

FE 2/24

SECRET

1 ER
\$
San

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th June 1982

Nervousness about the extent of British losses, both of men and ships, in the Falklands broke the peace of Corpus Christi day. In rather thin markets, some moderate selling of sterling developed from the US and London during the afternoon and the pound fell back against a slightly stronger dollar. US interest rates remained very firm and First National Bank of Boston, one of the two major banks with prime rates at 16%, rejoined the majority at 16½%. Sterling's ERI fell 0.6 to 90.4.

After closing in New York last night at 1.7740, sterling opened this morning at 1.7735 and traded narrowly either side of 1.7725 against a dollar which was firming steadily elsewhere. With most of Germany closed for the day, activity was extremely light but the rate started to rise shortly after noon, reaching 1.7753 when a modest Far East buying order entered the market. New York started quietly and took the dollar back from its strongest levels in Europe. Sterling, however, failed to respond and as rumours spread about British losses in the Falklands and the Ministry of Defence declined to give details, the rate fell steadily reaching a low of 1.76. A modest recovery took the rate to 1.7635 at the close. Three-month Euro-dollars were unchanged on the day at 14 15/16% but sterling's forward premium fell to 2% and the covered differential moved to 1/16% against London.

Sterling shed some of its recent gains in Europe, losing ½% in Germany (4.24½%) and Switzerland (3.62½) and ¾% in France (11.10½). The dollar was a little firmer in both Frankfurt (2.4095) and Zurich (2.0557) but was unchanged in Paris (6.2950). There was little intervention necessary in EMS, where the guilder (2.6627) finished narrowly ahead of the deutschemark, with the Belgian franc (45.55) 2¼% below. The lira (1335.12) moved to 2¾% adrift. The Belgians sold a package of currencies worth \$55mn. and the Dutch bought Belgian francs worth \$18mn. The Danes sold \$35mn. Elsewhere, the Norwegians took in \$35mn. and the Swedes sold \$7mn. Yesterday the Canadians sold a further \$145mn. Although the yen weakened further there was no support from the Bank of Japan either in New York last night or Tokyo this morning. The rate fell almost to 250 on several occasions but each time bounced; it closed at 248.80.

Gold enjoyed another active day. After fixing at the top end of the recent range at \$329 in the morning, New York were good sellers of the metal and after a difficult session the second fixing was at \$326.75.

Operations:	Market	-	\$18mn.
	Sundries	+	5
		-	\$13mn.
			=====
	Overnight	-	\$6mn.
			=====

10th June 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 10th June 1982

Federal Funds

Opening: 13 $\frac{3}{4}$ %
Range: 13 $\frac{3}{4}$ % - 14 $\frac{1}{4}$ %
Close: 14%

US Governments (NY closing bids)

2-year: 99 $\frac{1}{2}$ (+ $\frac{1}{8}$) 14%
5-year: 98 $\frac{7}{8}$ (+ $\frac{1}{8}$) 14%
10-year: 99 (+ $\frac{1}{4}$) 13 15/16%
30-year: 102 $\frac{3}{4}$ (+ $\frac{3}{4}$) 13 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14%
1-month: 14 5/16%
3-months: 14 $\frac{3}{4}$ %
6-months: 14 15/16%

Federal Reserve Operations:

\$700mn. customer repurchase
agreements with Fed Funds at 13 $\frac{3}{4}$ %.
Stop rate 13.63%.

Indicators

Retail sales in May +1.5% (c.f. +0.7% in April, revised
from +1.4%).

Comment:

It was another quiet day in the US market but the tone was better by the end of the day, following news of the progress on the budget issue. Prices opened unchanged from Wednesday and held their early levels until the Fed's entry. Their action was regarded as disappointing and prices backed off, falling further on the release of retail sales. By the formal close the market was showing losses of up to half a point but prices rebounded in moonlight trading on news that the House of Representatives had passed the proposals for a \$99bn. budget deficit for fiscal 1983.

11th June 1982.

TRS