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SECRET

\$ 1.8090

90.2

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 23rd March 1982

After scaling new, recent heights in New York yesterday, the dollar eased back somewhat today, the pace quickening this afternoon as Federal Funds traded below 14%. EMS, however, remained in turmoil and further substantial support was given. The French franc at last reached its crucial floor against the deutschemark. Sterling was again very steady against the dollar, despite some large sellers, but gave ground naturally on the Continent. The ERI fell from 91.3 to 91.2, after 91.5 this morning.

The pound closed at 1.7985 yesterday in New York where the dollar was around $\frac{3}{8}\%$ firmer against other currencies. This morning Euro-dollars opened little changed but soon developed a softer tendency: the dollar opened a little easier but its downtrend was checked by the volume of speculation in EMS and the morning session was thus very steady. Sterling opened at 1.8010, dipped to 1.7988 and quickly recovered to establish a narrow trading range around 1.8030. Two large sellers, professional and commercial, reported late this morning, had little marked impact. This afternoon, the dollar's reversal gained pace as Federal Funds opened at $14\frac{1}{2}\%$ and traded down through 14%. Sterling, however, remained relatively steady touching 1.8046 before closing at 1.8037. Later, with Funds now at $13\frac{1}{2}\%$, the dollar softened further and the pound was marked up to around 1.81. Three-month Euro-dollars lost $\frac{1}{4}\%$ (14 13/16%), sterling deposits shed $\frac{1}{8}\%$ ($13\frac{1}{2}\%$). The forward premium narrowed by $3/16\%$ to $1\frac{3}{8}\%$ p.a.: a small intrinsic premium remained.

The pound gained $\frac{1}{8}\%$ in Paris (11.26 $\frac{1}{2}$) but lost $\frac{1}{8}\%$ in Frankfurt (4.29 $\frac{1}{2}$) and $\frac{1}{4}\%$ in Zurich (3.41 $\frac{1}{2}$). The deutschemark (2.3830) and Swiss franc (1.8950) were both slightly firmer on balance. The deutschemark replaced the florin (2.6352) at the head of EMS, both around the full $2\frac{1}{4}\%$ distance from the French franc (6.2475). The French raised Treasury Bill rate by a further 2% to 20% and sold \$54mn.-worth of guilders and \$142mn.-worth of deutschemarks, the Dutch and Germans bought French francs worth \$98mn. and \$65mn. respectively. The Danes spent \$96mn. and the Italians \$69mn. The Belgians sold \$20mn.-worth of guilders and \$13mn.-worth of deutschemarks. The Irish took in \$8mn. The Belgian franc (45.21), French franc (6.2850), lira (1317), Swedish krona (5.8765) and Danish krone (8.1452) all hit record lows against the dollar in the course of the last 24 hours. The yen improved slightly to 244.55 (after 245.77). The Bank of Japan sold \$60mn. in New York yesterday.

Gold was strongly bid as the cheaper cost of carry provoked short-covering and the market perceived the absence of some familiar sellers. Fixings were \$327 and \$329.25.

Operations:	Market	+	\$11mn.
	Germany	+	37
	IDA	+	8
	Ghana	-	5
	Sundries	+	4

+ \$55mn.

Overnight + \$7mn.

23rd March 1982.

JGH

US BOND AND MONEY MARKETS

Tuesday, 23rd March 1982

Federal Funds

Opening: 14 $\frac{1}{8}$ %
Range: 13% - 14 $\frac{1}{8}$ %
Close: 13 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (+ $\frac{1}{8}$) 14%
5-year: 100 $\frac{3}{8}$ (+ $\frac{1}{4}$) 13 $\frac{3}{4}$ %
10-year: 104 $\frac{5}{8}$ (- $\frac{1}{8}$) 13 11/16%
30-year: 104 $\frac{3}{8}$ (- $\frac{1}{4}$) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{1}{4}$ %
1-month: 14 $\frac{5}{8}$ %
3-months: 14 $\frac{3}{4}$ %
6-months: 14 13/16%

Federal Reserve Operations:

\$1.2bn. customer repurchase
agreements with Fed Funds at 13 $\frac{7}{8}$ %.
Stop rate 13.28%.

Indicators

US consumer price index rose 0.2% in February (after
0.3% in January).

Comment:

The market opened higher, with Funds at 14 $\frac{1}{8}$ %, and CPI up only 0.2%. There was again some modest retail demand and within an hour the long bond had gained $\frac{3}{4}$ % of a point, helped by Funds moving down to below 14%. The Fed action had little impact but profit-taking developed during the afternoon as the market became sceptical about the likelihood of Funds remaining at 13%. By late afternoon all the gains had been lost and the market was below the previous day's close. It improved slightly, however, at the end of the day to close virtually unchanged, following the announcement of the cancellation of the new 20-year bond (because of problems with the debt ceiling legislation) and a smaller-than-feared 7-year (\$3.25bn.)

24th March 1982.

TRS