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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 11th March 1982

The ½% reduction in the clearing banks' base rates (to 13%) was well discounted on the exchanges. Not only was sterling very steady but it showed considerable resilience this afternoon in the face of a strengthening dollar. The ERI rose from 90.1 to 90.4.

The pound touched 1.8215 in New York yesterday before closing there at 1.8147. The dollar was generally softer as Federal Funds eased slightly but did not react to the weakness in the bond market following publication of a 1.6% increase in US Retail Sales. This morning Euro-dollars began ½% firmer and the dollar generally stronger. Sterling started at 1.8119 and traded quietly around this level until mid-morning when a little professional selling, again on interest-rate expectations, took the pound down to 1.8066. Once the first base rate change was announced, sterling met short-covering and some quite good demand was seen from Europe and New York this afternoon when the rate touched 1.8145. The dollar firmed strongly towards the close, however, as the bond market again performed poorly and the pound eased back to close at 1.8110. Three-month Euro-dollars and sterling deposits closed unchanged at 14½% and 13 5/16% respectively. The forward premium widened slightly to 1 9/16% p.a. so that sterling's intrinsic premium rose to ½%.

The pound gained ½% in Frankfurt (4.28%) and ¾% in each of Paris (10.99%) and Zurich (3.38%). The dollar strengthened in these centres to 2.3682, 6.0732 and 1.8692 respectively. EMS narrowed to 15/16% in width, the florin (2.5937) retaining pole position. The French franc, however, replaced the Belgian franc (43.80) at the tail, although the latter, together with the lira and deutschemark were again huddled close together only fractionally above the floor. The Dutch bought \$21mn.-worth of deutschemarks (forward) but the Germans sold \$15mn. and the Italians \$62mn. The French spent \$29mn. and \$25mn.-worth of deutschemarks. The Irish sold \$22mn.-worth of deutschemarks and sterling worth \$12mn. The Belgians shelled out \$51mn., \$19mn.-worth of florins and \$8mn. each of Swiss francs and deutschemarks. The yen fell to 239.17. The Japanese sold \$17mn. in Tokyo.

Gold was quiet and steady this morning, fixing at \$334 but fell back before the advancing dollar this afternoon, when the price was fixed at \$331.75.

Operations:	Sundries	-	\$3mn.
			<u><u> </u></u>
	Overnight	-	\$9mn.
			<u><u> </u></u>

JGH 11th March 1982.
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US BOND AND MONEY MARKETS

Thursday, 11th March 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 101½ (-¾) 14 7/16%
5-year: 99¾ (-¾) 14½%
10-year: 103¾ (-1½) 14%
30-year: 102¾ (-1¾) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 14¾%
1-month: 14¾%
3-months: 14¾%
6-months: 14¾%

Federal Reserve Operations:

Indicators

Comment:

It was another quiet and dismal day in the New York bond market. Fears about this week's money supply figure, together with concerns about the pressures of supply of paper, particularly in the corporate sector, overhung the market. Prices opened lower, despite the easier Funds rate, and drifted down in light trading, with such retail interest as there was on the 'sell' side. When the Fed did not drain reserves from the system, prices recovered briefly around mid-day but resumed their slide in the afternoon, closing at their lows.

12th March 1982.

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