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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 25th March 1982

It was an uneventful day on the exchanges until the final hour. The poor performance by the US bond market yesterday, which was preoccupied with concerns about the US budget deficit and the return of Fed Funds to the 14% level, helped the dollar to strengthen sharply overnight. It remained very firm throughout the day in London and rates moved only in a narrow range. Pressure on the French franc eased further as steps were taken to reduce leads and lags by tightening exchange controls. Sterling was steady and the ERI remained at 91.4 throughout the day. However, heavy speculative pressure developed from Chicago in late business.

Sterling fell back with the other currencies against a firm dollar in New York last night to close at 1.8025. This morning the rate opened at 1.8045 and, after touching 1.8065 in early business, settled around 1.8030 easing to 1.8015 at its low. Apart from some official demand, little activity was observed and the rate closed quietly at 1.8025. After the close, sparked by a rumour that HMT wished to see the ERI fall to 85, heavy selling developed out of Chicago and New York and the rate fell quickly to 1.7920. Three-month Euro-dollars were $\frac{3}{8}\%$ firmer at $15\frac{1}{8}\%$ and sterling's forward premium widened to $1\frac{5}{8}\%$, leaving the covered differential narrowly in favour of London.

Sterling was unchanged in Germany ($4.31\frac{1}{8}$), gained $\frac{1}{4}\%$ in Switzerland ($3.43\frac{1}{4}$) but lost $\frac{3}{8}\%$ to a recuperative French franc ($11.23\frac{3}{8}$). The dollar was firmer in all centres save Paris (6.2350) and closed at 2.3915 in Frankfurt and 1.9042 in Zurich. With the French franc away from the bottom of EMS, the spotlight turned on the Belgian franc (45.15) and it closed as the weakest currency, $2\frac{1}{8}\%$ below the deutschemark. The Belgians provided a package of currencies, totalling \$86mn. equivalent, in support of the franc, while the Danes sold \$41mn. and the Italians \$39mn. The Norwegians bought \$30mn. outright forward. With dollar rates moving back up, the yen surrendered yesterday's gains, closing at 244.77.

Gold fell in the face of the stronger dollar and the increasing financing costs. Fixings were at \$328 and \$327.75 but later the price was quoted down to \$325.

Operations:	Market	-	\$8mn.
	BIS	+	24
	IDA	+	12
	Government	-	16
	Sundries	+	2
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		+	\$14mn.
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	Overnight	-	\$16mn.
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25th March 1982.

TRS

US BOND AND MONEY MARKETS

Thursday, 25th March 1982

Federal Funds

Opening: 14%
Range: 13 $\frac{7}{8}$ % - 14 $\frac{1}{4}$ %
Close: 14 $\frac{1}{4}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{5}{8}$ %
1-month: 14 15/16%
3-months: 15 $\frac{1}{4}$ %
6-months: 15 5/16%

Federal Reserve Operations:

Indicators

Comment:

A featureless day in the bond markets, with such activity as there was largely confined to professionals. Although real interest rates are extremely high by historical standards, retail investor confidence has been eroded by past volatility and they remain reluctant to commit Funds because of worries about the future course of money supply and the budget deficit. The market opened marginally lower this morning, with Funds as expected at 14%. In light trading prices moved up and down in a narrow range, closing a little easier.

26th March 1982.

TRS