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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th May 1982

Sterling came under pressure today as the Falklands situation appeared to deteriorate. The dollar, after opening weaker in response to an unexpected decline in Housing Starts, firmed again quite markedly. Sterling's ERI fell to 89.6.

The pound closed little changed at 1.8092 yesterday in New York although the dollar was otherwise weaker. This morning sterling began at 1.8123 but, after touching 1.8125, tended easier as the dollar firmed. Small but widespread selling of pounds took place on the early exchanges, with a familiar Japanese professional again prominent. This provoked a further advance in the dollar and the pound had relapsed to 1.80 by mid-day. New York were active sellers of sterling from the start but sight of the official hand sufficed to stop the rot and the pound rebounded from 1.7945 at worst to close at 1.7985. Later still further North American offerings carried sterling back to around 1.7950. Three-month Euro-dollars closed unchanged at 14½%, the sterling deposit gained 3/16% to 13¾%. The forward premium narrowed by only ½% to 1¾% p.a. so that the intrinsic premium rose to ¼%.

The pound lost ¼% to the French franc (10.87½), ¼% to the Swiss franc (3.55½) and ¼% to the deutschemark (4.16½). The deutschemark was little changed on the dollar at 2.3170 but the Swiss franc eased to 1.9757, falling to 0.85½ (after 0.85½) on the deutschemark. EMS closed fully-stretched between the deutschemark and Belgian franc (43.82); the lira (1287) was 2¾% distant. The Italians sold \$54mn., the Belgians \$13mn. and \$34mn.-worth of deutschemarks, the Irish \$8mn. and the Danes \$5mn. Pressure on the French franc (6.0475) was taken entirely on the rate. It fell from 2.59½ to 2.61 to the deutschemark. The yen weakened to 238.37.

Gold breached \$340 on the Falklands situation but was thereafter restrained by the strength of the dollar. Fixings were \$342.75 and \$342.

Operations:	Market	-	\$32mn.
	EEC	-	18
	Interest	+	8
	Sundries	+	7
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		-	\$35mn.
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	Overnight	-	\$41mn.
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19th May 1982.

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US BOND AND MONEY MARKETS

Wednesday, 19th May 1982

Federal Funds

Opening: 14 $\frac{7}{8}$ %
Range: 14 $\frac{3}{4}$ % - 15 $\frac{3}{8}$ %
Close: 14 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (+3/16) 13 $\frac{3}{4}$ %
5-year: 100 $\frac{7}{8}$ (+5/16) 13 $\frac{3}{4}$ %
10-year: 100 $\frac{7}{8}$ (+ $\frac{3}{8}$) 13 $\frac{5}{8}$ %
30-year: 105 $\frac{1}{4}$ (+ $\frac{1}{4}$) 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 9/16%

Federal Reserve Operations:

Overnight repurchase agreements for
system account with Fed Funds at
15 $\frac{3}{8}$ %. Stop rate 13.12%.

Indicators

US GNP in the first quarter fell by 4.3% (revised from
-3.9%).

Comment:

A quieter day, with retail customers avoiding the market until the implications of the Drysdale failure became clearer. Prices fell in the early going but quickly rebounded to just below the previous day's closes. Most activity was concentrated at the short-end - evidence of a 'flight to quality' following Drysdale. The Fed action helped the market and prices improved into and after the two-year auction, which went well. The market closed on a relatively firm note, with modest gains.

The new \$5.25bn. two-year was auctioned at an average of 13.77%.

20th May 1982.

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