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THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th March 1982

A fairly quiet and uneventful day, for the most part, saw the dollar give up a little further ground as perceptions hardened of a softening economy and some downturn in interest rates. Sterling traded comfortably, drawing some support from signs of a halt to the decline in interest rates in London. The deutschemark similarly benefitted from the absence of any change in monetary policy in Germany although this in turn caused some disquiet in EMS. Sterling's ERI rose from 90.8 to 91.0.

The pound closed better at 1.8250 yesterday in New York, where the dollar was generally a little softer. Federal funds closed as high as 15% but the bond market was extremely firm following a reported 1.2% decline in factory orders last month. This morning the dollar opened softer still but soon recovered overnight levels. Sterling opened at 1.8235 and traded quietly in a narrow band around this level, never falling below 1.8220. Towards midday some modest demand took sterling ahead to around 1.8250. This afternoon the dollar eased a little further when Federal funds opened at 14½% and the deutschemark strengthened in the wake of the Bundesbank's failure to ease monetary policy. Sterling advanced to 1.8275 before closing at 1.8269. Three-month Euro-dollars were 3/16% easier (14½%), comparable sterling deposits softer by ¼% (13 9/16%). The forward premium finished unchanged at 1% p.a. and a small intrinsic discount remained.

The pound was fractionally firmer against the deutschemark (4.32½) and ¼% better against both the Swiss (3.43) and French (11.06) francs. These last two were only a touch better against the dollar at 1.8772 and 6.0540 respectively but the deutschemark improved to 2.3663. The relative softness of the Swiss franc owed much to the Swiss National Bank's offering one and six-month swaps at cheap rates: the Swiss commercial banks responded by reducing deposit rates by ¼% to ½%. Within EMS, the guilder (2.5950) strengthened and the band widened to 1 1/16%. The Dutch bought deutschemarks equivalent to \$21mn. (forward). Elsewhere, however, the lira and Belgian franc fell to within an ace of the deutschemark. The Italians sold \$69mn., the French \$60mn., the Germans \$11mn. and the Belgians \$11mn. and \$5mn. of other currencies. The yen strengthened to 235.80 in Tokyo but relapsed to 236.70 in London.

By contrast with the exchanges, the precious metals were very active today. Further distress selling of gold and silver was seen from the Middle East and the yellow metal breached the critical \$350 level early this morning. The fixings attracted substantial two-way business and set levels of \$347 and \$346.50. Later still, despite the softer dollar and the declining cost of carry, gold was sold down to \$343, but with silver now attracting good support at \$7½, gold rallied to close at \$345.

Operations:	Market	+	\$5mn.
	BIS	+	10
	Ghana	-	8
	Sundries	+	7
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		+	\$14mn.
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4th March 1982.

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US BOND AND MONEY MARKETS

Thursday, 4th March 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 102 $\frac{3}{8}$ (+ $\frac{3}{8}$) 13 $\frac{3}{4}$ %
5-year: 101 $\frac{5}{8}$ (+ $\frac{3}{8}$) 13 $\frac{1}{2}$ %
10-year: 105 $\frac{7}{8}$ (+ $\frac{3}{4}$) 13 $\frac{1}{2}$ %
30-year: 105 $\frac{3}{8}$ (+ $\frac{1}{2}$) 13 $\frac{1}{4}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

4-day reverse repurchase agreements
with Fed Funds at 14 $\frac{1}{4}$ %. Stop rate
14.50%.

Indicators

Comment:

The market opened firm with gains of $\frac{1}{4}$ of a point across the list but at the long end these were quickly surrendered when the absence of retail demand became clear. Trading was quiet but by the time the Fed entered the market to drain funds (which was expected) the market was almost back to the previous day's close. During the afternoon some professional buying, in anticipation of good statistics to be released on Friday, carried the market up and it closed at its highs.

5th March 1982.

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