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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd April 1982

Today the markets were edgy, prey to every rumour. With the fleet steaming closer to the Falklands and the market uncertain what might develop over the weekend, there was some widespread nervous selling of sterling, particularly from the US during the afternoon. At the same time, the weekend Group of Ten meeting in Paris gave rise to rumours of an EMS realignment involving a revaluation of the deutschemark and there was a sizeable movement of funds into Germany. Amidst all this uncertainty, one piece of hard economic news released was the 0.3% fall in US consumer prices in March - the first decline for 17 years - and the dollar fell back against all but the weaker currencies. Sterling's ERI dropped by 0.4 to 89.8.

Sterling closed a quiet evening in New York yesterday at 1.7760. Today the dollar was rather firmer at the start and the rate opened at 1.7735 but drifted down during the morning under pressure of some moderate professional selling from Europe. Following the entry of New York the volume of selling increased and although the dollar was losing ground elsewhere, as the deutschemark strengthened, sterling eased further, touching 1.7677 in early afternoon. The publication of the US CPI gave the dollar a generally softer tone and sterling staged some recovery, reaching 1.7740 before closing at 1.7731. After the close further selling by the IMM was seen and the rate fell back to 1.7685. Three-month Euro-dollars were unchanged at 15%. Sterling inter-bank rates were rather firmer and the forward premium narrowed to 1 7/16%, keeping the covered differential at 1/4% in favour of London.

Sterling lost 1/2% in Germany (4.22 3/4), 1/2% in France (11.05) but was only 1/4% easier in Switzerland (3.47 3/4). The dollar gave up 1/2% in Frankfurt (2.3844) but was only a little easier in Paris (6.2315) and Zurich (1.9610). The strength of the deutschemark placed strains on EMS which by the close had widened to 2 3/4% between the lira (1322.75) and the deutschemark, with the Belgian franc (45.11) 2 5/16% from the latter. The Italians sold \$88mn., the Belgians deutschemarks worth \$82mn. and the French the equivalent of \$61mn. The Swiss franc lost further ground, closing at DM 0.82 1/4. The yen continued on its recent firmer tack, gaining 1% to 241.

After a quiet morning, gold moved up during the afternoon as some operators preferred to be long in advance of the weekend. Fixings were at \$346.75 and \$352.25.

Operations:	Market	-	\$40mn.
	IDA	+	20
	India	+	5
	Sundries	+	12
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		-	\$3mn.
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23rd April 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 23rd April 1982

Federal Funds

Opening: 14 $\frac{7}{8}$ %
Range: 14% - 14 $\frac{7}{8}$ %
Close: 14 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$ (+ $\frac{1}{8}$) 13 15/16%
5-year: 101 (+ $\frac{1}{8}$) 13 11/16%
10-year: 105 $\frac{1}{4}$ (+ $\frac{1}{8}$) 13 $\frac{5}{8}$ %
30-year: 106 $\frac{1}{2}$ (+ $\frac{1}{4}$) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{5}{8}$ %
1-month: 14 $\frac{5}{8}$ %
3-months: 14 $\frac{5}{8}$ %
6-months: 14 $\frac{5}{8}$ %

Federal Reserve Operations:

Indicators

US CPI -0.3% in March (c.f. +0.2% in February).
M1 -1.9bn.

Comment:

The market opened firm following the release of CPI and rose in the early going. However, the higher levels merely attracted some profit-taking and by mid-morning the long bond was half a point below Thursday's closes. The Fed's failure to supply reserves disappointed the market further and prices continued to drift during the afternoon, only to bounce on the release of the money supply figures, to close near the highs for the day.

26th April 1982.

TRS