

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th May 1982

Sterling was actively traded today with some sizeable professional demand evinced from London, Frankfurt and New York as short positions were covered following a perceived upturn in UK fortunes in the South Atlantic. The dollar opened easier, as perceptions hardened that the Federal Reserve had relaxed their policy stance a notch, but recovered later in response to sterling's strength and a slightly firmer tendency in Federal Funds. Sterling's ERI rose from 89.0 to 89.6.

The pound recovered strongly to 1.80 in New York on Friday, notwithstanding that the dollar was otherwise a little firmer following publication of a \$2.3bn. increase in M1. In the weekend's Middle East markets sterling was traded down as low as 1.79 (and DM 4.12) and opened this morning in London at 1.7955 against a rather easier dollar. Thereafter, however, the pound advanced apace, settling around 1.8025 for the rest of the morning, after early demand on oil company account. Early this afternoon, German professional buying carried the pound towards 1.81 and as the first Americans joined in, sterling touched 1.8125 before profit-taking set in. As the dollar strengthened towards the close, however, the pound eased back to finish at 1.8060. The three-month premium widened by  $\frac{1}{8}\%$  to  $1\frac{1}{8}\%$  p.a., although the uncovered differential contracted by only 1/16%, the sterling deposit firming to 13 7/16%, while Euro-dollars were unchanged at 14 $\frac{3}{8}\%$ . Sterling's intrinsic premium thus rose to 3/16%.

The pound gained  $\frac{1}{8}\%$  in Paris (10.78 $\frac{1}{2}$ ),  $\frac{1}{2}\%$  in Zurich (3.53 $\frac{3}{4}$ ) and  $\frac{5}{8}\%$  in Frankfurt (4.15 $\frac{5}{8}$ ). The deutschemark was little changed at 2.3014. The Swiss franc improved to 1.9587 (0.85 $\frac{1}{2}$  to the DM) after the commercial banks raised deposit rates by  $\frac{1}{4}\%$  to  $\frac{3}{4}\%$ . The Belgian franc (43.44) closed 2 $\frac{1}{8}\%$  from the deutschemark in EMS. The lira (1275.75) improved to 2 11/16% distance. The French franc (5.97), too, improved sharply after the weekend, rising from 2.60 $\frac{3}{8}$  to 2.59 $\frac{3}{8}$  against the DM. The Dutch sold \$10mn. and \$22mn.-worth of deutschemarks. The yen weakened to 238.42.

Gold was very much softer following the changed outlook in the Falklands. Fixings were \$331.85 and \$329.

Operations:	Market	+	\$45mn.
	Nigeria	+	50
	Interest	+	14
	BIS	+	9
	Government	-	6
	Sundries	+	6
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		+	\$118mn.
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	Overnight	-	\$9mn.
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*JGH* 24th May 1982.

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US BOND AND MONEY MARKETS

Monday, 24th May 1982

Federal Funds

Opening: 13½%  
Range: 13½% - 13¾%  
Close: 13¾%

US Governments (NY closing bids)

2-year: 100½ (-) 13 11/16%  
5-year: 101 (-) 13 11/16%  
10-year: 101 (+½) 13 9/16%  
30-year: 106 (+½) 13 3/16%

Euro-dollars (Today's opening  
London bid)

7-day: 14 3/16%  
1-month: 14¾%  
3-months: 14¾%  
6-months: 14¾%

Federal Reserve Operations:

\$1.2bn. customer repurchase  
agreements with Fed Funds at  
13½%. Stop rate 12.55%.

Indicators

Comment:

Prices remained in a narrow range throughout a dull day of light trading. The market opened on a fairly firm note and improved in the first hour. However, as Funds moved up, prices surrendered most of their early gains and the market relapsed into somnolence, closing almost unchanged on the day.

25th May 1982.

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