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SECRET

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th March 1982

With the dollar showing no marked tendency, the focus was very much on Europe today. Official interest rates were reduced by $\frac{1}{2}\%$ in Germany, the Netherlands and Switzerland. Speculation on the realignment or abolition of EMS was further intensified and over \$ $\frac{3}{4}$ bn. was committed in defence of the system. Eventually, the dollar turned firmer as the deutschemark was dragged down by its weaker associates. Sterling was little traded and remained an oasis of calm, while making passive gains on the Continent. The ERI rose from 90.7 to 91.1.

The pound closed at 1.8085 yesterday in New York, where the dollar strengthened somewhat as Federal funds rose from 14 $\frac{1}{4}\%$ to 15 $\frac{1}{2}\%$. This morning the dollar opened easier but gained ground as eurodollars hardened. Sterling began at 1.81 and remained close to that level throughout the day, touching 1.8068 this morning and 1.8125 early this afternoon, before closing at 1.8099. The three-month forward premium narrowed to 1 $\frac{1}{2}\%$ p.a. Three-month eurodollars were unchanged (15 1/16%) but comparable sterling deposits eased by 1/16% to 13 9/16%. Interest parity prevailed.

The pound gained $\frac{1}{4}\%$ in both Switzerland (3.41 $\frac{1}{4}$) and Germany (4.30) and 1 $\frac{1}{8}\%$ in France (11.22 $\frac{1}{8}$). The deutschemark eased overall against the dollar to 2.3757, the Bundesbank selling just \$1 mn. The Swiss franc (1.8855) was kept close to the deutschemark, the Swiss swapping in \$200 mn. The Bundesbank reduced Special Lombard Rate by $\frac{1}{2}\%$ to 9 $\frac{1}{2}\%$, while the Swiss National Bank cut Discount Rate by $\frac{1}{2}\%$ to 5 $\frac{1}{2}\%$. The French franc (6.20) was under pressure from the outset. The 7-day Treasury Bill Rate was hoisted from 15 $\frac{1}{4}\%$ to 18% and Call Money rate from 15% to 17% but to little avail and by the close the franc stood the full 2 $\frac{1}{2}\%$ distant from the florin (2.6142) in EMS. The French disgorged \$338mn. and \$35mn.-worth of guilders. The Italians shelled out \$218mn. and \$46mn.-worth of detuschemarks. The traditional Belgian mixed bag comprised \$40mn., \$42mn.-worth of deutschemarks, \$27mn.- worth of Swiss francs and \$10mn.-worth of guilders. The Danes sold \$54mn. and \$6mn.-worth of deutschemarks. The Dutch took in \$36mn.-worth of French francs and reduced both Discount and Lombard Rates by $\frac{1}{2}\%$ to 8% and 9% respectively. The French franc (6.2150), Italian lira (1306) and Swedish Krona (5.8385) all set new record low levels against the dollar while the Belgian franc hit a ten-year low (44.63). Elsewhere the Norwegians bought \$32mn. but the Japanese sold \$80mn. in Tokyo. The yen weakened in London to close at 241.97.

Gold tended better and was an active two-way market, this morning especially, around \$323. Fixings were \$322.40 and \$320 and the close around \$324.

Operations:	Market	+ \$11mn.
	I.D.A.	+ 23
	Sundries	+ 2
		<u> </u>
		+ \$36mn.
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JGH

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US BOND AND MONEY MARKETS

Thursday, 18th March 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$ (- $\frac{1}{8}$) 14 5/16%
5-year: 99 $\frac{1}{8}$ (- $\frac{1}{8}$) 14%
10-year: 104 (=) 13 $\frac{7}{8}$ %
30-year: 103 $\frac{1}{2}$ (=) 13 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{8}$ %
1-month: 15 3/16%
3-months: 15 $\frac{1}{4}$ %
6-months: 15 $\frac{1}{4}$ %

Federal Reserve Operations:

Indicators US personal income + 0.5% in February (+ 0.2% in January)

Comment: The market opened firm, helped by the lower Funds rate and the interest rate reductions in Europe which encouraged some belief that US rates might ease. Within an hour the long bond had gained $\frac{3}{4}$ of a point but the buying interest was largely professional in nature. Prices then held steady until late morning when disappointment at the lack of any further easing in the Funds rate, coupled with the absence of the Fed, provoked a wave of selling and prices gave ground. The rise in the Funds rate during the afternoon added to the downward pressure and the market closed at its lows, showing modest net losses on the day.

19th March 1982

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