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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th March 1982

Unusually tight conditions in the US money market lent further strength to the dollar today. The pound alone shewed any resistance, partly on account of the rise in interbank sterling deposit rates and partly due to its relatively sheltered position without the turbulent EMS. The ERI climbed from 90.3 to 90.7 before finishing the day at 90.6.

Chicago's IMM bid strongly for sterling yesterday as the dollar eased generally in the wake of Reuss's call for a relaxation in monetary policy. The pound closed nearly 1½ cents better in New York at 1.8175. This morning dollar deposits were firmer from the outset and the dollar quickly advanced. Sterling began at 1.8145 but proved reluctant to give ground on the early exchanges and thus gained ground in Europe. Only later did it ease back at first to around 1.81 and then to around 1.8075, a trading range which persisted well into the afternoon. An increase of 1.6% in US Industrial Production in February, Federal Funds at 15½% and an increase of ½% (to 16½%) in two major banks' Prime Rates gave further impetus to the dollar and sterling was traded down to 1.8040 before closing at 1.8053. The three-month forward premium was unchanged at 1 13/16% p.a., reflecting a firming of 5/16% in both Euro-dollar (15¾%) and sterling (13¾%) deposits. A small intrinsic premium still remained for sterling.

The pound gained ¾% on the deutschemark (4.29½%), ½% on the Swiss franc (3.40½) and ¾% on the French franc (11.05½). The deutschemark (2.3795) suffered in part from its role in EMS but the Bundesbank did not intervene. The French franc (6.1245) continued under some pressure (with rumours rife of an impending devaluation) but this was partly taken on the rate today. The FF/DM cross-rate was let down from around 2.57 to 2.57¾ while EMS was allowed to widen to 1 5/16%, the guilder (2.6073) retaining pole position. The Bank of France sold \$61mn. and \$24mn.-worth of deutschemarks. The Italians spent \$78mn. and the Belgians lost \$5mn.-worth of Swiss francs. Elsewhere the Norwegians took in \$93mn. The Swiss franc eased to 1.8842, the Swiss swapping in \$200mn. The yen remained under acute pressure from the widening interest-rate differential. The Bank of Japan sold \$53mn. in New York yesterday and \$110mn. in Tokyo this morning. For all that the yen lost a further ¾% in London to 242.15 before closing at 241.90.

Gold enjoyed a strong technical rally yesterday in New York where it closed around \$325. Far Eastern markets were unconvinced and London's first fixing set a level of \$321. New York's return brought another rally to \$325 - despite the advancing dollar - and the later fixing was \$324.50.

Operations:	Market	-	\$2mn.
	Peru	-	14
	Sundries	+	3
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		-	\$13mn.
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16th March 1982.

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US BOND AND MONEY MARKETS

Tuesday, 16th March 1982

Federal Funds

Opening: 15½%
Range: 14¾% - 15½%
Close: 14¾%

US Governments (NY closing bids)

2-year: 101¾ (+¼) 14¾%
5-year: 99% (+½) 14%
10-year: 103¾ (+¼) 13 15/16%
30-year: 103¾ (+¼) 13 9/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 3/16%
1-month: 15 1/16%
3-months: 15 1/16%
6-months: 15 1/16%

Federal Reserve Operations:

Two-day repurchase agreements
for system and customer account
with Fed Funds at 15½%. Stop rate
14.75%.

Indicators

US industrial production +1.6% in February (after -2.5% in
January, revised from -3.0%).
US housing starts +6.5% in February.
Some major banks' prime rates to 16½% from 16%.

Comment:

The market opened virtually unchanged and took little notice
of the rise in industrial production, which was larger than expected.
Prices started to move up during the morning, led by the long bond
and they improved further on the Fed action and when Funds started to
move down. By early afternoon the long bond was up ¼ of a point but
the interest remained largely professional. The rise in housing
starts caused the market to pause and encouraged profit-taking, so
prices finished below their highs.

17th March 1982.

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