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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 15th June 1982

Sterling was marked higher this morning, following the Argentine surrender in the Falklands, but there was no great volume behind the movement and, when the dollar turned firmer again, the pound was sold. Today's new recent highs for the dollar were provoked by further tightness in short-term monetary conditions, today being a revenue date in the USA, and by the reflows into France. The dollar was turned eventually by suspicion (unfounded, as it happened) that the Federal Reserve were intervening today. Sterling's ERI fell from 91.5 to 91.4 after touching 92.2 this morning.

The pound closed at 1.7735 in New York yesterday, the news from the Falklands reaching the market shortly before its close. This morning, sterling opened at 1.7745 and traded up to 1.7805 on more than one occasion as modest but euphoric professional demand, first from the Far East and then from Europe, was felt. Evidently, most operators had anticipated the outcome of the conflict in the Falklands and already owned pounds. When the dollar turned firmer, positions were quickly squared, some citing the presence of the official hand as cause for sterling's limited upside potential. By the time New York returned, the dollar was well wanted and sterling was quite heavily sold, falling to 1.7535 on more than one occasion. Having failed, however, to break a chart-point (DM 2.43) in Chicago, the dollar was turned, some again and wrongly perceiving the official Federal hand; sterling recovered strongly to close at 1.7615. Three-month Euro-dollars were 3/16% firmer (15½%), while comparable sterling deposits were unchanged at 12¾%. The forward premium was 2 13/16% p.a. and the intrinsic premium 3/16%.

The pound lost ¼% to the Swiss franc (3.64), ⅜% to the French franc (11.79¼) and deutschemark (4.25¼). The deutschemark improved to 2.4145 (but after 2.4288) and closed 2 11/16% adrift of the lira (1359.50) and 2½% off the French franc (6.6975) in EMS. The Bundesbank sold \$35mn., the Italians bought \$92mn. and the French took back \$151mn. and \$85mn.-worth of deutschemarks. Yesterday, the Federal Reserve intervened for the first time in fifteen months to buy \$21mn.-worth of deutschemarks and \$9mn.-worth of yen. Elsewhere the Swiss franc was 2.0665 and the Swiss bought \$10mn.-worth of yen. The Japanese sold \$115mn. in Tokyo this morning. The yen eased to 251.75.

Gold was very soft for most of the day. Both fixings set the price at \$315 and the metal traded down to \$313.50 - a new recent low - on more than one occasion.

Operations:	IDA	+	\$35mn.
	India	+	9
	Iran	+	7
	Ghana	-	6
	Sundries	+	2
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		+	\$47mn.
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JGH 15th June 1982.

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US BOND AND MONEY MARKETS

Tuesday, 15th June 1982

Federal Funds

Opening: 14 $\frac{3}{8}$ %
Range: 14 $\frac{1}{4}$ % - 14 $\frac{1}{2}$ %
Close: 14 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 98 $\frac{7}{8}$ (-) 14 7/16%
5-year: 97 $\frac{7}{8}$ (-) 14 5/16%
10-year: 97 $\frac{5}{8}$ (-) 14 3/16%
30-year: 100 $\frac{7}{8}$ (+ $\frac{1}{4}$) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{3}{4}$ %
1-month: 14 15/16%
3-months: 15 $\frac{3}{8}$ %
6-months: 15 $\frac{1}{2}$ %

Federal Reserve Operations:

\$2bn. customer repurchase
agreement with Fed Funds at 14 $\frac{1}{2}$ %.
Stop rate 14.13%.

Bought \$350mn. Treasury Bills for
a customer.

Indicators

Industrial Production in May: -0.2%.

(The figure for April, originally reported as -0.6%,
was revised to -0.8%.)

Comment:

A very dull day. The market opened with small, scattered losses as Funds tightened in response to the revenue inflow. Industrial Production had little effect. Anticipation of outright purchases of coupons by the Federal Reserve then turned the market slightly better and this state of affairs was left undisturbed by the eventual nature of the Fed's intervention.

16th June 1982.

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