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THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd April 1982

Signs of recovery in the US economy, in the form of a sharp rise in orders for durable goods, cut short a strong US bond market performance yesterday and made for a generally firmer dollar today with only sterling resisting the advance. In a very quiet market, with no developments on the Falklands front, the pound enjoyed a comfortable day. The ERI rose 0.3 to 90.2.

Sterling saw some strong demand last night from the IMM and the Chicago banks, as short-covering orders were triggered when the rate approached 1.78. After touching 1.7825 at best, it closed at 1.7785 against an otherwise unchanged dollar. This morning, with the dollar firmer on the back of higher Euro-dollar rates, sterling opened at 1.7735 and traded quietly between there and 1.7765, closing at 1.7760. Little business was seen. Three-month Euro-dollars rose $\frac{1}{8}\%$, to 15%, and sterling's forward premium widened to 1 9/16%, leaving the covered differential $\frac{1}{4}\%$ in favour of London.

Sterling gained $\frac{3}{8}\%$ against a weak Swiss franc (3.49 $\frac{1}{2}$) and $\frac{3}{8}\%$ against both the deutschemark (4.26 $\frac{1}{8}$) and the French franc (11.11 $\frac{1}{8}$). The dollar, too, was stronger in all these centres, closing at 1.9676, 2.3990 and 6.2590 respectively. The Belgian franc (45.30) reverted to its normal position at the bottom of EMS, 2 $\frac{1}{8}\%$ below the deutschemark. The Bank of France continued to provide support for the franc, selling \$255mn., but it closed only $\frac{3}{8}\%$ from the foot of the band. The Italians sold \$125mn. The yen closed at 242.91.

Gold was quiet and steady. Fixings were at \$344.75 and \$345.

Operations:	Market	+	\$16mn.
	BIS	+	28
	India	+	9
	IDA	+	5
	Bangladesh	-	21
	Sundries	+	2
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		+	\$39mn.
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22nd April 1982.

TRS

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US BOND AND MONEY MARKETS

Thursday, 22nd April 1982

Federal Funds

Opening: 14 $\frac{3}{4}$ %
Range: 14 $\frac{1}{2}$ % - 15 $\frac{1}{4}$ %
Close: 15%

US Governments (NY closing bids)

2-year: 99 $\frac{3}{4}$ (+ $\frac{1}{8}$) 14 1/16%
5-year: 100 $\frac{7}{8}$ (+ $\frac{1}{8}$) 13 $\frac{3}{4}$ %
10-year: 105 $\frac{1}{8}$ (+ $\frac{1}{4}$) 13 11/16%
30-year: 106 $\frac{1}{4}$ (+ $\frac{3}{8}$) 13 3/16

Euro-dollars (Today's opening
London bid)

7-day: 15%
1-month: 15%
3-months: 15%
6-months: 15%

Federal Reserve Operations:

\$800mn. repurchase agreements for
customer account with Fed Funds
at 14 $\frac{3}{4}$ %. Stop rate 15.17%.

Bought \$225mn. Treasury Bills for
a customer.

Indicators

Comment:

The market opened quietly with Fed Funds, only briefly at 14 $\frac{1}{2}$ % before moving to 14 $\frac{3}{4}$ %. Prices drifted down during the morning in light trading. The Fed activity disappointed the market and prices fell further, taking losses in the long bond to a point on the day. In the late afternoon, however, some retail buying developed, encouraged by expectations of a good CPI number on Friday and by a Treasury announcement that there would be no long bond in the May refunding package (due to the problems with Congress over the debt ceiling). The market rallied strongly and closed at its highs.

23rd April 1982.

TRS