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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 3rd March 1982

Any residual weakness in sterling, following yesterday's \$4 reduction in BNOC's oil price, was masked this morning by an unusual softening in the dollar and laid to rest when market operators quickly showed their appetite for cheap pounds. The rest of the session passed quietly and comfortably. Meanwhile, the dollar's softness, which owed something to perceptions of a stronger deutschemark and yen, following the fall in oil prices, and something to the inference (drawn from Volcker's forecast of an end-year upturn in the US economy) that the economy was rather weaker now than many had supposed, was to some degree corrected this afternoon when Federal Funds (at 15½%) yet again proved much tighter than the market had anticipated. Sterling's ERI rose on balance from 90.7 to 90.8 after 90.5 was posted this morning.

Having touched 1.8120 in London's twilight hour, sterling closed at 1.8145 yesterday in New York where the dollar was generally easier. Against the deutschemark, however, sterling fell to 4.29¼. This morning, the pound opened at 1.8155 and, after touching 1.8150, improved slightly against a declining dollar. At around DM 4.29, however, there was no lack of cheap, professional demand and sterling rose rapidly to 1.8235 before the dollar itself rallied. The pound settled comfortably into a narrow range around 1.82, within which the rest of the session was passed. Sterling's closing level was 1.8228. As the dollar recovered somewhat this afternoon - Federal Funds starting the American day at 15% and rising to 15½% - the pound improved to DM 4.32½ by the close. Three-month sterling deposits were ½% cheaper at 13 11/16% while comparable Euro-dollar deposits gained 1/16% at 14 13/16%. The forward premium was unchanged at 1% p.a., and the covered differential was ½% against London.

The pound gained ½% in France (11.03½) and Germany (4.32½) and ¼% in Switzerland (3.42¾). The Swiss franc was little changed on the dollar at 1.8782 but the deutschemark (2.3705) and French franc (6.0562) both made net gains. EMS remained ¾% spread, but the florin (2.5990) replaced the Danish krone (7.96) at the top of the band. The Belgians reduced Discount Rate by 1% to 13% and Lombard Rate by 1½% to 13½% and their franc fell to within ½% of the deutschemark at the foot of the band. The French sold \$30mn., the Irish \$37mn. and the Italians \$60mn. and speculation mounted on a possible cut in official German interest rates tomorrow. The yen improved to 236.30.

Gold was quiet and dull but nonetheless succeeded in setting another 30-month low in the face of an easier dollar. Fixings were \$357.10 and \$353.75 and the close around \$353.

Operations:	Market	+	\$2mn.
	IDA	+	11
	Sundries	+	2
	Government	-	16
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		-	\$1mn.
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3rd March 1982.

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US BOND AND MONEY MARKETS

Wednesday, 3rd March 1982

Federal Funds

Opening: 15%
Range: 14 $\frac{3}{4}$ % - 15 $\frac{1}{2}$ %
Close: 15%

US Governments (NY closing bids)

2-year: 101 $\frac{3}{4}$ (+ $\frac{1}{2}$) 14 1/16%
5-year: 100 $\frac{7}{8}$ (+ $\frac{5}{8}$) 13 $\frac{3}{4}$ %
10-year: 105 $\frac{1}{8}$ (+ $\frac{3}{8}$) 13 $\frac{5}{8}$ %
30-year: 104 $\frac{7}{8}$ (+1) 13 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 9/16%
1-month: 14 $\frac{1}{2}$ %
3-months: 14 9/16%
6-months: 14 11/16%

Federal Reserve Operations:

Overnight repurchase agreements
for system account with Fed Funds
at 15 $\frac{1}{4}$ %. Stop rate 14.96%.

Indicators

US factory orders in January -1.2%.
(December revised from +0.2% to -0.3%).

Comment:

The market opened hesitantly, with Funds at 15%, and moved down in early business. Some retail demand was, however, evident at the lower levels and within an hour prices were moving up. The Fed action was not expected and prices rose sharply during the afternoon, helped by the drop in factory orders and expectations of a decline in M1 this week. Prices closed at their highs.

4th March 1982.

TRS