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SECRET

26. 5.82.

GOVERNOR'S PRIVATE SECRETARY

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Mr.Sangster

FOREIGN EXCHANGE AND GOLD MARKETS

20th-26th May 1982

Markets were thin before the weekend while the Forex Congress was in progress but they have since become much deeper. Sterling has been volatile, depending on the latest news from the Falklands. There was heavy selling on 20th when the landings on the Falklands seemed imminent but the success of that operation has led to substantial covering of short positions in the last three days, despite the loss of HMS Coventry. The ERI has varied between 88.5 and 89.8 but has closed 0.1 firmer over the week at 89.7.

The dollar has been very firm despite a widespread feeling that the Fed may have eased monetary policy a notch - they have been pumping funds into the domestic market, Fed Funds have come down to just over 13% and some Prime Rates have moved down $\frac{1}{2}\%$ to 16% - but they may have been reassuring the market in the wake of the Drysdale collapse. EMS has been under no real pressure and the Belgian franc at the bottom has closed $2 \frac{3}{16}\%$ below the deutschemark at the top, with the lira $2 \frac{7}{16}\%$ distant. The yen has been weak, partly for seasonal reasons and partly because of further capital outflows. The Bank of Japan have provided heavy support. The Swiss franc has firmed a little to DM 0.84 $\frac{1}{4}$, following an increase in the commercial banks' deposit rates.

Gold has been a fairly active market. The invasion of the Falklands was a signal for profit-taking and the price fell for most of the period, only to recover a little on the sinking of HMS Coventry. The final fixing at \$330.25 left the price \$11.75 lower over the week.

26th May 1982.

TRS

MAIN EXCHANGE RATES

	<u>19. 5.82</u>	<u>26. 5.82</u>
<u>£</u>	(c.o.b.)	(c.o.b.)
\$/£	1.7985	1.8010
£/DM	4.16 $\frac{1}{4}$	4.17 $\frac{1}{8}$
£/SF	3.55 $\frac{3}{8}$	3.53 $\frac{1}{2}$
£/FF	10.87 $\frac{5}{8}$	10.83 $\frac{1}{2}$
ERI	89.6	89.7
<u>\$</u>		
\$/DM	2.3170	2.3163
\$/SF	1.9757	1.9630
\$/FF	6.0475	6.0162
\$/yen	238.37	240.30

MAIN INTERVENTION ABROAD

\$mns.

Japan -\$430mn.

EEA OPERATIONS

-\$62mn. (o/w market -\$16mn.)