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SECRET

W/L Res Note

(91.600)

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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

437.40

Dollar on \$

Tuesday, 9th February 1982

A very active and fascinating session concealed many subtle cross-currents below the surface of the flows over today's exchanges. The dollar set new high watermarks, not seen since the peak levels of last autumn. Mirroring yesterday's performance, sterling itself set new recent benchmarks in Europe this morning, only to fall prey to American predators this afternoon. The ERI fell from 91.9 to 91.5, having posted 92.1 this morning.

The pound closed at 1.8565 in New York yesterday and opened this morning at 1.8575. This proved to be the day's high point. Euro-dollars began the day around $\frac{1}{2}\%$ firmer and soon tightened further partly in response to the weakness in the US bond market yesterday, but partly also due to the impending four-day weekend in the US and the bunching of rollovers which will result from this. The dollar thus turned sharply firmer in the first hour but sterling alone remained very steady in a narrow band around 1.8550, rising to DM 4.40 $\frac{1}{2}$ in the process. Good Soviet demand was again in evidence. Later, however, when profits were taken in the dollar, sterling did not respond and when, in late morning, Dutch sellers of pounds appeared, the rate came back to 1.8415. Early Americans sold the dollar and sterling recovered to 1.8477 but New York's official return brought Federal Funds at 15% and a weaker bond market. The dollar soared to the day's best levels and sterling was heavily sold from both New York and the Continent, falling to 1.8375. The dollar was turned by a news flash pointing to the continuing accord on borrowing between West Germany and Saudi Arabia. The deutschemark appreciated sharply. Sterling improved on its coat-tails to a closing 1.8447. Three-month Euro-dollars (16 $\frac{1}{2}\%$) gained 5/16%, sterling deposits (14 $\frac{1}{2}\%$) were firmer by $\frac{1}{2}\%$. The forward premium widened by $\frac{1}{8}\%$ to 1 $\frac{1}{2}\%$ p.a. and the covered differential rose to $\frac{3}{8}\%$ in London's favour.

The pound lost $\frac{1}{2}\%$ in Switzerland (3.52) and $\frac{3}{8}\%$ in both France (11.11) and Germany (4.37 $\frac{3}{8}$). The dollar gained in each of these countries, closing at 1.9080 (after 1.9137), 6.0225 (after 6.0385) and 2.3712 (after 2.3807) respectively. EMS was 1 $\frac{1}{2}\%$ spread between the lira (1267 $\frac{1}{2}$) and Belgian franc (40.43). The French bought \$42mn.-worth of deutschemarks, while swapping out \$245mn. The Danes sold \$8mn. and the Irish \$4mn. The Norwegians took in \$150mn. (outright forward) but the Swedes lost \$64mn. The yen eased to 236.50 (after 2.3695). The Bank of Japan sold \$8mn. in New York yesterday.

Gold was remarkably steady, if a little easier. Fixings were \$378 and \$378.50. The metal took heart later in the day from a report that margin requirements in the US were being reduced and closed around \$380.

Operations:	Market	+ \$5mn.	
	IDA	+ 10	\$ 360
	British Aerospace	+ 5	
	Sundries	+ 1	
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		+ \$21mn.	
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9th February 1982.

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US BOND AND MONEY MARKETS

Tuesday, 9th February 1982

Federal Funds

Opening: 15%
Range: 14 $\frac{3}{4}$ % - 15 $\frac{1}{4}$ %
Close: 14 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{3}{4}$ (-) 15 $\frac{1}{8}$ %
5-year: 92 $\frac{5}{8}$ (- $\frac{1}{8}$) 14 $\frac{7}{8}$ %
10-year: 98 $\frac{1}{2}$ (- $\frac{1}{8}$) 14 $\frac{7}{8}$ %
30-year: 94 $\frac{3}{4}$ (- $\frac{3}{8}$) 14 $\frac{3}{4}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Indicators

Comment:

The previous day's gloom continued to overhang the market at the start and with Funds at 15% the prices fell by $\frac{3}{8}$ % of a point in the long end in the first few minutes. Some bargain hunting by retail investors then helped the market to stabilise and by early afternoon much of the losses had been regained. During the remainder of the day trading was very light and prices eased back.

10th February 1982.

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