

2/2 4

SECRET

4.22 1/2 DM
\$9.7

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th April 1982

Sterling was initially the only casualty of the assault on South Georgia, as the news led to panic selling in the early hours in the Far East. The reaction of Europe and later the US, however, was calmer and more considered and the pound recovered progressively throughout the day. Meanwhile, the dollar was rather weaker at the start, following the unexpected \$1.9bn. fall in M1 but it declined to go any lower as the US bond market failed to consolidate its gains of Friday night. Sterling's ERI closed 0.3 lower at 89.5, after 89.0 at the opening.

With markets nervous over the Falklands issue in advance of the weekend, sterling lost a little further ground in New York on Friday evening, closing at 1.7720 against a weaker dollar. Following the recapture of South Georgia there was heavy and sustained selling of sterling in the Far East and a panic flight into the dollar. The rate fell two cents to bottom around 1.75 before recovering, with the aid of some sizeable official support to 1.7617 by the London opening. There was some modest commercial selling in Europe during the morning but the rate improved steadily as the dollar eased, reaching 1.77 with the help of some professional buying. Although sterling fell back to 1.7680 shortly after noon, when the dollar started to strengthen again, the entry of the US saw the commencement of some good demand for sterling and a steady rise in the rate. Helped by moderate buying by the IMM and some oil company demand, sterling recovered during the afternoon against an otherwise unchanged dollar, to touch 1.7785 shortly before closing at 1.7772. Three-month Euro-dollars fell by 1/4% following the money supply to 14 3/4%. Sterling's forward premium narrowed to 1 1/16% and the covered differential moved to 3/16% in favour of London.

Having fallen to DM 4.18 in the Far East, sterling's losses against the Continental currencies were trimmed to 1/2% in Germany (4.21 1/2) and France (10.98 1/2) and 1/4% in Switzerland (3.47 1/2). The dollar was easier, too, in all these centres, closing at 2.3696, 6.1810 and 1.9536 respectively. In EMS the Belgian franc (44.67) closed only 1 15/16% below the deutschemark but the lira (1309.87) was 2 3/8% adrift. The French appeared to be defending a French franc/deutschemark rate of 2.61, selling \$102mn. net and the Italians sold \$82mn. The yen again strengthened more than the other major currencies, rising 1 1/4% to 238.15.

The gold price soared on South Georgia, touching \$369 briefly in Hong Kong before opening in London at \$363. With no further news from the South Atlantic to keep up the momentum, the gains could not be held and the price drifted down throughout the day. Fixings were at \$361 and \$357.

Operations:	Market	-	\$121mn.
	Government	+	15
	Sundries	+	4
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		-	\$102mn.
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26th April 1982.

TRS

US BOND AND MONEY MARKETS

Monday, 26th April 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (- $\frac{1}{8}$) 14%
5-year: 101 (-) 13 11/16%
10-year: 105 (- $\frac{1}{4}$) 13 11/16%
30-year: 106 $\frac{3}{8}$ (- $\frac{1}{8}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 11/16%
1-month: 14 13/16%
3-months: 14 13/16%
6-months: 14 13/16%

Federal Reserve Operations:

Indicators

Comment:

A lacklustre day in the US bond market. Surprisingly, following the unexpected decline in M1 on Friday night and a Funds rate at 14 $\frac{1}{4}$ %, the market opened on a weak note and made little progress. Activity was light with little retail interest and prices moved in a narrow range, closing off the lows.

27th April 1982.

TRS