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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd March 1982

Despite the unwinding of some of the shorter-term positions, EMS still met today with substantial net new speculation on realignment. This, together with the election result in Germany, made for a yet stronger dollar, despite Friday's reduction in US money supply, some downturn in Euro-dollars and Federal Funds and a marked improvement in the German current account. Sterling was again little traded and once more made passive gains on the Continent. The ERI rose from 91.1 to 91.3.

After trading down to 1.7975, the pound recovered to close at 1.8055 on Friday in New York where the dollar eased following the modest reduction in M1 in the US. This morning, despite little change in Euro-dollars, the dollar opened better in Europe, following the election results in Germany, and quickly turned firmer still, notwithstanding that Euro-dollars eased, as EMS speculation mounted. Sterling alone was little troubled, starting 1.8038 and trading no lower than 1.7990 before settling quietly around 1.8025. Later, some professional demand took the pound up to around 1.8050. This afternoon with Federal Funds opening at 14½%, the dollar eased a little and sterling touched 1.8059 before closing at 1.8035. Three-month Euro-dollars lost 3/16% (15 1/16%), comparable sterling deposits were unchanged (13¾%). The forward premium narrowed by only ¼% to 1 9/16% p.a. and sterling's modest intrinsic premium rose slightly.

The pound gained ¼% in Zurich (3.42½), ¼% in Frankfurt (4.30½) and ½% in Paris (11.25½). The deutschemark eased to 2.3873 (after 2.3902), the Swiss franc to 1.8990. The French franc hit a new record low of 6.2502 before closing at 6.2387, 2 3/16% adrift of the florin (2.6327) in EMS. The French sold \$65mn.-worth of florins, the Dutch bought French francs worth \$155mn. The Italians spent \$172mn. and deutschemarks worth \$8mn. Elsewhere the Swedish krona, too, plumbed new record depths (5.8630) against the dollar, while the yen, even though Tokyo was closed, remained extremely weak, trading beyond 245 before closing at 244.85.

Gold was a little better, despite the firmer dollar. This afternoon especially saw an active two-way session. Fixings were \$318.50 and \$320.80.

Operations:	Iraq	+	\$9mn.
	Sundries	+	<u>1</u>
		+	<u><u>\$10mn.</u></u>

22nd March 1982.

JGH

US BOND AND MONEY MARKETS

Monday, 22nd March 1982

Federal Funds

Opening: 14½%
Range: 14% - 14¾%
Close: 14¼%

US Governments (NY closing bids)

2-year: 100 (+½) 14%
5-year: 100¾ (+½) 13 13/16%
10-year: 104¾ (+½) 13 11/16%
30-year: 104¾ (+¾) 13 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 14¾%
1-month: 14 13/16%
3-months: 14 15/16%
6-months: 15%

Federal Reserve Operations:

Indicators

Comment:

The US bond market put in a fairly good performance, helped by lower Funds and expectations that the refusal of Congress to grant an increase in the debt ceiling would prevent the issue of any new long-term bonds. Prices opened firm with Funds at 14½%, and moved ahead in the early going, with some sign of retail demand. Activity dwindled after an hour or so, however, as participants decided to wait and see what the Fed would do. When the Fed failed to enter, the market gave up its gains and fell back to a little below Friday's closing levels but prices picked up again in the afternoon, as Funds moved down to 14%. The market closed below its best levels, but showing modest gains.

23rd March 1982.

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