

FE 2/2 4

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 24th March 1982

The dollar sagged in New York yesterday when Federal Funds traded down to 13%. The movement was reinforced by a delayed response to Delors' latest defence of the French franc's status quo, which took a lot of pressure off that currency. This morning the dollar remained soft but much of its losses were regained this afternoon when the bond market sold off. Sterling remained firm and steady. The ERI rose from 91.2 to 91.4.

The pound touched 1.8155 in New York yesterday before closing there at 1.8122. This morning sterling opened at 1.81 and traded all day between 1.8073 and 1.8118, closing at 1.8085. Some useful Central Bank demand was seen. Three-month Euro-dollars (14 11/16%) shed $\frac{1}{8}\%$, comparable sterling deposits (13 9/16%) were 1/16% firmer. The forward premium narrowed by $\frac{1}{8}\%$ to $1\frac{1}{4}\%$ p.a. and sterling retained a modest intrinsic premium.

The pound gained $\frac{1}{4}\%$ in Switzerland (3.42 $\frac{1}{2}$) and $\frac{3}{8}\%$ in both France (11.30 $\frac{1}{4}$) and Germany (4.31 $\frac{3}{8}$). The Swiss franc was little changed on the dollar at 1.8936 but the deutschemark closed slightly easier on the balance at 2.3855. The French franc had a chequered career. Having improved to 6.1925 this morning, it suffered some resumption of pressure late in the day closing in London at the day's low of 6.2525. Shortly afterwards it was bid strongly up to 6.21 in New York. At London's close EMS was just fully-stretched between the German and French currencies, although no support was necessary. The Danes sold \$24mn. The Norwegians took in \$65mn. (forward). The yen improved strongly to 242.90 (after 241.50).

Gold continued very firm as short-covering continued amid scant supply. Fixings were \$333 and \$331.75. Press reports on Russian gold placings, while received with scepticism, yet heightened the bears' anxiety.

Operations:	Market	+	\$5mn
	France	+	29
	Germany	+	25
	Sundries	-	2
			<hr/>
		+	\$57mn.
			<hr/> <hr/>

24th March 1982.

DMS
2
JGH

US BOND AND MONEY MARKETS

Wednesday, 24th March 1982

Federal Funds

Opening: $13\frac{1}{8}\%$
Range: $12\frac{7}{8}\%$ - $13\frac{1}{4}\%$
Close: $13\frac{3}{4}\%$

US Governments (NY closing bids)

2-year: $99\frac{1}{8}$ ($-\frac{1}{4}$) $14\frac{3}{16}\%$
5-year: $99\frac{7}{8}$ ($-\frac{1}{4}$) 14%
10-year: $103\frac{7}{8}$ ($-\frac{1}{4}$) $13\frac{7}{8}\%$
30-year: $103\frac{3}{8}$ ($-\frac{7}{8}$) $13\frac{1}{2}\%$

Euro-dollars (Today's opening
London bid)

7-day: $14\frac{3}{8}\%$
1-month: $14\frac{3}{4}\%$
3-months: 15%
6-months: $15\frac{1}{8}\%$

Federal Reserve Operations:

\$1.0bn. customer repurchase
agreements with Fed Funds at
 $13\frac{1}{8}\%$. Stop rate 12.41% .

Indicators

Comment:

It was a depressing day in the New York bond market, with concerns about future growth in money supply and the size of the budget deficit overriding the lower Funds rate. The market opened slightly above the depressed closes of the previous day, with Funds at $13\frac{1}{8}\%$. There was, however, little retail interest and when Funds started to move below 13% participants regarded it as an aberration and prices began to slide. The Fed action was neutral but Funds moved up during the afternoon, confirming the market's earlier misgivings, and prices fell further, closing at the lows.

The new \$3.25bn. 4-year was auctioned at an average of 14.04% .

25th March 1982.

TRS