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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 28th May 1982

Sterling held up well today in the face of a yet stronger dollar and several large commercial selling orders. The dollar continued buoyant through to the month-end, boosted perhaps by the closing of short positions taken exactly three months ago at its end-February peak. Sterling's ERI slipped from 90.2 to 90.1.

The pound closed little changed at 1.7977 in New York yesterday. This morning the dollar opened firmer and advanced progressively throughout the morning. Sterling started at 1.7950, touched 1.7960 but eased back quickly to around 1.79 when a large commercial broadcast his intention to sell sterling in size. In the event, his order may not have been executed but two or three other sizeable sellers were certainly in the lists and the pound performed remarkably, falling no lower than 1.7875, when the dollar peaked in mid-afternoon, and recovering to close comfortably at 1.7930. The three-month forward premium widened to 1 5/16% p.a. but, with Euro-dollars unchanged (14 7/16%) and the sterling deposit (13 7/16%) harder by 1/16%, the covered differential rose to 5/16% in London's favour.

The pound lost 1/8% in Germany (4.19 5/8 after 4.21), but was a touch firmer in France (10.95) and 3/8% better in Switzerland (3.58). The deutschemark eased to 2.3405 (after 2.3520) and the Swiss franc traded down to (but not through) 2.00 before closing at 1.9965. EMS was clearly under some pressure but this was evidently not very heavy and was taken, in most centres, on the rate. All constituents fell relative to the deutschemark, the French franc (6.1070) declining to 2.60 15/16%. The band was fully-stretched for much of the day but finished at 2 3/16% in width, with the Belgian franc at the bottom. The Belgians sold \$35mn. and \$58mn-worth of deutschemarks, the French sold \$44mn. and deutschemarks worth \$17mn. The Irish spent \$12mn. and the Danes \$6mn. The yen received a further \$21mn. of official support in Tokyo this morning. It eased to 244.05 before closing in London at 243.

Gold again traded narrowly. Slightly firmer for choice through the European day - fixings were \$325.50 and \$325.25 - it softened later to around \$323.50 on news of peace initiatives between Iran and Iraq.

Operations:	Market	+ \$7mn.
	Interest	+ 11
	Sundries	+ 3
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		+ \$21mn.
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	Overnight and Bank Holiday	- \$9mn.
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The result for May was a fall in reserves of \$339mn. to a level of \$17,820mn., after net new public sector borrowing of \$24mn. The overbought forward position declined by \$390mn. to a level of \$1,062mn.

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28th May 1982.

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US BOND AND MONEY MARKETS

Friday, 28th May 1982

Federal Funds

Opening: 13 $\frac{1}{4}$ %
Range: 13% - 13 $\frac{1}{2}$ %
Close: 13%

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (- $\frac{1}{8}$) 13 11/16%
5-year: 99 $\frac{1}{2}$ (- $\frac{3}{8}$) 13 13/16%
10-year: 100 (- $\frac{1}{2}$) 13 $\frac{3}{4}$ %
30-year: 104 $\frac{1}{8}$ (- $\frac{3}{4}$) 13 7/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{1}{8}$ %
1-month: 14 5/16%
3-months: 14 $\frac{3}{8}$ %
6-months: 14 $\frac{3}{8}$ %

Federal Reserve Operations:

\$1.0bn. customer repurchase
agreements with Fed Funds at 13 $\frac{1}{4}$ %.
Stop rate 12.20%.
Sold \$245mn. Treasury Bills for a
customer.

Indicators

Leading indicators in April +0.8% (c.f. -0.5% in March).
M1 -\$1.3bn.

Comment:

A very quiet day in the markets. There was little reaction to the leading indicators figure, which was much in line with expectations, but the Fed action was regarded as disappointing. Money supply also failed to please and prices declined sharply at the end of the day.

1st June 1982.

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