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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 29th March 1982

The dollar was extremely firm today, partly, no doubt, on end-quarter considerations but more generally on the despondent tone of the US domestic markets. A fairly constructive outturn for the US money supply had little impact: a significant reduction in the US trade deficit seemed to fuel the movement. The deutschemark resisted the 2.40 level for a while but, having traded past that point, was particularly weak. Sterling, however, held up well to the dollar's advance, with the buyers evidently predominant amid some good two-way business. The ERI rose to 91.0 at noon before closing unchanged at 90.9.

The pound closed at 1.7885 on Friday in New York where the dollar eased a touch following the announcement of a modest \$0.5bn. increase in M1. This morning Euro-dollars opened $\frac{1}{4}\%$ firmer and the dollar strengthened from the outset. Sterling began at 1.7890, touched 1.7897, then settled around 1.7875 through the opening exchanges while the dollar and deutschemark struggled over the 2.40 barrier. Eventually this was breached and the dollar moved strongly ahead. Sterling declined to 1.7815 but, while selling was noted from the Far East and the deep South, the pound was never under serious pressure. At the lower levels, natural support was evident and, while the dollar went from strength to strength, sterling encountered some solid demand and rose to 1.7854 at one stage. This afternoon, with Federal Funds opening at 15% and trading up to 15 $\frac{3}{4}\%$ and the bond market in disarray, the dollar continued to gain. Sterling encountered some sellers and moved lower. The rate touched 1.7795 before closing at 1.7810. Three-month Euro-dollars were $\frac{1}{4}\%$ firmer at 15 9/16%, sterling deposits 1/16% harder at 13 11/16%. The forward margin widened by $\frac{1}{4}\%$ to 2 $\frac{1}{2}\%$ p.a. so that sterling's intrinsic premium rose to $\frac{1}{4}\%$.

The pound lost $\frac{1}{4}\%$ to the mercurial French franc (11.16 $\frac{1}{2}$) but gained $\frac{1}{2}\%$ on both the weaker deutschemark (4.30 $\frac{1}{2}$) and attendant Swiss franc (3.43 $\frac{5}{8}$). The dollar firmed in Germany to 2.4156 (after 2.4174) and in Switzerland to 1.9295. The Bundesbank sold only \$5mn. at the fixing. The Swiss did nothing. The French franc (6.2687) danced to the mood of the moment but was never under pressure within EMS which finished 2 $\frac{1}{2}\%$ spread between the deutschemark and Belgian franc (45.60). The Belgians sold \$25mn., \$12mn.-worth of Swiss francs and \$10mn.-worth of deutschemarks; the Italians spent \$193mn. In the course of the day the dollar reached record levels in Belgium (45.60), France (6.29), Italy (1322.35), Denmark (8.2505) and Sweden (5.9535). The yen closed slightly better at 246.97 after official sales of \$110mn. in Tokyo this morning.

Gold retreated in the Far East as the dollar advanced but was a good, two-way market in Europe and the USA. Fixings were \$319.50 and \$318.50.

| | | | |
|-------------|--------------|---|-----------|
| Operations: | Market | - | \$5mn. |
| | Iraq | + | 27 |
| | Interest | + | 20 |
| | South Africa | + | 11 |
| | Iran | + | 7 |
| | Government | - | 11 |
| | Sundries | + | 1 |
| | | | <hr/> |
| | | | + \$50mn. |

29th March 1982.

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US BOND AND MONEY MARKETS

Monday, 29th March 1982

Federal Funds

Opening: 14 $\frac{7}{8}$ %
Range: 14 $\frac{7}{8}$ % - 15 $\frac{5}{8}$ %
Close: 15 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$ (- $\frac{1}{2}$) 14 $\frac{1}{2}$ %
5-year: 98 $\frac{3}{4}$ (- $\frac{5}{8}$) 14 $\frac{1}{4}$ %
10-year: 102 $\frac{1}{2}$ (- $\frac{3}{4}$) 14 $\frac{1}{8}$ %
30-year: 101 $\frac{5}{8}$ (- $\frac{7}{8}$) 13 $\frac{3}{4}$ %

Euro-dollars (Today's opening
London bid)

7-day: 15 $\frac{1}{2}$ %
1-month: 15 7/16%
3-months: 15 9/16%
6-months: 15 $\frac{5}{8}$ %

Federal Reserve Operations:

Indicators

Comment:

Dismayed at the high Funds rate, which was perhaps inflated by end-quarter pressures, the market opened lower this morning and remained depressed in light, professional trading. There was no retail interest in the market, no action from the Fed and price movement, after the opening, was minimal. The market closed a little off its lows.

30th March 1982.

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