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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th May 1982

A dull day, for the most part, in which the dollar gained new, recent heights as short positions were covered. Later, however, with Federal Funds lower, US Producer Prices little changed in April and a decline of 0.6% in Industrial Production, the dollar was sold again. After some early demand, sterling was little traded and remained very steady. The ERI was unchanged at 90.4 throughout.

The pound eventually closed at 1.8185 yesterday in New York, gaining a little ground on the Continental currencies as the dollar appreciated sharply. This morning the dollar opened easier but soon began to firm again. Sterling started at 1.8240 and remained close to that level for some time as demand on oil company account countered the effect of the firmer dollar. By mid-day the pound had eased to around 1.82 and when early sellers appeared from Chicago, sterling was traded down to 1.8157. The dollar's subsequent relapse, however, saw the pound back up to 1.8240 before closing at 1.8225. Three-month Euro-dollar and sterling deposits were each firmer by 1/16% at 14 11/16% and 13 3/16% respectively. The forward premium was unchanged at 1 11/16% p.a. and the intrinsic premium remained at 3/16%.

The pound gained 1/8% in Zurich (3.54%) and 1/4% in both Paris (10.98%) and Frankfurt (4.20%). The Swiss franc eased to 1.9475 on the dollar but recovered to 0.84 3/8 to the deutschemark, which itself closed softer at 2.3084 (after 2.3158). The French franc (6.0262) was held at a little over 2.61 to the deutschemark by French official sales of \$441mn. The Belgian franc (43.61) closed 2 3/16% adrift of the deutschemark in EMS, the lira (1284) 3% distant. The Italians sold \$50mn. and the Belgians \$84mn., while the Danes took in \$23mn. The yen eased to 235.42. The Canadians yesterday spent a further \$169mn. but their dollar was somewhat steadier today.

After a dull morning, with a fixing at \$331.75, gold edged firmer into the later fixing, which set a level of \$333.25. Later a sharp rally took the metal to \$339 before profit-taking brought a close of \$337.

Operations:	Market	+	\$3mn.
	Gambia	+	5
	EEC	-	33
	Ghana	-	7
	Sundries	+	3
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		-	\$29mn.
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14th June 1982.

JGH

US BOND AND MONEY MARKETS

Friday, 14th May 1982

Federal Funds

Opening: 14 $\frac{5}{8}$ %
Range: 14 $\frac{1}{8}$ % - 14 $\frac{5}{8}$ %
Close: 14 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{4}$ (+ $\frac{3}{8}$) 13 $\frac{3}{4}$ %
5-year: 101 $\frac{3}{8}$ (+ $\frac{3}{4}$) 13 9/16%
10-year: 101 $\frac{5}{8}$ (+ $\frac{7}{8}$) 13 7/16%
30-year: 106 $\frac{1}{2}$ (+ $\frac{3}{4}$) 13 $\frac{1}{8}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Bought \$200mn. Treasury Bills and
bonds for a customer account.

Indicators

Producer prices +0.1% in April (c.f. -0.1% in March).
Industrial production in April -0.6% (c.f. -0.8% in
March).
M1 +\$800mn.

Comment:

A better day in the bond market, with all the economic
statistics confounding participants' worst fears. The market opened
firm, following the release of the good PPI figure and prices
improved further when industrial production was reported as falling
by 0.6%. There was some retail buying and prices improved steadily
during the morning, helped by a falling Funds rate. Only neutral
activity from the Fed had been factored into the market but activity
died during the afternoon as the weekly wait for money supply began.
When M1 was shown to have risen by only \$0.8bn., prices gained $\frac{1}{4}$
of a point but ended a little below their best levels.

17th May 1982.

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