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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 12th March 1982

Sterling survived another very strong performance by the dollar although the breach of the \$1.80 level was viewed unfavourably, especially in New York. The pound's relatively easy passage owed much to the presence of several official buyers and also to the shelter provided by the calmer waters outside EMS, most of whose members suffered another storm-tossed session. The dollar meanwhile continued to dance to the tune of the bond market, which totally ignored the first absolute decline in the Producer Price Index for six years. Sterling's ERI fell from 90.4 to 90.1.

The dollar turned very much firmer in yesterday's twilight hour and sterling, which was actively sold in the USA, fell over a cent, breaching the 1.80 level before closing at 1.8005. This morning, Euro-dollars were up to ¼% harder and the dollar tended firmer still. The pound opened at 1.8025 but was soon testing the 1.80 level again as the professionals sought to sell it down. Substantial overseas official demand stemmed the tide, however, and sterling passed the morning comfortably, touching 1.8028 at best. This afternoon, New York bid the dollar again, taking no account of a 0.1% fall in the US Producer Price Index. Sterling was sold down to 1.7965 but recovered naturally, as the market quietened for the weekend, and closed at 1.7986. Three-month Euro-dollars gained 3/16% net to 14 15/16%, comparable sterling deposits were unchanged at 13 5/16%. The forward premium, however, widened only marginally to 1½% p.a. so that interest parity prevailed on the covered comparison.

The pound lost ¼% to the Swiss franc (3.37½), ¼% to the French franc (10.96¼) and ¾% to the deutschemark (4.27 7/16%). Against the dollar these three fell to 1.8782, 6.0975 and 2.3765 respectively. EMS widened, though only to 1 3/16%, but only the first-placed florin (2.6020) and the second-ranked krone (7.9775) escaped a severe bout of end-week speculation. The Bundesbank sold \$17mn. at the fixing (though clearly to contain the dollar). Otherwise, the French sold \$170mn. and the Italians \$112mn. The Irish spent \$10mn., sterling worth \$12mn. and \$25mn.-worth of deutschemarks. The Belgians sold \$56mn., \$23mn. of deutschemarks, \$10mn. of guilders and \$3mn. of Swiss francs. The lira (1286) closed at the bottom of the band but the French franc was only fractionally off the floor. The yen weakened to 239.80 (after 240.62). The Japanese sold \$30mn. in New York yesterday but did nothing in Tokyo this morning.

Gold fell sharply this morning, as Far Eastern markets handed over to Europe, and was soon testing the recent lows. Substantial two-way activity was again induced at the lower levels and a narrow price range resulted. The fixings were \$322.50 and \$323.25 and the close around \$322.50.

|             |           |   |         |
|-------------|-----------|---|---------|
| Operations: | Market    | - | \$6mn.  |
|             | Iran      | + | 5       |
|             | Sundries  | + | 4       |
|             |           |   | <hr/>   |
|             |           | + | \$3mn.  |
|             |           |   | <hr/>   |
|             | Overnight | - | \$10mn. |
|             |           |   | <hr/>   |

12th March 1982.  
JGH

US BOND AND MONEY MARKETS

Friday, 12th March 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 101¼ (+¼) 14¾%  
5-year: 99½ (-¼) 14 1/16%  
10-year: 103¼ (-¼) 14%  
30-year: 102½ (+¼) 13¾%

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Indicators

M1 +\$3.4bn. (latest 13 weeks +9.5%).  
Producer price index for February -0.1% (annual rate  
+5.4%).

Comment:

The market opened with gains of half a point when PPI was announced as falling by 0.1%. However, heavy selling, generated by fears about the coming money supply figures, immediately took prices lower and within half an hour the market had settled about a quarter of a point below the previous day's closes. Trading was then quiet, with no action from the Fed, but prices had recovered by the time money supply was announced. The figures were only marginally worse than expected and, unusually, there was little post-money trading.

15th March 1982.

TRS