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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 2nd March 1982

With talk of lower oil prices pervading the media and markets, sterling had a somewhat softer undertone throughout the day. The \$4 reduction in BNOC's oil price became known to the market shortly before the close and appeared largely discounted. Later, however, this occasioned some selling in New York. The dollar meanwhile was somewhat easier as US debt markets retained their positive tone. Sterling's ERI fell from 91.1 to 90.7.

The pound closed better at 1.8245 (DM 4.35) yesterday in New York. This morning Euro-dollars tended slightly softer, notwithstanding that Federal Funds traded to 14 $\frac{3}{8}$ % yesterday, and the dollar also tended softer. Sterling began at 1.8223 but, after touching 1.8235, itself eased on modest selling by oil companies. Later, the dollar declined sharply; the pound improved but was reluctant to surpass 1.8241 and was quick to retreat whenever the dollar turned. Some profit-taking before lunch left sterling comfortable at 1.8230. New York took the dollar initially firmer but soon corrected itself when money eased a little. Sterling, however, traded aimlessly around 1.82. Towards the close, the news of BNOC's price reduction was made known and the pound dipped to 1.8145 before closing at 1.8177. Later there was sporadic but determined selling from New York and the pound fell to 1.8120. Three-month Euro-dollar and sterling deposits were each 3/16% easier at 14 $\frac{3}{8}$ % and 13 13/16% respectively. The forward premium narrowed to 1% p.a. so that sterling retained only a small intrinsic premium.

The pound was easier by  $\frac{1}{2}$ % in Paris (11.01 $\frac{1}{8}$ ) and  $\frac{5}{8}$ % in both Frankfurt (4.31 $\frac{1}{2}$ ) and Zurich (3.41 $\frac{1}{2}$ ). The dollar closed lower in each of these centres at 6.0620, 2.3755 and 1.8790 respectively. EMS contracted further to  $\frac{3}{4}$ % between the Danish (7.9765) and German currencies. The Italians sold \$57mn., the French \$28mn. and the Irish \$13mn. Elsewhere the Norwegians took in \$25mn. (forward). The yen dragged its feet, closing unchanged at 237.60.

Gold continued depressed. The market was less active than of late but, despite the softer dollar, the metal never bettered \$363.50. Fixings were \$363 and \$361.25 and the close \$359.75.

Operations:	Market	-	\$22mn.
	Interest	+	12
	Iran	+	12
	IDA	+	11
	BIS	+	10
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		+	\$23mn.
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US BOND AND MONEY MARKETS

Tuesday, 2nd March 1982

Federal Funds

Opening: 14½%  
Range: 14¾% - 14¼%  
Close: 14¾%

US Governments (NY closing bids)

2-year: 101½ (+½) 14 3/16%  
5-year: 100¼ (+¼) 13¾%  
10-year: 104¾ (+¾) 13¾%  
30-year: 103¾ (+1½) 13 7/16%

Euro-dollars (Today's opening  
London bid)

7-day: 14½%  
1-month: 14 9/16%  
3-months: 14 11/16%  
6-months: 14¾%

Federal Reserve Operations:

\$1.3bn. customer repurchase  
agreements with Fed Funds at  
14½%. Stop rate 14.26%.

Indicators

Comment:

The market opened above the previous day's closes and moved up rapidly in the first hour of business, largely on professional demand. By mid-morning the long bond had gained 1½ points but then, as so often recently, the market fell back, disappointed at the absence of retail follow through. The Fed action had no impact but the market recovered again during the afternoon, probably on Volcker's remarks about the weakness of the economy. Prices closed a little below their best levels.

3rd March 1982.

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