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 THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 4th May 1982

Market reaction to the commencement of serious hostilities over the Falklands was to mark sterling up on the grounds that the Argentine military setbacks were likely to lead to an early settlement. As the day wore on, this view seemed to carry less conviction and sterling's early strength ebbed away. The ERI closed 0.5 higher at 90.1, after 90.3 at the opening. Meanwhile, the \$1.9bn. rise in M1 on Friday and a lacklustre US bond market performance since, coupled with the resurgence of unrest in Poland over the weekend, helped the dollar to recover part of last week's losses.

An erroneous Reuter report late on Friday afternoon that the Argentines were prepared to comply with the UN Security Council resolution on the Falklands saw sterling marked up to 1.8175 and it held most of these gains in New York closing there at 1.8180. Sterling remained very firm throughout the May Day Bank Holiday, touching 1.8170 in New York before closing there at 1.8130 against a generally firmer dollar. Overnight the dollar strengthened further and sterling opened this morning at what proved to be the high for the day of 1.8087 and moved quietly either side of 1.80½ throughout the morning in light trading. In contrast to most days recently there was little demand for sterling from New York and although the dollar was by then tending to ease elsewhere, sterling fell back to 1.8015, shortly before closing at 1.8020. Later, as the dollar recovered when Fed Funds moved to 16½% in New York and the US bond market weakened further, sterling encountered some selling in a thin market as operators, unwilling to go home long of sterling, squared their positions. The rate fell a cent to 1.7925 but recovered again to the 1.80 level. Three-month Euro-dollars recouped Friday's losses, closing 3/16% higher at 15 1/16%. With sterling inter-bank rates rather lower at 13½%, sterling's forward premium widened to 1¼% and the covered differential in favour of London narrowed to 3/16%.

Sterling was firmer on the Continent, but closed below its best levels. In Germany, the pound gained 1% (4.22¼) but it was only ¾% firmer in Switzerland (3.52½) and ¾% firmer in France (10.98¾). The dollar strengthened in all these centres, closing at 2.3429, 1.9567 and 6.0965 respectively. With another weekend safely passed, tension in EMS eased and the Belgian franc (44.09) improved to 1¼% below the deutschemark, with the lira (1297.70) 2¾% adrift. Intervention was minimal: the Irish sold \$7mn. and the Danes bought \$5mn. The yen closed at 237.17. On Monday the Italians sold \$52mn.

Although quite an active market, the gold price did not respond to the sinking of the Argentine cruiser and maintained the lower levels seen in London in late business on Friday. Fixings were at \$342.50 and \$341.25.

Operations:	Market	-	\$14mn.
	Ghana	-	8
	IDA	+	12
	Sundries	+	7
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		-	\$3mn.
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	Overnight	-	\$2mn.
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4th May 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday 4th May 1982

Federal Funds

Opening: 16%
Range: 14½-16½%
Close: 14½%

US Governments (NY closing bids)

2-year: 99½ (+½) 14½%
5-year: 100½ (+¾) 13¾%
10-year: 104 (+½) 13 13/16%
30-year: 104¾ (+¾) 13 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 9/16%
1-month: 15 1/16%
3-months: 14 15/16%
6-months: 14 7/8%

Federal Reserve Operations:

Overnight repurchase agreements
for system account with Fed Funds
at 16½%. Stop rate 15.55%

Indicators

Comment: The market opened on a weak note, with Funds at 16% and minimal customer interest. In quiet trading the market stabilised at its lower levels - ½ a point down from the previous day's closes - while Funds moved to 16½%. The Fed's entry, although expected, provided welcome relief and prices started to move up into the 3-year auction as evidence of retail interest grew. The auction went better than expected and as Funds started to ease, prices continued to rise, closing a little below their highs.

The new \$5.25 bn 3-year was auctioned at an average of 14.17%.

5 May 1982

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