

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st May 1982

Sterling had a much more comfortable day. Markets reacted with some relief to suggestions that the attempt to recapture the Falklands would be through relatively small-scale raiding parties rather than by a major invasion and widespread short-covering was seen, particularly from New York in the afternoon. The RPI was also supportive and the rate recovered some of yesterday's losses in what were, again, rather thin markets. The ERI rose 0.4 to 89.0, after 88.5 at the opening.

Rumours in New York last night that International Harvester was about to go into liquidation, taken in conjunction with Fed action to supply liquidity aggressively in an apparent attempt to drive down rates, caused the dollar to weaken sharply. Although sterling moved above 1.78, it failed to keep pace with the other currencies and closed at 1.7810 (DM 4.10½). This morning sterling opened at 1.7827 against an easier dollar and, after touching 1.7820 (DM 4.09¾) in early business started to move up on some modest buying from Europe. The volume of business was relatively light but the rate made rapid upward progress as the dollar continued to ease, helped by covering of short sterling/deutschemark positions taken earlier in the week. Just prior to noon the rate had reached 1.7985 but it then fell back sharply to 1.7905 on news of the loss of a helicopter and twenty men in preparation for the landings. However, New York banks were also keen buyers of sterling and the rate went through 1.80 to reach 1.8070 in the early afternoon. When there was no follow through to yesterday's strong US bond market performance, the dollar started to recoup some of its earlier losses and sterling eased back to close at 1.7945. Three-month Euro-dollars ended the day ¼% lower at 14¾%. Sterling's forward premium narrowed to 1% and the covered differential in favour of London to ½%.

Sterling was broadly unchanged on the Continent: a touch firmer in Germany (4.13½) and Switzerland (3.52) but a little weaker in France (10.76¾). The dollar was easier in all these centres, closing at 2.3020 in Frankfurt, 1.9615 in Zurich and 6.0 in Paris. Unusually before a weekend, there was no pressure in EMS which by the close was only 2 1/16% wide between the Belgian franc (43.43) and the deutschemark; the lira (1279.50) was 3% adrift. There was little intervention: the Irish sold \$21mn., the Danes \$6mn. and the Dutch deutschemarks worth \$9mn. The yen closed at 237.32.

The commencement of the landings on the Falklands was a signal for profit-taking in the gold market and after fixing at \$343.25 in the morning, the price had fallen to \$338.50 by the afternoon fixing.

Operations:	Market	+	\$16mn.
	Government	-	16
	Sundries	+	2
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		+	\$2mn.
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21st May 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 21st May 1982

Federal Funds

Opening: 13 $\frac{3}{4}$ %
Range: 13 $\frac{1}{4}$ % - 13 $\frac{3}{4}$ %
Close: 13 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (- $\frac{3}{8}$) 13 11/16%
5-year: 101 (- $\frac{3}{8}$) 13 11/16%
10-year: 100 $\frac{7}{8}$ (- $\frac{1}{2}$) 13 $\frac{5}{8}$ %
30-year: 105 $\frac{7}{8}$ (- $\frac{1}{2}$) 13 3/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{1}{4}$ %
1-month: 14 $\frac{3}{8}$ %
3-months: 14 $\frac{3}{8}$ %
6-months: 14 $\frac{3}{8}$ %

Federal Reserve Operations:

Indicators

CPI +0.2% in April (c.f. -0.3% in March).

Orders for durable goods -3.9% in April (c.f. +0.6% in
March, revised from +1.9%).

M1 +\$2.3bn.

Comment:

Disappointingly, there was no follow through to Thursday's strong performance and the market closed with modest losses. Although both CPI and the Funds rate were constructive for the market, participants preferred to await confirmation of whether or not the Fed had eased before committing further funds. Attempts at a rally following both CPI and durable goods orders were used as an opportunity for profit-taking, while money supply was disappointing. The market closed at its lows.

24th May 1982.

TRS