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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st April 1982

Yesterday's strength in US bonds and some easing in the cost of overnight money made for a softer dollar today, although its decline was restrained by renewed speculation in EMS. Eventually, however, the volume of official sales (over \$600mn.) and a further modest advance in bonds ensured that the dollar finished close to the day's lows. Sterling was quiet and comfortable. The ERI fell from 91.0 to 90.9.

The pound closed at 1.7845 in New York yesterday. This morning it opened at 1.7830, touched 1.7820 and moved quickly ahead to 1.7860 on some modest European demand as eurodollars softened and the dollar eased. The dollar recovered as speculative attention was turned on EMS: sterling established a narrow range around the opening level. This afternoon, with Federal funds opening at $15\frac{1}{2}\%$, New York took the dollar lower. The pound improved quietly and steadily to 1.7875 before closing at 1.7869. Soon after, sterling was marked up above 1.79, although the dollar was otherwise a touch firmer. The three-month forward margin narrowed by $\frac{1}{2}\%$ to $1\frac{1}{2}\%$ p.a. as eurodollars eased as much to $15\frac{3}{16}\%$. With sterling $\frac{1}{2}\%$ cheaper at $15\frac{1}{2}\%$, however, the covered differential in London's favour all but disappeared.

The pound lost $\frac{1}{4}\%$ to the deutschemark (4.29) but gained $\frac{1}{8}\%$ on the French franc (11.15 $\frac{3}{4}$) and $\frac{1}{2}\%$ on the Swiss franc (3.46 $\frac{1}{2}$). The deutschemark improved to 2.4008 (after 2.3985). The French franc struck a record low of 6.2975 this morning but improved naturally - the French selling only \$19mn.-worth of deutschemarks - to close at 6.2440. Greater pressures were felt elsewhere. The Italians sold \$190mn., the Danes \$148mn. and the Belgians \$123mn., \$24mn.-worth of deutschemarks, \$11mn.-worth of Swiss francs and \$7mn.-worth of florins. Even the Dutch sold \$30mn. while the Irish spent \$17mn. EMS closed a little over 2% in width between the German and Belgian currencies. Elsewhere the Norwegians took in \$20mn. (forward) and the Swedes sold \$34mn. The Swiss swapped in \$1,216mn. to keep up the downward pressure on interest rates. Their franc was easier on the day at 1.9370 to the dollar and 0.80 11/16 to the DM. The Bank of Japan turned out a further \$111mn. in Tokyo this morning. The yen closed there at 247.90 and improved in London to 246.15.

Gold was bid in New York yesterday and retained its gains today. Fixings were \$325.50 and \$327.

Operations: Market + \$5mn.

Jm 1st April 1982

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US BOND AND MONEY MARKETS

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Federal Funds

Opening: $15\frac{1}{8}\%$
Range: $15\frac{1}{8}\%$ - $15\frac{5}{8}\%$
Close: $15\frac{5}{8}\%$

US Governments (NY closing bids)

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

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$1bn. repurchase agreements for
customer account with funds at
 $15\frac{3}{8}\%$. Stop rate: 14.75%

Indicators

Comment:

After a somewhat uncertain start, with Federal funds edging firmer, the bond market again improved gradually but steadily throughout the session. Rumours of Middle East participation helped to maintain the better tone. The Fed's action was again supportive.

JGH 2nd April 1982

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