

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th May 1982

Sterling was a very nervous and volatile market this morning as rumours abounded of disastrous British losses in the South Atlantic. The Ministry's announcement brought a calmer market and the pound was very steady this afternoon in the face of a stronger dollar. Sterling's ERI fell from 89.8 to 89.7.

The pound was bid up to 1.8145 yesterday in New York before closing at 1.8105 against a dollar which was otherwise largely unchanged. This morning sterling began at 1.8090 and was little troubled until the circulation of a rumour suggesting that an official statement would soon be made on the losses in the Falklands. As the rumours proliferated, sterling was sold down to 1.7965 before steadying. Selling pressure, while significant, was not huge, partly due to the sheer uncertainty of the situation, partly on sense of the official hand and partly as one or two cheap buyers emerged. Sterling recovered to around 1.80 and was thereafter idle and very steady for the rest of the day, touching 1.8040 this afternoon, before closing at 1.8010. All this was despite a very much stronger dollar. One large Latin buyer of pounds, to be sure, was at work in the late morning and his operation may by itself have ensured sterling's stability, given especially others' unwillingness to trade the pound. The three-month premium narrowed to 1 3/16% p.a., reflecting a decline of 1/16% in eurodollars (14 7/16%) and a sterling deposit firmer by 1/16% (13 1/2%). The covered differential remained at 1/4% in London's favour.

The pound was a shade easier on the deutschemark (4.17 1/2 but later 4.19 1/2) and Swiss franc (3.53 1/2 but later 3.54 1/2) and gained 1/4% on the French franc (10.83 1/2 and later 10.87 1/2). The dollar improved sharply on nearly all fronts. The deutschemark was 2.3163 (later 2.33) and the Swiss franc 1.9630 (later 1.97). The French franc finished at 6.0162 (later 6.0375). The Belgian franc (43.76) closed 2 3/16% from the deutschemark in EMS. The lire (1281.25) was 2 7/16% distant, the Italians taking in \$55mn. The Irish, too, bought \$19mn. The yen closed unchanged at 240.30 but only after the Bank of Japan sold a further \$59mn. in New York yesterday and \$207mn. in Tokyo this morning.

Gold was a little better this morning on the Falklands rumours but eased back again this afternoon. Fixings were \$332 and \$330.25.

Operations:	Market	+ \$2mn.
	Sweden	- 126
	Sundries	+ 3
		<u>- \$121mn.</u>

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US BOND AND MONEY MARKETS

Wednesday 26th May 1982

Federal Funds

Opening: 13 $\frac{1}{4}$ %
Range: 12 $\frac{1}{4}$ -13 $\frac{3}{4}$ %
Close: 13 $\frac{1}{4}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Indicators

US trade deficit in April \$321mn. (cf -\$2.6bn)

Comment:

A disappointing day with, again, no retail follow through. Prices opened firm following Tuesday's strong 5-year auction and improved by $\frac{1}{2}$ a point at the long end in the early going. Although Funds continued to move down, the buying was almost wholly professional and the market ran out of steam in mid morning. The absence of the Fed also disappointed the market and prices fell during the afternoon, but recovered a little before the close.

27th May 1982

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