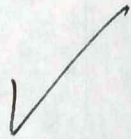


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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th May 1982

An increase of only \$0.8bn. in M1 in the U.S.A. on Friday brought the dollar back by around 1% today, although much of the lost ground was later recovered when Federal funds opened rather higher than expected and the bond market sold off. Sterling was little traded and lost ground to most Continental currencies. The ERI fell from 90.4 to 90.2.

Sterling closed little changed at 1.8220 on Friday in New York although the dollar was a good deal easier. This morning, the dollar's softer trend was continued. The pound started at 1.8280 and traded up to 1.8305 before settling around the opening level. Later this morning, the dollar firmed and sterling edged lower, falling later in the day to close at 1.8227 as Federal funds firmed to 14½%. Later still the dollar was taken sharply firmer and sterling traded down to 1.8175. Three-month eurodollars (14½%) shed 3/16%, the sterling deposit (13 5/16%) gained ¼%. The forward premium narrowed by only 3/16% to 1½% p.a. so that the covered differential rose to 5/16% in London's favour.

The pound gained ¼% in Switzerland (3.55½) but lost ½% in Germany (4.18½) and ¾% in France (10.91½). The deutschemark advanced to 2.2984 (later 2.3040) but the Swiss franc (1.9487) was little changed, falling to 0.84½ on the DM. The Swiss swapped in \$350mn. EMS was more relaxed. The Belgian franc (43.39) was 2½% from the DM, the lira (1275.75) 2 13/16% adrift. The Italians sold \$83mn. The French franc (5.9875) improved to 2.60½ on the DM as positions were unwound after the weekend. The yen weakened to 236.25.

Gold retained Friday's gains but could not breach \$340. Fixings were \$337.25 and \$338.50 and the day was reasonably active.

Operations:	EEC	-	\$36mn.
	Ghana	-	20
	Sundries	+	8
		-	<u>\$48mn.</u>

*JGH* 17th May 1982

JGH

US BOND AND MONEY MARKETS

Monday, 17th May 1982

Federal Funds

Opening: 14½%  
Range: 14½-14¾%  
Close: 14¾%

US Governments (NY closing bids)

2-year: 100 (-¼) 13 13/16%  
5-year: 100½ (-½) 13¾%  
10-year: 101 (-¼) 13 9/16%  
30-year: 105¼ (-1¼) 13¾%

Euro-dollars (Today's opening  
London bid)

7-day: 14%  
1-month: 14 13/16%  
3-months: 14 9/16%  
6-months: 14½%

Federal Reserve Operations:

\$2bn. customer repurchase agreements  
with Fed Funds at 14½%. Stop rate  
13.51%.

Indicators

Capacity utilization in April - 0.3% (c.f. -0.4% in March).

Comment:

Sadly, there was no follow through to Friday's good money supply figures and the market had a bad day. The market opened defensively, with Funds higher than hoped at 14½%. Prices drifted lower during the morning as Funds moved to 14¾% and by mid-morning the long bond was down ¼ of a point. The Fed action was surprisingly well received and by early afternoon the market had recovered all its earlier losses. The rally was, however, wholly professional and with no retail buyers to help the market, prices collapsed in the latter part of the day, ending at their lows.

TRS

18th May 1982