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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 1st March 1982

Friday's increase in M1 in the United States made for a much firmer dollar this morning. The movement, however, lacked conviction and had been largely reversed by the time a much stronger U.S bond market - fuelled by a fall in leading indicators - gave some justification for an easier dollar. Sterling traded fairly comfortably and the ERI ended the day unchanged at 91.1.

The pound closed $\frac{3}{4}$ cent lower at 1.8150 on Friday in New York where the dollar finished around $\frac{1}{2}$ % better against Continental currencies following the publication of a \$1.2 bn. increase in M1. This morning, however, Europe brought sterling into line as the pound opened at 1.8155 and eased back to 1.8075 on the opening exchanges. Fear of the Bundesbank's presence sufficed to turn the market at DM2.40 and, with eurodollars already turning off best levels, the dollar went into retreat. Sterling recovered to around 1.8150. The movement was extended later when strong demand for Yen took the dollar generally lower. Sterling was bid up beyond 1.82. Americans returned with Federal funds at 14% (soon afterwards 13 $\frac{1}{2}$ %) and the bond market in fine form. The dollar remained around the day's lower levels until the close, sterling touching 1.8238 before finishing the day at 1.8215. Three-month eurodollar and sterling deposits each lost 1/16% at 14 15/16% and 14% respectively. The forward premium narrowed by 3/16% to 1 $\frac{1}{2}$ % p.a. so that the covered differential fell back to 3/16% in London's favour.

The pound was barely changed in France (11.07 $\frac{1}{2}$) and Germany (4.34 $\frac{1}{2}$) but lost $\frac{1}{8}$ % in Switzerland (3.43 $\frac{1}{4}$). The dollar too lost ground to the Swiss franc (1.8875) but was a touch firmer against the French franc (6.0820) and deutschemark (2.3841). EMS contracted to $\frac{1}{8}$ % between the Danish krone (7.9925) and deutschemark. The Italians sold \$41mn., the Irish \$18mn., the Germans \$9mn. and the Danes \$8mn. The Japanese sold \$60mn. in New York on Friday but were idle in Tokyo this morning where the yen weakened further to 239.20. In London it recovered to 237.62.

Gold touched a new 2 $\frac{1}{2}$ -year low at \$356.50 this morning. This provoked some cheap buying which in turn prompted fresh selling. The first fixing was extremely active and set a level of \$358.75. With the dollar easier, the later session fixed a price of \$361.25, although not without some difficulty, but by the close the market had relapsed to \$359.25.

Operations:	Market	+ \$2mn.
	Interest	+ 6
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		+ \$8mn.
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1st March 1982
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US BOND AND MONEY MARKETS

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Federal Funds

Opening: 14%
Range: 13 $\frac{3}{8}$ % - 14 $\frac{5}{8}$ %
Close: 14 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{1}{2}$ (+ $\frac{3}{8}$) 14 3/16%
5-year: 100 (+ $\frac{5}{8}$) 14%
10-year: 104 $\frac{1}{8}$ (+1) 13 13/16%
30-year: 102 $\frac{3}{4}$ (+1 $\frac{5}{8}$) 13 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 5/16%
1-month: 14 9/16%
3-months: 14 $\frac{3}{4}$ %
6-months: 15%

Federal Reserve Operations:

\$1bn. customer repurchase
agreements with Fed Funds
at 13 $\frac{7}{8}$ %. Stop rate 13.66%.

Indicators US leading indicators -0.6% in January (after -0.3% in
December, revised from +0.6%).

Comment: The market opened firmer than expected and moved up
swiftly in very active trading on both professional and retail
demand. A fall in the Funds rate and the announcement of leading
indicators fuelled the rally and within two hours prices at the
long end had gained two points. As Funds started to move back up
in mid-morning, activity slowed and some profit-taking was seen.
The Fed action had little impact and during a quieter afternoon
prices traded in a narrow range, ending a little below their best
levels.

2nd March 1982

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