) 13⅝%
30-year: 106½ (-¼) 13⅞%

Euro-dollars (Today's opening
London bid)

7-day: 14⅞%
1-month: 14 15/16%
3-months: 14 15/16%
6-months: 14 15/16%

Federal Reserve Operations:

\$1bn. repurchase agreements for
customer account with Fed Funds
at 14⅞%. Stop rate 14.05%.

Indicators

US personal income rose 0.4% in March (c.f. +0.6% in
February).

Comment:

The market opened firm but after an attempt to resume Monday's rally was subject to profit-taking by retail and the long bond shed ¼ of a point. Thereafter the market was quiet, with little reaction to the Fed activity. However, Funds continued to move lower during the afternoon and when President Reagan said he might be receptive to a budget compromise, a sharp rally commenced which took prices back to the highs of the day. The market closed on a firm note.

21st April 1982.

TRS