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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 5th May 1982

The loss of HMS Sheffield prevented sterling from joining in the general movement against the dollar which developed in Far East markets as interest rates declined overnight; later, the dollar was under pressure when the forecast decline in this week's money supply figures was revised upwards, to between \$4bn. and \$7bn. London was beset by rumour of a ceasefire, then of a naval battle - each of which caused the pound to react - before being comforted by this afternoon's official denial of the latter. The ERI opened at 89.4, touched 89.7 at noon and closed at 89.6.

In New York last night the pound traded between 1.8030 and 1.7950 before closing at 1.7965 (about 4.19% in deutschemark terms), the naval loss not having any effect. In the Far East, however, some support was needed: although sterling was steady in dollar terms it was losing ground elsewhere. London opened at 1.7972 and after a dip to 1.7951 the rate rose steadily, reaching 1.8055 after the ceasefire rumour. Mid-day press reports of renewed naval engagement brought more worry and the pound eased to 1.7992 but lack of confirmation from London or Buenos Aires made operators hesitate. The Defence Secretary's statement came as a comfort and sterling recovered to close at 1.8035. Euro-dollars were easier, ending the day at 14 15/16%; sterling interbank rose to 13 9/16% and the covered differential widened to 1/4%.

Against European currencies, the pound moved lower by about 1% to 4.18 (after 4.17 1/4) in Germany and to 3.49 3/4 in Switzerland, and by some 3/4% to 10.90 1/2 in France. The dollar in all Continental European centres crumpled, without bringing any pressure on EMS. The deutschemark strengthened to 2.3175, 2% above the Belgian franc (43.71). The punt was under pressure, however, although rising to 1.4907, and the Irish sold \$15mn. and deutschemarks worth \$24mn. The Danes sold \$13mn. The Swiss franc rose to 1.9370, the yen to 233.85.

Gold was little changed this morning, fixing at \$341.75, but perversely eased on the naval rumours to \$337. It recovered a little to fix this afternoon at \$338.40 but then shed \$2 again in New York.

Operations:	Market	-	\$12mn.
	Nigeria	+	40
	Interest	+	9
	Government	+	6
	Sundries	-	2
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		+	\$41mn.
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5th May 1982.

DAHB

DAHB

US BOND AND MONEY MARKETS

Wednesday, 5th May 1982

Federal Funds

Opening: 15 $\frac{1}{4}$ %
Range: 15 $\frac{1}{4}$ % - 16 $\frac{7}{8}$ %
Close: 16 $\frac{7}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{3}{4}$ (+ $\frac{1}{8}$) 14%
5-year: 100 $\frac{1}{2}$ (+ $\frac{1}{8}$) 13 $\frac{7}{8}$ %
10-year: 104 $\frac{1}{2}$ (+ $\frac{1}{4}$) 13 13/16%
30-year: 105 $\frac{1}{4}$ (+ $\frac{1}{4}$) 13 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 7/16%
1-month: 15%
3-months: 14 11/16%
6-months: 14 $\frac{5}{8}$ %

Federal Reserve Operations:

Indicators

Comment:

Following Tuesday's successful 3-year auction and with growing expectations of a large drop in money supply this week, the market opened with a better tone. Prices rose steadily during the morning, despite a rising Funds rate, in - for a change - active two-way trading and by mid-morning the long bond was showing a gain of $\frac{1}{2}$ point. The absence of the Fed disturbed the market, dampening activity and prices backed off into the 10-year auction. There was no post-auction rally and the market closed having surrendered over half its gains.

The new \$4bn. 10-year was auctioned at an average of 13.77%.

6th May 1982.

TRS