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SECRET

£1.7745

90.1 PER

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st April 1982

Although uneasy at times during the morning as the market continued to weigh up the consequences of Haig's distilled peace proposals going on the rocks in favour of Pym's number one solution, as yet undetailed, the pound suffered more from a passive buying interest than active selling. By the afternoon some confidence was restored and at the close the ERI had recovered to 89.9 (after an unpublished 89.7). There was a sharp improvement on the later announcement that no military war would be started while the diplomatic war of words was being waged but this was short-lived. Meanwhile the dollar had moved lower during the day as US interest rates softened further.

In New York last night sterling recovered to close at 1.7703. It opened today at 1.7671 and required a steadying hand as it failed to keep pace with the movement against the dollar which was taking place on the Continent. It eased one point only and then crept back through 1.77, peaking at 1.7726 immediately after noon and closing at 1.7720. The first news from Whitehall about diplomacy edging out militancy saw the pound at 1.7757 but Pym's later clarification brought a turn down towards the London closing rate. Euro-dollars eased by  $\frac{1}{2}\%$  whilst interbank sterling edged up  $\frac{1}{16}\%$ ; the covered premium for London is  $\frac{1}{2}\%$  p.a.

The pound was little changed in Germany (4.24 $\frac{1}{2}$ ) at the close but had picked up ground in France (11.07 $\frac{1}{2}$ ) and Switzerland (3.46 $\frac{1}{2}$ ). The French franc was in particular difficulty again: after receiving \$37mn. of support in New York last night it opened today at 6.26 $\frac{1}{2}$  in Europe; a further \$141mn. was spent and the franc ended at 6.2515. EMS narrowed a touch, to 2 $\frac{1}{2}\%$  wide, with the lira (1320.10), which received no support, minimally weaker than the Belgian franc (45.21) at the bottom. The deutschemark was in good demand from Switzerland and improved from an opening level of 2.3995 to 2.3948, remaining top of EMS on a divergence indicator of -75. The Swiss franc improved to 1.9420 this morning but weakened again on the latest cut in commercial bank deposit rates, to close at 1.9560. The yen was little changed at 242.55.

Gold was steady and quiet, fixing at \$346.60 and \$346.75. In New York it eased subsequently to \$342.75.

Operations:	Market	-	\$3mn.
	IDA	+	9
	Iraq	+	9
	Sundries	+	7
			<hr/>
			+ \$22mn.
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	Overnight	+	\$30mn.
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21st April 1982.

DAHB

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US BOND AND MONEY MARKETS

Wednesday, 21st April 1982

Federal Funds

Opening: 14%  
Range: 13 $\frac{5}{8}$ % - 18%  
Close: 18%

US Governments (NY closing bids)

2-year: 100 (- $\frac{1}{8}$ ) 14 $\frac{1}{8}$ %  
5-year: 100 $\frac{3}{4}$  (- $\frac{1}{8}$ ) 13 13/16%  
10-year: 104 $\frac{7}{8}$  (- $\frac{3}{8}$ ) 13 11/16%  
30-year: 105 $\frac{7}{8}$  (- $\frac{5}{8}$ ) 13 3/16%

Euro-dollars (Today's opening  
London bid)

7-day: 14 $\frac{3}{4}$ %  
1-month: 14 15/16%  
3-months: 14 15/16%  
6-months: 14 15/16%

Federal Reserve Operations:

Overnight repurchase agreements for  
system account with Fed Funds at  
13 $\frac{7}{8}$ %. Stop rate 13.25%.

Bought \$650mn. Treasury Bills for a  
customer.

Indicators

US GNP in first quarter -3.9%.

US durable goods in March +1.9% (c.f. February +3.5%,  
revised from +1.5%).

Comment:

An extremely volatile day. The market opened firm and rose in the early going, with Funds at 14%. The decline in GNP was less than expected and the market eased back for the balance of the morning. The Fed activity was not anticipated and was interpreted constructively by some operators, so the market raced ahead again. However, the durable goods indicator, which showed more strength than expected, prompted a reassessment of the Fed activity and there was heavy selling which took the long bond nearly 1 $\frac{1}{2}$  points below Tuesday's closes. Short-covering enabled the losses to be trimmed by the end of the day.

The new \$5.25bn. two-year was auctioned at an average of 13.98%.

21st April 1982.

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