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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th March 1982

The dollar was a little easier today as the pressure on Federal Funds was relaxed somewhat. The pound traded comfortably in the middle of the field but speculation was intensified within EMS. Sterling's ERI rose to 90.7.

The pound was sold down suddenly to 1.7995 in New York yesterday before recovering to close there at 1.8065 as the dollar eased generally following a fall in Federal Funds to 15% and below. Euro-dollars opened ¼% easier this morning and the dollar continued on a mildly offered tack. Sterling began at 1.8075 and traded around that level all morning, never falling below 1.8055 but rarely surpassing 1.81 by very much. A number of European sellers were in evidence but one oil company at least had a good appetite for pounds and the market was thus well balanced. This afternoon, Federal Funds opened at 14¾% and traded off to 14%. The dollar eased further, sterling advancing to 1.8122 before closing at 1.8095. The three-month premium narrowed by ¼% to 1 9/16% p.a., reflecting a fall of 5/16% in Euro-dollar deposits to 15 1/16%. Comparable sterling deposits were unchanged at 13½% and sterling's intrinsic premium rose to ¼%.

The pound lost ¼% in Germany (4.29) but was a touch firmer in Switzerland (3.40½) and gained ⅓% in France (11.09½). The deutschemark firmed to 2.3705 (after 2.3670) against the dollar. The French franc (6.1320) was under pressure for most of the day and the Belgian franc (44.32) was later infected. EMS was allowed to widen to 1 13/16%, the Danish krone (7.9665) replacing the guilder (2.6033) at the top of the band and the Belgian franc replacing the French franc at the bottom. The French held the DM cross-rate at 2.58 for a while this morning but eventually let it go to 2.58 11/16 (compared with 2.57¾ yesterday). They spent \$166mn. and \$126mn.-worth of deutschemarks. The Belgians shelled out \$24mn., \$19mn.-worth of florins, \$44mn.-worth of deutschemarks and \$54mn.-worth of Swiss francs. The Italians, too, sold \$74mn. The yen, too, was under pressure in Tokyo this morning where it was traded to 242.70 before closing at 242.05. Having sold a further \$7mn. in New York yesterday, the Bank of Japan spent \$228mn. this morning. Later, in London, the yen rallied strongly to 239.70 before closing at 240.85.

Gold was sold down from \$325 to \$313 in New York yesterday and tested \$310 in the Far East this morning. Thereafter, it improved cautiously as the dollar receded. Fixings were \$314.50 and \$316 and the close around \$318.50.

| | | | |
|-------------|----------|---|-------------|
| Operations: | Market | - | \$3mn. |
| | India | + | 9 |
| | Iraq | + | 9 |
| | IDA | + | 5 |
| | Ghana | - | 8 |
| | Sundries | + | 7 |
| | | | <hr/> |
| | | | + \$19mn. |
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17th March 1982.
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US BOND AND MONEY MARKETS

Wednesday, 17th March 1982

Federal Funds

Opening: 14 $\frac{7}{8}$ %
Range: 14 $\frac{1}{4}$ % - 15 $\frac{1}{2}$ %
Close: 15 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$ (-) 14 $\frac{1}{2}$ %
5-year: 100 $\frac{1}{8}$ (+ $\frac{1}{4}$) 13 15/16%
10-year: 104 (+ $\frac{3}{8}$) 13 $\frac{7}{8}$ %
30-year: 103 $\frac{1}{2}$ (+ $\frac{3}{8}$) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$1.5bn. customer repurchase
agreements with Fed Funds at 14 $\frac{5}{8}$ %.
Stop rate 13.85%.

Indicators

US capacity utilisation in February rose 1.2% (after
-2.5% in January).

Comment:

The market opened firm, with Funds at 14 $\frac{7}{8}$ %, and moved up in early trading with some evidence of retail demand. The long bond was soon showing a gain of close to a point but the retail interest disappeared with the higher prices and activity diminished. The Fed action had little impact but prices began to give ground during the afternoon as Funds moved higher. By the close most of the early gains had been surrendered.

The new \$5.25bn. two-year was auctioned at an average of
14.14%.

18th March 1982.

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