

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 12th May 1982

An interesting day of cross-currents on the exchanges. In response to cheaper money in New York yesterday, the dollar touched new, recent lows this morning. Later, however, the tide was turned when operators began to buy sterling - seen as a bargain at DM 4.17 - for deutschemarks. A tighter funds market in New York this afternoon (make-up day) reinforced this trend and the dollar closed in good shape. Sterling's ERI rose from 90.1 to 90.4.

The pound closed better at 1.8365 yesterday in New York where the dollar was generally easier as Federal Funds declined to a comfortable 14½% and the bond market enjoyed a late rally. This morning the trend continued in the Far East and the dollar started a good deal weaker and continued to soften. Sterling, however, having opened stronger at 1.8440 was again very steady around that level, never rising beyond 1.8450. Soon enough, as the £/DM cross-rate edged nearer 4.17, the specialists began to buy cheap pounds. This effected a turn in the dollar's fortunes, while ensuring only a modest decline in sterling. This afternoon, with Federal Funds trading up from 15% to 15½%, the dollar's firmer trend was confirmed and it closed around best levels, sterling touching 1.8375 before finishing at 1.8385. Three-month Euro-dollars lost 1/16% (14 7/16%) but sterling deposits (13 1/16%) and the forward premium (1½% p.a.) were unchanged, the covered differential rising to ¼% in London's favour.

The pound gained ¼% on the French franc (10.93½), ¼% on the deutschemark (4.19½) and ½% on the Swiss franc (3.52). The dollar gained a little in Switzerland (1.9145) and lost a little in Germany (2.2803, after 2.2637) and France (5.9490). The relatively happy showing of the French franc cost the Bank of France \$85mn. in support. The Belgian franc (43.07) finished 2 3/16% off the deutschemark in EMS with the lira (1265.40) 2 13/16% distant. The Dutch sold \$4mn.- worth of deutschemarks, the Danes bought in \$38mn. Elsewhere the Swedes spent \$25mn. and the Norwegians took in \$56mn. The yen eased to 233.22.

Gold traded nervously in a narrow range, seemingly ready to respond to the slightest development over the Falklands. Fixings were \$333.50 and \$331.50.

Operations:	Market	+	\$7mn.
	Nigeria	+	100
	Iraq	+	18
	IDA	+	5
	EEC	-	34
	Ghana	-	10
	Sundries	+	4
			<hr/>
		+	\$90mn.
			<hr/> <hr/>

12th May 1982.

JGH



US BOND AND MONEY MARKETS

Wednesday, 12th May 1982

Federal Funds

Opening: 15%  
Range: 14½% - 15¾%  
Close: 15½%

US Governments (NY closing bids)

2-year: 100 (-¾) 13 15/16%  
5-year: 100¾ (-¼) 13¾%  
10-year: 100¾ (-¾) 13 9/16%  
30-year: 105¾ (-1½) 13¾%

Euro-dollars (Today's opening  
London bid)

7-day: 15¾%  
1-month: 14¾%  
3-months: 14½%  
6-months: 14 7/16%

Federal Reserve Operations:

\$1bn. customer repurchase  
agreements with Fed Funds at 15¾%.  
Stop rate 14.66%.

Indicators

US retail sales +1.4% in April (c.f. -0.6% in March).

Comment:

A disappointing day in the bond market. Prices opened lower with Funds at 15¾% but soon made good the losses in a flurry of professional buying. Prices then tended to ease when the long bond again ran into resistance at the 107 level. The Fed action disappointed the market and when retail sales showed unexpected strength prices fell very sharply. There was some recovery from the lowest levels by the close.

13th May 1982.

TRS