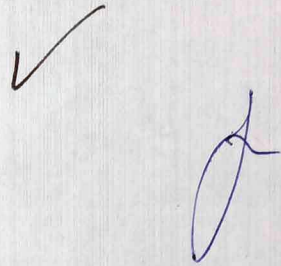


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SECRET



THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 15th March 1982

With Friday's expected increase in US money supply now past, dealers took profits this morning in the overbought dollar and began already to focus on next Friday's statistic (thought to be neutral). This afternoon Federal Funds were extremely firm in New York and the dollar recovered most of its losses. Sterling traded comfortably and the ERI rose from 90.1 to 90.3.

The pound was sold down to 1.7940 in New York on Friday before recovering to close at 1.7995. This morning the dollar began up to ½% softer in Europe. Sterling opened at 1.8063 and stayed close to this level throughout the morning, touching 1.8105 at best on some modest commercial demand. The pound held up well this afternoon as the dollar recovered but eased late in the day to finish at 1.8038, its low point, and trade on down in the after-market to 1.8016. Three-month Euro-dollars (15 1/16%) gained ½%, comparable sterling deposits were unchanged (13 5/16%). The forward premium widened to 1 13/16% p.a. so that sterling commanded a small intrinsic premium.

The pound was firmer by ½% in both Germany (4.27½) and Switzerland (3.38¼) and ¼% better in France (10.99½). The dollar on balance closed a little easier in each of these countries at 2.3718, 1.8755 and 6.0937. EMS narrowed slightly to 1½%, the florin (2.5990) still in pole position, but the French franc falling to the floor following the anti-government swing in the local elections and publication of a deteriorating balance of payments. The French sold \$215mn. and \$63mn.-worth of deutschemarks. The Italians spent \$71mn., the Germans \$16mn. and the Irish \$6mn. The Belgians poured out a small cocktail worth \$10mn. Elsewhere the Norwegians took in \$50mn. (forward). The Japanese sold \$3mn. in New York on Friday but did nothing in Tokyo this morning where the yen closed better at 238.90. In London it weakened considerably to 240.32.

Gold struck a new recent low of \$311 in the Far East this morning as renewed Middle Eastern selling was encountered. London evinced some resistance, however, and, having fixed at \$314.25, the metal rallied to \$316.25 this afternoon. The recuperant dollar put an end to any lasting recovery and the later fixing set a level of \$312.

Operations:	Market	+ \$4mn.
	IDA	+ 28
	Sundries	+ 7
		<hr/>
		+ \$39mn.
		<hr/> <hr/>

15th March 1982.

JGH



US BOND AND MONEY MARKETS

Monday, 15th March 1982

Federal Funds

Opening: 14½%  
Range: 14½% - 15¼%  
Close: 15¼%

US Governments (NY closing bids)

2-year: 101½ (-½) 14 7/16%  
5-year: 99¾ (+½) 14 1/16%  
10-year: 103¾ (+½) 14%  
30-year: 102⅞ (+¾) 13⅝%

Euro-dollars (Today's opening  
London bid)

7-day: 15¾%  
1-month: 15¾%  
3-months: 15¾%  
6-months: 15¾%

Federal Reserve Operations:

\$1.5bn. customer repurchase  
agreements with Fed Funds at 15½%.  
Stop rate 14.82%.

Indicators

Comment:

It was a volatile day of purely professional trading in the New York bond market. Prices drifted lower from the start as Funds moved up from their opening level and by the time the Fed entered the long bond had lost a point. The Fed action, which was not expected, helped the market and prices recovered during the early afternoon. The long bond then broke through a chartist resistance point, triggering a wave of buying orders, and by mid-afternoon it was showing a gain of a point over the previous day's close, although there was little improvement in the other maturities. By the close prices had settled back virtually to last Friday's levels.

16th March 1982.

TRS