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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th May 1982

Following a sharp reversal in the bond market yesterday and strong bidding for dollars on the IMM, the dollar began extremely firm today and regained its best levels for some two weeks. Sterling survived some active professional selling this morning and closed comfortably. The ERI fell from 90.2 to 90.0.

The pound closed nearly two cents lower yesterday in New York where the dollar was substantially firmer against all but the yen. This morning sterling opened at 1.8095 and traded fairly actively around this level as a large professional offering from Japan was absorbed. Eventually, after some profit-taking at the outset, the dollar turned firmer again. The pound fell quickly to 1.8035 before steadying around 1.8050. New York took the dollar considerably firmer as the bond market opened easier again amid talk of the failure of a small securities house. The pound was traded down to 1.7990 but recovered strongly when the dollar turned again to close at 1.8085. Shortly after the Federal Reserve entered the US money market twenty minutes earlier than usual to provide funds and calm some nerves. The dollar fell again and sterling was marked up to 1.8150. The three-month forward premium was unchanged at 1½%. With Euro-dollars firming by ¼% to 14¾% while the sterling deposit gained only ¼% at 13 7/16%, sterling's intrinsic premium came back to 3/16%.

The pound was a touch firmer in Germany (4.19½), gained ¼% in Switzerland (3.56½), lost ¼% in France (10.89½). The deutschemark weakened to 2.3177 (after 2.33), the Swiss franc to 1.9690 (after 1.9895). The Swiss franc/DM cross-rate crested 0.85 before closing just below that level. The French franc eased only to 6.0225, improving again to 2.59 7/8 on the deutschemark. In EMS, the Belgian franc (43.79) finished 2 3/16% below the deutschemark, while the lira (1286.75) was 2 13/16% adrift. The Italians sold \$90mn. The Belgians spent \$8mn. and \$17mn.-worth of Swiss francs. The Irish took in \$15mn. Elsewhere, the Swedes spent \$25mn., the Norwegians bought \$55mn. In New York yesterday the Japanese sold \$60mn. Today the yen eased slightly overall to 236.65.

Gold was quiet and featureless at yesterday's levels. Fixings were \$337.50 and \$338.

Operations:	Market	+	\$14mn.
	EEC	-	46
	Sundries	+	<u>10</u>
		+	<u>\$22mn.</u>

18th May 1982.

JGH



US BOND AND MONEY MARKETS

Tuesday, 18th May 1982

Federal Funds

Opening: 14 $\frac{5}{8}$ %  
Range: 14 $\frac{1}{2}$ % - 14 $\frac{3}{4}$ %  
Close: 14 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 99 15/16 (-1/16) 13 $\frac{7}{8}$ %  
5-year: 100 9/16 (-5/16) 13 13/16%  
10-year: 100 $\frac{1}{2}$  (- $\frac{1}{2}$ ) 13 $\frac{5}{8}$ %  
30-year: 105 (- $\frac{1}{4}$ ) 13 5/16%

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Overnight repurchase agreements for  
system account with Fed Funds at  
14 $\frac{5}{8}$ %. Stop rate: 13.21%.

Indicators

Personal Income in April +0.3% (c.f. March +0.4%).

Housing Starts in April 881,000 (a.r.), a decline of 6.4%  
from March, the figure for which was itself revised  
downward to 941,000 (a.r.)

Comment:

A volatile session. Prices opened lower, as funds were sticky and the market feared the impact of the Drysdale Securities failure, but rebounded strongly on reaching support levels. The Fed entered the market twenty minutes early to calm nerves and prices advanced to best levels only to sell off sharply ahead of the publication of housing starts. The announcement provoked another rally but late profit-taking left the market slightly easier on balance over the day.

19th May 1982.

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