THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 20th May 1982

Sterling had a very difficult day in thin and erratic exchange markets. With most European centres closed for the Ascension Day holiday and the commencement in London of the annual Forex Congress, there were few banks willing to hold sterling in the face of an assumed imminent invasion of the Falklands. Periodic bouts of heavy selling, particularly in the late morning from the Middle East and London, were staunched but not stopped by some official support. The ERI fell 1.0 to 88.6, its lowest level since last October.

The pressure on sterling seen in London yesterday continued in New York during the evening, where the IMM and a large commercial seller were active. The rate fell over a cent to 1.7850 before closing at 1.7872 against a dollar which was little changed elsewhere. Some early selling was seen in the Far East this morning and the rate opened in London at 1.7832. In quiet trading the rate initially firmed to touch 1.7895 but some modest selling on oil company account took it back to 1.7845 by noon. Shortly afterwards, a large Asian bank, operating both from the Middle East and in London, entered the market to sell sizeable amounts of sterling and with large professional banks in New York also looking to extend short sterling positions, the rate fell swiftly in very thin markets in the early afternoon. 1.7742 was touched before a nervous recovery ensued, helped by further official support. The rate closed at 1.7785 against a dollar which elsewhere was only a little firmer. After the close, in an apparent deliberate easing of monetary policy, the Fed entered the New York domestic market to supply reserves and the dollar weakened sharply. Sterling moved back above 1.78 but failed to keep pace with the improvement shown by the Continental currencies. Three-month Euro-dollar rates closed ⅛% easier at 14⅝%. Sterling's forward premium narrowed to 1⅜% and the covered differential in favour of London remained at ¼%.

Sterling was sharply easier on the Continent, losing 1% in Germany (4.12⅝) and Switzerland (3.51⅞) and 1¼% in France (10.73¾). The dollar was a touch firmer in each of the first two centres, at 2.3205 and 1.9780 respectively, but was a little easier against the French franc (6.0375). EMS closed 2⅛% wide between the Belgian franc (43.80) and the deutschemark, with the lira (1288.75) 2⅞% distant. There was no intervention. Elsewhere, the Bank of Japan sold $13mn. in New York last night but did not intervene in Tokyo today, where the yen closed at 239.10; it improved to 238.22 in London.

With no European participation, the gold market was very quiet, waiting for developments in the Falklands. Fixings were at $341.50 and $342.50.

Operations:	Market	-	$79mn.
	Sundries	+	6
		-	$73mn.
	Overnight	-	$18mn.

20th May 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 20th May 1982

Federal Funds

Opening:	14½%
Range:	13¾% - 14½%
Close:	13¾%

US Governments (NY closing bids)

2-year:	100½	(+½)	13 7/16%
5-year:	101⅜	(+½)	13⅝%
10-year:	101⅜	(+½)	13½%
30-year:	106⅜	(+1⅛)	13⅛%

Euro-dollars (Today's opening London bid)

7-day:	14⅜%
1-month:	14 9/16%
3-months:	14 5/16%
6-months:	14¼%

Federal Reserve Operations:

Four day repurchase agreements with Fed Funds at 14½%. Stop rate 12.625%.

Indicators

Comment:

A strong performance by the US bond market, with indications that the Fed may have moved to ease monetary policy. For the third day running the Fed was aggressive in supplying liquidity and while this may have been in an attempt to reassure the market, following the Drysdale debacle, it could be construed as a move to bring rates down.

The market opened on a firm note, following Wednesday's successful two-year auction. There was some light retail interest and prices moved ahead slowly during the morning, helped by a falling Funds rate. The Fed action sparked off a rally which was fuelled further by a rumour that International Harvester was going into liquidation, and belief that Friday's money supply might take M1 back within the Fed's growth targets. The market closed with good gains, slightly below its best levels.

21st May 1982.

TRS