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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th March 1982

After a quiet, uneasy start, sterling met further heavy selling in Europe this morning; yesterday's rumoured depreciation, supposedly sought by HMT, was still in the market's mind and the Conservative defeat in the Hillhead by-election doubtless also coloured events. The dollar strengthened in consequence (although the deutschemark resolutely refused to trade beyond 2.40) but the storm blew itself out and the rest of the day passed quietly as dealers typically awaited this week's US monetary statistics. Sterling's ERI fell from 91.4 to 90.9.

The pound closed at 1.7892 in New York yesterday. This morning it began at 1.7913 and hovered nervously around 1.79 through the opening exchanges. A familiar French professional broke the deadlock, unleashing large lines on the London market and provoking substantial commercial selling from elsewhere. Sterling collapsed, receding quickly to 1.7815 before a nervous calm was restored. The rest of the session saw some slow recovery as profits were taken here and there. The pound touched 1.7895 at one stage this afternoon before closing at 1.7870. Three-month eurodollars (15 5/16%) gained 1/8%, sterling deposits (13 3/8%) 1/16%. The forward premium widened to 1 1/8% p.a. and a small covered differential remained in London's favour.

The pound lost 3/8% in France (11.19 1/4) and Switzerland (3.42) and 5/8% in Germany (4.28 3/8). The dollar strengthened in these countries to 6.2635, 1.9140 and 2.3973 respectively. EMS closed 2 3/8% spread between the deutschemark and Belgian franc (45.26). The Belgians sold \$99mn., \$43mn.-worth of deutschemarks, \$10mn.-worth of Swiss francs and \$9mn.-worth of florins. The Italians spent \$71mn., the Danes \$59mn. and the Irish \$16mn. The Bank of Japan sold \$77mn. in Tokyo this morning. The yen touched 247.90 in London before closing at 247.27.

Gold was sold in the Far East this morning as the dollar strengthened but thereafter remained quiet and steady at the lower levels. Fixings were \$322.75 and \$322.25.

Operations:	Market	- \$12mn.
	Government	- 31
	N.Scotland Hydro	
	(PSB G'teed)	+ 19
	Iran	+ 5
	Sundries	+ 3
		<u>- \$16mn.</u>

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US BOND AND MONEY MARKETS

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Federal Funds

Opening: 14%
Range: 14-14 $\frac{3}{4}$ %
Close: 14 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{5}{8}$ (- $\frac{1}{8}$) 14 $\frac{1}{2}$ %
5-year: 99 $\frac{3}{8}$ (- $\frac{3}{8}$) 14 3/16%
10-year: 103 $\frac{1}{4}$ (- $\frac{1}{2}$) 14%
30-year: 102 $\frac{1}{2}$ (-1 $\frac{1}{8}$) 13 $\frac{5}{8}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Indicators

M1 + 0.5bn. (latest 13 weeks + 8.4%)

US trade figures in February - \$1.2bn. (cf -5.1bn. in
January).

Comment:

The market opened on a weak note and prices drifted down during the morning in quiet Friday trading. Disappointment at the lack of Fed action and the climbing Funds rate provoked some selling during the afternoon and prices fell further. The market was mildly relieved by the money figures, which were a little better than feared, and it had moved slightly off its lows by the close.

29th March 1982

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