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THE DEPUTY GOVERNOR

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 1st June 1982

The dollar continued immensely strong, touching its best levels since the steep decline in late April. There was little by way of rational explanation, other than the significant coincidence that today was precisely three months since the last major peak on 1st March (suggesting large-scale closing of earlier short positions). The bond market was weak again, to be sure, but short-term interest rates were by no means tight. The initial weakness of the French franc (following Mitterrand's injudicious remarks about EMS) was cited as a factor, but this takes little account of the relative weakness of the deutschemark. Sterling again performed remarkably well, attracting persistent support, especially from US commission houses, at the lower levels. The ERI rose from 90.1 to 90.5.

The pound survived another large, late selling order on Friday and closed comfortably in New York at 1.7870, after trading down to around 1.78. On Whit Monday it touched 1.7830 in the Far East, following rumours that HMS Invincible had been hit, but rallied strongly to close there around 1.79. This morning it opened at 1.7950 - with the dollar somewhat easier - touched 1.7990 on the early exchanges, then eased back to around 1.7930, a level which persisted for some time in the face of a rapidly firming dollar. Eventually sterling succumbed and was marked back to 1.7830 early this afternoon before recovering to close at 1.7878. Buying interest was never far to seek and the late rally occurred despite the dollar's closing elsewhere around the day's best levels. The three-month premium widened to 1 7/16% p.a. reflecting an easing of 1/8% in the sterling deposit (13 5/16%). Comparable Euro-dollars were unchanged at 14 7/16% and the covered differential remained at 5/16% in London's favour.

The pound gained 3/8% in Paris (11.03 1/2), 1/8% in Zurich (3.61) and 1 1/8% in Frankfurt (4.24 1/2). The dollar put on around 1 1/8% on the Continent, the deutschemark closing at 2.3730 and the Swiss franc at 2.0192. The Swiss swapped in \$430mn., the Bundesbank sold \$80mn. After a weak start, the French franc (6.1725) improved from 2.61 to 2.60 1/2 against the deutschemark. EMS narrowed to 1 15/16% between the deutschemark and Belgian franc (44.74). The lira (1311.25) closed only 2 5/16% from the deutschemark. The Italians took in \$56mn. on Friday (previously unreported) and \$78mn. yesterday. The Irish bought \$24mn. today. The Bank of Japan sold \$48mn. in Tokyo yesterday and \$96mn. this morning. The yen closed better there today at 241.40 but relapsed in London to 243.55.

Gold was again softer but once more met good support around \$319. Fixings were \$319 and \$318.75 and the close around \$317.25.

Operations:	Market	+	\$11mn.
	India	+	9
	Interest	+	8
	Iran	+	6
	Lancashire CC	+	5
	(PSB G'teed)		
	Iraq	-	9
	Sundries	+	3
			<hr/>
		+	\$33mn.
			<hr/> <hr/>

1st June 1982.

JGH

*Handwritten notes:*  
\$316.80  
- 3 yr. (avg)  
\$312 from  
approx

*Handwritten initials:* JGH

US BOND AND MONEY MARKETS

Tuesday, 1st June 1982

Federal Funds

Opening: 13½%  
Range: 13½% - 14%  
Close: 14%

US Governments (NY closing bids)

2-year: 99¾ (-¾) 13 15/16%  
5-year: 99¾ (-¾) 14%  
10-year: 99¾ (-¾) 13¾%  
30-year: 102¾ (-1¾) 13¾%

Euro-dollars (Today's opening  
London bid)

7-day: 14¾%  
1-month: 14½%  
3-months: 14 9/16%  
6-months: 14¾%

Federal Reserve Operations:

Two-day repurchase agreements for  
system account with Fed Funds at  
13¾%. Stop rate 12.31%.

Bought \$150mn. bonds for customer  
account.

Indicators

Comment:

A listless day. Prices opened on a weak note and drifted lower during the day in light trading. The Fed action had little impact and the market closed a little off the lows.

2nd June 1982.

TRS