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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 23rd February 1982

Sterling continued soft today as fears for the future course of the oil price and domestic interest rates predominated and dealers focussed also on the budget. The dollar meanwhile remained very firm despite a continuing decline in short-term interest rates. Sterling's ERI fell from 91.4 to 91.2.

The pound closed at 1.8485 in New York yesterday where the dollar was generally a little firmer following an uptick in Federal Funds and some downward drift in the bond markets. This morning, sterling was heavily sold in the Far East, provoking later a sharp, general firming in the dollar. The pound opened in London at 1.8387 and mirrored the dollar's movements for much of the morning, touching 1.8437 at best. This afternoon was without great feature. The dollar remained firm and sterling traded quietly around 1.84 until late in the day when the dollar developed further upward momentum and sterling came off to close at 1.8355. Later, the movement continued and the pound fell as low as 1.8270. Three-month Euro-dollars eased by 1/16% to 14 1/2%, sterling deposits gained 1/16% (14 3/16%). The forward premium, however, widened slightly to 1 1/8% p.a. so that sterling's intrinsic premium rose to 7/16%.

The pound regained 1/8% on the deutschemark (4.34 1/4) but lost 1/8% to the French franc (11.05 1/2) and 1/8% to the Swiss franc (3.43 1/2). The Swiss franc eased only slightly against the dollar to 1.8730 but advanced from 0.79 11/16 to 0.79 3/16 against the deutschemark. The Swiss swapped in \$150mn. The deutschemark weakened to 2.3660 (later 2.3722) and the French franc fell to 6.0250. EMS contracted to 1 1/8% in width, the Danish krone (7.9125) replacing the Belgian franc (43.30) at the head, while the deutschemark remained at the tail. The Italians spent \$46mn. and the Irish sold sterling worth \$30mn. Elsewhere the Norwegians bought \$50mn. (forward) and the Japanese sold \$20mn. The yen closed in Tokyo at 234.00 and in London at 234.57.

Gold remained soft. The metal was sold again from Europe early this morning - falling to \$359.25 at worst - and the market remained fairly active until after the earlier fixing, which was \$360.50. Thereafter, the atmosphere was quieter, albeit still nervous. The later fixing was \$361.00.

Operations:	Market	-	\$20mn.
	BIS	+	10
	Iraq	+	9
	Sundries	+	1
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		-	
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	Overnight	-	\$5mn.
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23rd February 1982.

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US BOND AND MONEY MARKETS

Tuesday, 23rd February 1982

Federal Funds

Opening: 13 $\frac{3}{8}$ %  
Range: 12% - 13 $\frac{3}{8}$ %  
Close: 12 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$  (-) 14 5/16%  
5-year: 95 $\frac{7}{8}$  (-) 13 15/16%  
10-year: 103 $\frac{3}{4}$  (- $\frac{1}{8}$ ) 13 15/16%  
30-year: 102 $\frac{1}{8}$  (- $\frac{1}{4}$ ) 13 11/16%

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

\$1.7bn. customer repurchase  
agreements with Fed Funds at 13 $\frac{1}{4}$ %.  
Stop rate 12.44%.

Indicators

Durable goods orders in January -1.5% (December revised  
from +1.6% to -0.2%).

Prime rates - $\frac{1}{2}$ % 16 $\frac{1}{2}$ %.

Comment:

With Funds lower than expected at 13 $\frac{3}{8}$ %, the market opened up strongly, showing gains of up to half a point at the long end. Profit-taking from the start, however, quickly wiped out the gains and within half an hour prices were  $\frac{1}{2}$  of a point below the previous day's close. Thereafter, in very quiet trading with, again, minimal retail investor interest, the market moved in a narrow range, held up by the declining Funds rate.

24th February 1982.

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