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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETThursday, 13th May 1982

The dollar was much firmer today following a surprisingly strong performance in Retail Sales announced yesterday. Sterling met good demand this morning and reached its best levels of the week. Americans, however, were less well disposed towards the pound and the ERI finished the day unchanged at 90.4, after 90.6 at mid-day.

With the bond market selling off sharply on the announcement of a 1.4% increase in US Retail Sales in April, the dollar closed much firmer in New York yesterday, sterling falling there to 1.8325. This morning Euro-dollars began $\frac{1}{8}$ % better bid and the dollar extended its gains. The pound, however, opened better at 1.8365 and traded close to that level throughout the morning, despite some further strengthening of the dollar. Keen demand was noted from Eastern Europe and 1.8375 was paid at best. This afternoon Americans kept the dollar firm but perceived sterling as expensive. The pound traded to 1.8270 before closing at 1.8289. Later, sterling was actively sold down to 1.8227. Three-month Euro-dollars (14 $\frac{5}{8}$ %) were 3/16% firmer, the sterling deposit was harder by 1/16% at 13 $\frac{1}{8}$ %. The forward premium widened to 1 11/16% p.a. and the covered differential was 3/16% in London's favour.

The pound was a shade firmer in Germany (4.19 $\frac{1}{2}$), $\frac{1}{8}$ % better in France (10.95 $\frac{1}{2}$), $\frac{3}{8}$ % higher in Switzerland (3.54 $\frac{3}{8}$). Swiss commercial banks reduced deposit rates yet again (by between $\frac{1}{4}$ % and $\frac{3}{8}$ %) and their franc eased to 1.9425 before closing at 1.9377. Against the deutschemark it finished 0.84 $\frac{1}{2}$, after 0.84 $\frac{3}{4}$. The deutschemark was 2.2935. The Belgian franc (43.33) was 2 3/16% distant from the deutschemark in EMS, the lira (1274) 2 $\frac{1}{2}$ % adrift. The Belgians sold a cocktail worth \$11mn. The French spent \$186mn. Elsewhere, the Norwegians took in \$45mn. The yen eased to 235.06. The Canadian dollar suffered intense pressure yesterday following their Finance Minister's denial of any intended "devaluation" and \$299mn. of official support was required. Pressure continued through much of today.

Gold was dull. Fixings were \$331.75 and \$331.

Operations:	Market	+	\$13mn.
	Interest	+	32
	IDA	+	6
	Belgium	-	136
	EEC	-	33
	Sundries	+	1

- \$117mn.

Overnight - \$9mn.

JGH 13th May 1982.

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US BOND AND MONEY MARKETS

Thursday, 13th May 1982

Federal Funds

Opening: 14 $\frac{7}{8}$ %
Range: 14 $\frac{1}{2}$ % - 14 $\frac{7}{8}$ %
Close: 14 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$ (- $\frac{1}{8}$) 13 15/16%
5-year: 100 $\frac{5}{8}$ (- $\frac{1}{8}$) 13 13/16%
10-year: 100 $\frac{1}{4}$ (- $\frac{1}{8}$) 13 $\frac{5}{8}$ %
30-year: 105 $\frac{1}{4}$ (-) 13 $\frac{1}{4}$ %

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{8}$ %
1-month: 14 $\frac{7}{8}$ %
3-months: 14 9/16%
6-months: 14 $\frac{1}{2}$ %

Federal Reserve Operations:

Indicators

Comment:

Another disappointing day in the market, with little interest from retail customers. Fears, started by Wednesday's retail sales figure, that the forthcoming economic statistics will not be as constructive for the market made for a generally subdued tone. In light trading, prices moved less than a quarter of a point from overnight levels, closing almost unchanged on the day.

14th May 1982.

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