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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 25th May 1982

An active day on the exchanges. Sterling, though largely sidelined, stayed steady against a strangely stronger dollar. EMS currencies bore the brunt of the dollar's advance. The pound and Swiss franc seemed immune, but the hapless yen continued friendless despite a resumption of official support. Sterling's ERI rose from 89.6 to 89.8.

The pound survived a little profit-taking to close barely changed at 1.8055 in New York yesterday. This morning the dollar opened firmer, following heavy selling pressure on the yen in Tokyo, but quickly lost its gains and settled around yesterday's closing levels. Sterling began at 1.8033 and traded strongly up to 1.8097 as the dollar eased back. Some modest German demand was seen. The pound settled down around 1.8075. Around mid-day, the French franc, which had opened in fine form again, came under some pressure. This was somehow transmitted to the deutschemark, which was sold heavily by Chicago through a chart point, causing a general appreciation of the dollar. Sterling was very calm through all this. After two-way interest was noted later this morning, the pound touched 1.8010 this afternoon at the dollar's best, then recovered to 1.8070 before closing at 1.8055. Though difficult to detect, Americans may well have been covering short positions in sterling against deutschemarks, as the news from the Falklands again seemed to favour the pound. The three-month margin widened by 3/16% to 1 5/16% p.a. although the uncovered differential was increased by only 1/2%, Euro-dollars firming to 14 1/2%. Sterling's intrinsic premium thus rose to 1/2%.

The pound was unchanged in Switzerland (3.53 1/4) but gained 1/4% on the French franc (10.80 1/2) and 3/8% on the deutschemark (4.17 3/8). The deutschemark closed easier on the dollar at 2.3116 (after 2.32) but the Swiss franc was little changed (1.9590) and advanced to 0.84 1/4 on the deutschemark. The French franc (5.9862) gained also on the deutschemark, closing around 2.59. The French took in \$15mn. and swapped out \$102mn. The Belgian franc (43.60) finished only 2% from the deutschemark in EMS, while the lira (1277.87) improved sharply to 2 3/8% distance. The Irish sold \$5mn. The yen continued weak, touching 2.4115 before closing at 240.30. The Bank of Japan sold \$165mn. in Tokyo this morning.

Gold lost a little further ground this morning but recouped most of these fresh losses by the day's end. Fixings were \$326.00 and \$327.90 and the close around \$328.50.

Operations:	Market	+ \$16mn.
	France	+ 14
	Interest	+ 7
	Tayside	+ 6
	(PSB G'teed)	
	Government	- 16
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		+ \$27mn.
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	Overnight	+ \$11mn.
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25th May 1982.

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US BOND AND MONEY MARKETS

Tuesday, 25th May 1982

Federal Funds

Opening: 13 $\frac{1}{8}$ %
Range: 13% - 14 $\frac{1}{8}$ %
Close: 13 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{4}$ (+ $\frac{1}{8}$) 13 $\frac{3}{8}$ %
5-year: 101 (-) 13 11/16%
10-year: 101 (-) 13 9/16%
30-year: 106 $\frac{1}{2}$ (+ $\frac{1}{8}$) 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 7/16%
6-months: 14 7/16%

Federal Reserve Operations:

\$1.2bn. customer repurchase
agreements with Fed Funds at 14%.
Stop rate 12.73%.

Indicators

Comment:

Another very quiet and stable session, with Funds higher than hoped most of the day and only neutral activity from the Fed. Prices opened a little lower with Funds at 14% and traded in a narrow range throughout the day. The five-year auction went fairly well and the market improved slightly at the close.

The new \$3.25bn. five-year was auctioned at an average of 13.71%.

26th May 1982.

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