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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Z/Am 4.30 1/2

Friday, 19th March 1982

Soen 318 1/2

Further heavy speculation on an EMS reshuffle lent additional strength to the dollar today, with the trend reinforced by yesterday's late firmness in New York money and concomitant decline in bonds. Sterling was again quiet and comfortable, although one or two awkward sellers were encountered. The ERI closed unchanged at 91.1.

The pound finished at 1.8060 yesterday in New York, where the dollar was generally firmer as Federal Funds traded above 15%. This morning Euro-dollars opened 1/4% better bid and the dollar started much firmer still. Sterling, however, proved very resilient and, with attention again focussed on EMS, was largely on the sidelines. The pound opened at 1.8062 and touched 1.8025 briefly before settling into a narrow range around 1.8050. 1.8066 was paid at best. Later this morning a large German seller, quite probably professional in kind, drove the pound below 1.80 for a while and when the Chicago IMM returned to sell sterling this afternoon, the rate dropped to 1.7980 before recovering to close at 1.8030. The forward premium widened to 1 11/16% p.a. as three-month Euro-dollars gained 3/16% (15 1/4%) while comparable sterling deposits were 1/16% firmer (13 3/8%). A small intrinsic premium for sterling was restored.

The pound gained 3/16% on the Swiss franc (3.41 1/2) but lost 1/8% to the deutschemark (4.29 1/2) and 1/4% to the French franc (11.19 7/16). Against the dollar, the deutschemark eased to 2.3822 and the Swiss franc to 1.8962. Towards the close some short positions in EMS currencies were unwound and the French franc (6.2087) closed well above its worst level. This morning the Belgian franc (45.00), French franc (6.2475), Italian lira (1316.17) and Swedish krona (5.8610) all set new record low levels against the dollar. By London's close EMS was well-stretched, with the Belgian franc, lira and French franc all more than 2 1/4% distant from the florin (2.6170). The Italians sold \$221mn. and \$61mn.-worth of deutschemarks. The French spent guilders worth \$206mn. while the Dutch took in French francs worth \$131mn. The Belgians sold \$101mn. and deutschemarks worth \$53mn. The Danes lost \$36mn. and the Irish \$16mn. Elsewhere the Swedes sold \$15mn., the Norwegians bought \$10mn. The Japanese sold \$35mn. in Tokyo. The yen breached 244 in London before closing at 243.35.

Gold met light but persistent selling in Hong Kong and Europe early this morning and the price shed nearly \$10 before a comfortable level was found. The fixings were \$316.25 and \$315.75.

Operations:	Market	+ \$8mn.
	IDA	+ 7
		<u>+ \$15mn.</u>

19th March 1982.

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US BOND AND MONEY MARKETS

Friday, 19th March 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$ (+ $\frac{1}{4}$) 14 3/16%
5-year: 100 $\frac{1}{4}$ (+ $\frac{3}{8}$) 13 $\frac{7}{8}$ %
10-year: 104 $\frac{1}{2}$ (+ $\frac{1}{2}$) 13 $\frac{3}{4}$ %
30-year: 104 $\frac{1}{4}$ (+ $\frac{3}{4}$) 13 7/16%

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$1.5bn. customer repurchase
agreements with Fed Funds at
14 $\frac{3}{4}$ %. Stop rate 14.37%.

Indicators

M1 -\$0.4bn. (latest 13 weeks +9.0%).

US GNP in 1981 4th quarter -4.5%.

Durable goods -1.5% in February (after -2.1% in January,
revised from -1.5%).

Comment:

The market opened lower, with Funds at 15%, and traded quietly throughout the morning, little influenced by the news of GNP. Trading was light, as is invariably the case on Fridays. The Fed action was mildly disappointing and prices altered little during the early part of the afternoon. After some hesitation on the announcement of the fall in M1, the market reacted well and the long bond swiftly gained a point, closing at its high.

22nd March 1982.

TRS