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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

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Friday, 5th March 1982

The dollar turned sharply easier in New York yesterday as operators, in the futures markets especially, warmed to the view that interest rates would soon fall further. The movement was extended somewhat today but the session was otherwise a typical Friday, with all eyes turned towards the US monetary statistics. Sterling met pockets of occasional demand but, as often when the dollar weakens, lost ground in Europe. The ERI rose from 91.0 to 91.1.

The pound closed a cent better at 1.8365 in New York yesterday. This morning it opened at 1.8375, touched 1.8325 as the dollar attempted a recovery, then, as that was aborted, settled into a range around the opening level. The pound was traded to 1.8415 this afternoon before closing at 1.8385. Three-month Euro-dollar and sterling deposits softened by  $\frac{1}{8}\%$  and  $\frac{1}{16}\%$  to  $14\frac{1}{2}\%$  and  $13\frac{1}{2}\%$  respectively. The forward premium was unchanged at 1% p.a. and interest parity prevailed.

The pound lost  $\frac{1}{4}\%$  in France (11.03 $\frac{3}{8}$ ) and Germany (4.31 $\frac{1}{4}$ ) and  $\frac{3}{8}\%$  in Switzerland (3.40 $\frac{5}{8}$ ). The dollar eased in these countries to 6.0015, 2.3455 and 1.8530 respectively. EMS narrowed to 11/16% between the florin (2.5735) and deutschemark. Apart from the Danish krone, however, all the other participants were polarised at or very close to the bottom of the band. The Belgians sold \$18mn. (mostly in deutschemarks), the Irish \$41mn., the Italians \$70mn. and the French \$146mn. and \$86mn.-worth of deutschemarks. Elsewhere the Norwegians bought \$50mn. The yen firmed to 235.02.

Gold was again very active. Having fallen sharply to \$336.25 early this morning in London, a somewhat unconvincing rally was occasioned by the dollar's weakness. The price was fixed this morning at \$340. Early this afternoon the metal ran up strongly to \$345.75 in anticipation of New York but expectations were confounded and the price retreated to \$340. The later fixing set a level of \$342.40 but the close was an uncertain \$341.25.

Operations:	Market	-	\$2mn.
	Interest	+	9
	Bangladesh	-	8
	Sundries	+	5
			<hr/>
		+	\$4mn.
			<hr/>
	Overnight	-	\$15mn.
			<hr/>

*San dining*  
*335 1/2*

*London*  
*New*  
*4.28 pm*

*1.8308 apr*  
*1.8252 mar*

*90.6 apr*  
*90.4 mar*

5th March 1982.

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US BOND AND MONEY MARKETS

Friday, 5th March 1982

Federal Funds

Opening: 14½%  
Range: 13¾% - 14¾%  
Close: 13¾%

US Governments (NY closing bids)

2-year: 102⅞ (+½) 13 7/16%  
5-year: 102⅞ (+¾) 13 7/16%  
10-year: 106⅞ (+½) 13 7/16%  
30-year: 105⅞ (+½) 13 3/16%

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Indicators

US unemployment in February 8.8% (c.f. 8.5% in January).  
M1 -\$3.0bn. (latest 13 weeks +10.6%).

Comment:

The market opened ¼ of a point lower, with Funds at 14½% and unemployment up only 0.3%. In quiet trading the market drifted lower with no action from the Fed and little retail interest. Prior to money supply prices were about ⅓ of a point down at the long end but bounced up a point when money was announced as down \$3bn. Profit-taking reduced the gains to about ½ a point.

8th March 1982.

TRS