

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th April 1982

Although there was a good volume of business, today was very steady on the exchanges until some nervousness developed over sterling during the afternoon. Reports that the Ministry of Defence had imposed a blackout on news about the Falklands gave rise to rumours that an attack had been launched and that fighting was in progress. News that the Argentine junta had declined to receive a further visit from Mr. Haig added to the uncertainty and there was some selling of sterling. Meanwhile, the dollar which had firmed overnight, eased during the afternoon as Fed Funds moved below 14%; it ended broadly unchanged on the day. Sterling's ERI fell 0.1 to 89.4 after 89.6 at the opening.

Sterling held firm against a stronger dollar in New York last night, closing there at 1.7765. There were no alarms in the Far East today and having opened at 1.7752 the rate soon started to move up in an active two-way market. Some moderate professional demand for sterling was seen from Europe during the morning and the rate reached 1.7787, before relapsing to 1.7767 at noon. As nervousness about the commencement of action over the Falklands began to affect the market during the early afternoon, sterling eased back, despite a weaker dollar, under weight of some selling from New York. The rate touched 1.7730 but had recovered to 1.7750 by the close. Following a disappointing performance by the US bond market yesterday, three-month Euro-dollars were  $\frac{1}{8}\%$  firmer at  $14\frac{1}{8}\%$ . Sterling's forward premium widened to  $1\frac{3}{16}\%$  and the covered differential narrowed to  $\frac{1}{8}\%$  in favour of London.

Sterling was  $\frac{1}{8}\%$  easier in Germany ( $4.20\frac{3}{4}$ ) but was unchanged in Switzerland ( $3.47\frac{1}{2}$ ) and France ( $10.98\frac{1}{2}$ ). The dollar was a touch firmer in the first of these two centres, at 2.3707 and 1.9560 respectively, but gained a little more ground against a weak French franc (6.1910). In EMS the French franc moved to the bottom of the  $2\frac{1}{4}\%$  band,  $1\frac{1}{8}\%$  below the deutschemark, while the lira (1310.55) remained  $2\frac{3}{8}\%$  adrift. The French sold \$60mn. The yen was slightly easier at 238.45.

During the morning gold looked likely to break down through the \$350 level, but it met some modest demand in the afternoon, as nervousness over the Falklands increased. Fixings were at \$350.75 and \$351.75.

Operations:	Market	+	\$2mn.
	Nigeria	+	100
	IDA	+	7
	Crown Agents	+	7
	Iran	+	5
			<hr/>
			+ \$121mn.
			<hr/> <hr/>
	Overnight	+	\$9mn.
			<hr/> <hr/>

27th April 1982.

TRS



US BOND AND MONEY MARKETS

Tuesday, 27th April 1982

Federal Funds

Opening: 14%  
Range: 13 $\frac{3}{4}$ % - 14%  
Close: 13 $\frac{7}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$  (+ $\frac{1}{8}$ ) 13 15/16%  
5-year: 100 $\frac{7}{8}$  (- $\frac{1}{8}$ ) 13 $\frac{3}{4}$ %  
10-year: 104 $\frac{1}{2}$  (- $\frac{1}{2}$ ) 13 11/16%  
30-year: 105 $\frac{7}{8}$  (- $\frac{1}{2}$ ) 13 3/16%

Euro-dollars (Today's opening  
London bid)

7-day: 14 $\frac{7}{8}$ %  
1-month: 14 $\frac{7}{8}$ %  
3-months: 14 13/16%  
6-months: 14 13/16%

Federal Reserve Operations:

Bought coupons with Funds at 13 $\frac{3}{4}$ %  
(a "coupon pass").

Indicators

US trade balance in March -\$2.6bn.

Comment:

The market opened on a weak note yesterday despite the fact that Funds were soon below 14%. There was again little retail interest as participants awaited the announcement of the terms of the refunding package due on Wednesday. Even the Fed's long awaited coupon pass had minimal impact on prices and the market closed with losses, except at the very short end.

28th April 1982.

TRS