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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th April 1982

Interest rate movements were for the most part ignored today as market participants looked beyond the short-term to consider the longer-term implications for the deutschemark of yesterday's sharp improvement in the trade balance. After a hesitant start during the morning, there was a substantial diversification of funds from the US into Germany, led by amongst others, a large Middle Eastern central bank. As so often, the movement was extremely rapid and the deutschemark gained two pfennigs in the space of a few minutes trading. Having remained in a very narrow range throughout the morning, sterling benefited from some sizeable IMM demand in the afternoon and the rate moved up sharply. The ERI rose 0.3 to 89.7.

Sterling closed a quiet evening in New York yesterday at 1.7825. The dollar strengthened overnight in the Far East, following news that talks on the budget issue between President Reagan and Congress had broken down, but sterling opened only a little lower at 1.7814. After touching 1.7803 in early business, the rate settled to trade fairly actively around 1.7815 for the balance of the morning, although the dollar was already easing elsewhere in Europe. The entry of New York brought some good demand for sterling and the rate started to move up quickly when IMM buying was also seen. 1.79 was soon breached and the rate closed at the high for the day of 1.7935. As the buying continued after the close, the rate rose to touch 1.8025, before relapsing to 1.7950. Three-month Euro-dollars ended the day $\frac{1}{2}\%$ firmer at 15 $\frac{1}{16}\%$. With little change in sterling inter-bank rates, sterling's forward premium widened to 1 $\frac{11}{16}\%$ and the covered differential moved to 5/16% in favour of London.

Sterling's performance on the Continent was rather mixed: it gained $1\frac{1}{2}\%$ in Switzerland (3.51 $\frac{3}{4}$) where the Swiss commercial banks again reduced deposit rates by up to $\frac{3}{4}\%$, it was $\frac{1}{2}\%$ firmer in France (10.96 $\frac{3}{4}$), but it lost a similar amount in Germany (4.19) to the buoyant deutschemark. The dollar fell $\frac{3}{4}\%$ in Frankfurt (2.3360) but was only slightly weaker in Paris (6.1150) and was a touch firmer in Zurich (1.9590) where the Swiss franc fell to DM 0.83 $\frac{3}{4}$. The late surge in the deutschemark put pressure on EMS and the Belgian franc (44.22) closed 2 $\frac{3}{4}\%$ below the deutschemark, while the lira (1300.50) slipped to 3% adrift. The Italians sold \$98mn., the French \$43mn., the Belgians deutschemarks worth \$24mn. and the Irish \$12mn. The Tokyo market was closed for the Emperor's birthday and the yen ended at 236.52.

Gold was a nervous but fairly quiet market. Fixings were at \$352 and \$348.75.

Operations:	Market	+	\$5mn.
	Ghana	-	9
	Sundries	+	2
			<hr/>
		-	\$2mn.
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29th April 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 29th April 1982

Federal Funds

Opening: 15 $\frac{3}{4}$ %
Range: 15 $\frac{5}{8}$ % - 16%
Close: 15 $\frac{5}{8}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{3}{8}$ %
1-month: 15 1/16%
3-months: 14 13/16%
6-months: 14 13/16%

Federal Reserve Operations:

1-4 day repurchase agreements.
Stop rate 12.90%.

Indicators

Comment:

The market opened $\frac{1}{2}$ a point down in the long bond when Funds moved quickly to 16%. There was, however, more interest in the market than on many days recently and some modest retail buying was seen. Although it remained in a narrow range throughout the day, prices inched their way higher, ending nearly unchanged from the previous day.

30th April 1982.

TRS