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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th April 1982

Considering the cross-currents of rumour from the Southern Atlantic which surged through the markets, the pound has had a fair day's journey. It gave way on the Continent but recovered enough in US dollar terms to leave the ERI unchanged at 89.4 (once again, however, after opening at 89.6). The deutschemark was particularly strong following the latest balance of payments surplus and this caused a general weakening of the dollar.

In New York last night sterling rose to 1.7885, before closing at 1.7860, on good demand which included IMM buying. In the Far East it fell back somewhat, presumably on overnight assessment of yesterday's Commons' skirmish and was quoted at 1.7835 when London began trading. A couple of hours later, as the Cabinet met in emergency session and invasion of the Falklands seemed imminent, there was a nervous move back to 1.7780 but news of the air blockade and the generally easier stance of the dollar started a recovery and a better tone emerged for the pound. After 1.7870 the rate closed at 1.7840. Euro-dollars opened 1/16% lower but recovered to end at 14 15/16%; sterling interbank eased to 13 5/8%, narrowing the covered differential to a bare 1/16% in London's favour.

In Europe, however, sterling was a touch lower: 4.20 in Germany, 10.94 1/2 in France and 3.46 1/2 in Switzerland. The dollar fell back to 2.3542 against the deutschemark, after 2.3513 in mid-afternoon and strong pressure was again exerted on the French and Italian currencies, each of which received \$198mn. of support (of which \$38mn. in deutschemarks in Paris); the franc closed at 6.1336, the lira 1302.35. The latter was about 2 1/2% below the deutschemark. The Belgian franc reverted to weakest currency in the narrower band of EMS - at 44.43, 2 1/16% lower than the German currency. The Dutch sold deutschemarks worth \$13mn. and the Irish lost \$29mn. The yen improved to 236.80.

Gold gathered strength in North America last night and touched \$360 in the Far East today. Fixings in London were at \$358.50 and \$354.50. The second session encountered a rumour of Argentine withdrawal and this caused a further decline later, to \$351.75.

Operations:	Market	-	\$17mn.
	Interest	+	20
	Iraq	+	9
	Sundries	-	4
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		+	\$8mn.
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28th April 1982.

DAHB

DAHB

US BOND AND MONEY MARKETS

Wednesday, 28th April 1982

Federal Funds

Opening: 14 $\frac{1}{4}$ %
Range: 14 $\frac{1}{4}$ % - 30%
Close: 20%

US Governments (NY closing bids)

2-year: 99 $\frac{3}{4}$ (- $\frac{1}{8}$) 14 1/16%
5-year: 100 $\frac{1}{2}$ (- $\frac{3}{8}$) 13 $\frac{7}{8}$ %
10-year: 104 (- $\frac{3}{4}$) 13 $\frac{3}{8}$ %
30-year: 104 $\frac{3}{4}$ (-1 $\frac{1}{8}$) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{8}$ %
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 Funds at
15 $\frac{1}{8}$ %. Stop rate 13.75%.

Bought \$430mn. Treasury Bills for
customer account.

Indicators

Refunding package: \$5.25bn. of 3 year notes.
\$5bn. of 10 year notes.

Net borrowings in 3rd quarter expected to total \$32-37bn.

Comment:

The market opened on a weak note, disappointed that in Tuesday's coupon pass the Fed bought only short bonds. The market drifted down during the morning as the Funds rate soared but activity was again very light, awaiting the refunding package. The Fed's intervention had little impact but the refunding was some \$ $\frac{1}{2}$ bn. larger than expected and the market fell further, to close at its lows.

29th April 1982.

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