FE 2/24

SECRET

1.8130

4.24

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

am 1.8087 now 1.8060

2.3445

90.3

Friday, 30th April 1982

A very wild day in the markets. Although the dollar had recovered some ground overnight, yesterday's flow of funds into Germany both out of the US and some other European countries was soon resumed today. These movements were motivated not only by recognition of the strength of the German balance of payments position but also by fears of a weekend realignment in EMS. With the arrival of the deadline for the imposition of the exclusion zone around the Falklands, sterling was inevitably a very nervous market but some good IMM demand was again seen during the afternoon. Sterling's ERI fell 0.1 to 89.6.

Sterling closed quietly in New York last night at 1.7925. From an opening level this morning of 1.7935 the rate fell back in early business to 1.7875, but recovered quickly as the dollar weakened elsewhere, reaching 1.7965 in mid-morning. In thin and rather erratic markets, there was some selling at the higher levels and the rate fell back below 1.79 by noon. As on many days recently, New York and the IMM were sellers of the dollar and the rate rose quickly on rather light volume, to reach 1.8032 during the afternoon. News that Mr.Haig was to make a statement on the Falklands issue during the morning in New York caused some selling and the rate closed at 1.7970. After the close in thin trading, markets became extremely volatile. Haig's statement that he was abandoning his peace mission caused sterling to be marked back to 1.7920 but later a Reuter report that Argentina was prepared to comply with the UN Security Council's resolution on the Falklands saw the rate marked up very sharply and it rose to 1.8175. Three-month Euro-dollars ended the day 3/16% lower at 14⅞%. Sterling's forward premium narrowed to 1 5/16% and the covered differential in favour of London was ¼%.

Sterling was easier on the Continent, losing ¼% in Germany (4.18¼) and ½% in France (10.91½) but was almost unchanged in Switzerland (3.51¼). The dollar was also weaker in all these centres, closing at 2.3277 (after 2.3220), 6.0737 and 1.9550 respectively. The strength of the deutschemark and speculation on a realignment caused great pressures within EMS and heavy support was necessary for the French and Belgian francs. By the close the Belgian franc (43.97) was at the bottom, 2⅛% below the deutschemark, with the lira (1296.50) 3⅛% distant. The French sold the equivalent of $324mn., the Belgians $117mn., the Irish $36mn. and the Italians $22mn. Elsewhere, the Norwegians bought $30mn. forward. The yen closed at 236.20.

Gold was an active and nervous market. After fixing at $356.75 in the morning, the growing likelihood of hostilities in the South Atlantic over the weekend led to some buying and after a long and difficult session the afternoon fixing was concluded at $361.25. Later, after the Reuter report of the Argentine acceptance of the UN resolution, the price was quoted $25 lower.

Operations:	Market	-	$22mn.
	Belgium	-	86
	Sundries	+	5
		-	$103mn.
	Overnight & Bank Holiday	+	$4mn.

343½

The result for April is a fall in reserves of $810mn. to a level of $~~18,168~~ 18,159mn. after net repayment of public sector borrowing of $31mn., repayments of HMT Foreign Currency Bonds of $202mn. and repurchases under the IMF oil facility equivalent to $106mn. The extension of the EMCF swap caused a fall of $77mn. in the spot reserves but increased the overbought forward position by a like amount. Overall this rose by $11mn. to $1,452mn.

30th April 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 30th April and Monday 3rd May

Federal Funds

	Friday	Monday
Opening:	15¼%	15%
Range:	15-15⅞%	14⅞-15½%
Close:	15¾%	15½%

US Governments (NY closing bids)

2-year:	99½	(-⅜)	14 3/16%
5-year:	100	(-⅝)	14%
10-year:	103½	(-½)	13 15/16%
30-year:	104	(-¾)	13 7/16%

Euro-dollars (Today's opening London bid)

7-day:	15½%
1-month:	15 3/16%
3-months:	14 15/16%
6-months:	14⅞%

Federal Reserve Operations:

Friday: System repurchase agreement with Fed Funds at 15%. Stop rate 12.25%.

Indicators

Friday: Leading indicators fell by 0.5% in March (c.f. -0.5% in February).

M1 +1.9bn.

Comment:

Two very dull days in the New York bond market. Although leading indicators did help the market briefly, the money supply was rather disappointing and activity remained extremely light both sides of the weekend. The upward course of Funds on Monday and the absence of the Fed led to further pressure on prices and they were at their lows for the two days by the close.

4th May 1982.

TRS