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THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th May 1982

The pound performed well on generally quiet exchanges today. Some encouraging developments in the wrangle with Argentina and a sharply improved trade account were both supportive. The dollar started easier following Friday's large decline in money but recovered its losses when the bond market sold off. Sterling's ERI rose from 90.0 to 90.5.

The pound improved to 1.8350 in New York on Friday when the dollar declined in the wake of the \$4.9bn. decline in M1. This morning the dollar started better on the Continent before trading off again. Sterling was steadier, opening at 1.8330 and, after touching 1.8320 and 1.8368, settling close to the opening level for the rest of the morning. This afternoon sterling was a little firmer and business was struck at 1.8385 following a statement that the Argentines would not insist on sovereignty over the Falklands. The dollar's late recovery clipped sterling back but the trade figures ensured some protection and the pound finished the day at 1.8364. Three-month eurodollars shed 1/16% (14 3/8%), comparable sterling deposits were unchanged (13 1/16%). The forward premium narrowed accordingly to 1 1/2% p.a. leaving the covered differential at 3/16% in London's favour.

The pound regained 1/2% in each of France (10.94 1/2) and Germany (4.20 1/2) and put on 1 1/4% in Switzerland (3.49), where the commercial banks cut deposit rates by 1/2%, causing the Swiss franc to fall to 1.9002 on the dollar and 0.83 on the deutschemark. The latter was little changed at 2.2894. The Belgian franc (43.26) closed 2 3/16% below the deutschemark in EMS, while the lira (1271.45) was 2 1/2% adrift. The Danes bought \$13mn. The yen eased to 233.65.

Gold lost \$5 in the Far East this morning and traded aimlessly thereafter in a very narrow range. Fixings were \$329.50 and \$329.

Operations:	Market	+	\$1mn.
	India	+	9
	Iran	+	8
	BIS	+	5
	Interest	+	5
	Sundries	+	7
			<u>+</u> <u>\$35mn.</u>

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US BOND AND MONEY MARKETS

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Federal Funds

Opening: $14\frac{1}{2}\%$
Range: $14\frac{3}{8}\%$ - $14\frac{5}{8}\%$
Close: $14\frac{5}{8}\%$

US Governments (NY closing bids)

2-year: $100\frac{1}{8}$ ($-\frac{3}{8}$) 13 $13/16\%$
5-year: $101\frac{1}{8}$ ($-\frac{1}{8}$) 13 $9/16\%$
10-year: $101\frac{1}{8}$ ($-\frac{1}{2}$) 13 $9/16\%$
30-year: $106\frac{3}{8}$ ($-\frac{1}{2}$) 13 $1/8\%$

Euro-dollars (Today's opening
London bid)

7-day: 14 $13/16\%$
1-month: 14 $11/16\%$
3-months: 14 $3/8\%$
6-months: 14 $1/4\%$

Federal Reserve Operations:

Indicators

Comment:

Friday's money supply having barely fulfilled expectations and with no other news to give prices a boost, the market opened lower today and traded aimlessly. There was some profit-taking at the start but, thereafter, retail participation, in contrast to last week, was light and prices drifted lower, closing at the lows.

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