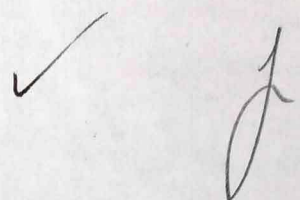


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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th February 1982



The dollar remained extremely firm today, partly in response to some reversal of the recent downturn in interest rates but partly also as the deutschemark weakened following news that both Lambsdorff and Matthoefler were under investigation on suspicion of tax evasion. Sterling, while remaining relatively soft on any recent comparison, saw little business and traded comfortably. The ERI fell from 91.2 to 91.1.

The pound closed at 1.8287 yesterday in New York where the dollar was generally firmer in the wake of an easier bond market. This morning the pound opened at 1.8287 but, as the dollar quickly gained ground in Germany, sterling was sold back to 1.8208 in sympathy before steadying. Aggressive official support for the deutschemark turned the tide temporarily but later this morning the dollar surged again and sterling was marked back to 1.8140 by early afternoon. New York's return brought Federal funds unchanged at 13 3/8% and profits were taken in the dollar. Central Bank interest in sterling was seen as the rate climbed again to 1.8238 before closing at 1.8225. Three month eurodollars gained 1/8% (15%), sterling deposits 1/16% (14 1/16%). The forward premium widened by 1/4% to 1 15/16% so that the covered differential rose to 3/8% in London's favour.

The pound closed fractionally firmer against each of the deutschemark (4.34 5/16), Swiss franc (3.44 7/8) and French franc (11.07 1/4). The dollar gained around 1/2% on each at 2.3830, 1.8923 and 6.0780 respectively. The Bundesbank sold \$100mn. this morning. Later, after Europe's close, they sold a further \$200mn. (forward). EMS widened to 1% between the Danish krone (7.98) and deutschemark. The Italians spent \$10mn. and the Irish sold \$37mn. and sterling equivalent to \$4mn. The yen eased to 236.57.

Gold rallied again in New York yesterday but eased back once more today before the advancing dollar. The market was not active and the fixings were \$363.25 and \$362.60.

Operation:	Market	-	\$5mn.
	Interest	+	19
	I.D.A.	+	5
			<u>          </u>
			+ \$19mn.
			<u>          </u>

Overnight - \$5mn.

The result for February was a reserve increase of \$148mn. to a level of \$23,373mn., after net new public sector borrowing of \$57mn. The overbought forward position increased by \$69mn. to a level of \$1,566mn.

26th February 1982

JGH

US BOND AND MONEY MARKETS

Friday, 26th February 1982

Federal Funds

Opening:  $13\frac{3}{8}\%$   
Range:  $13\frac{1}{4}\%$  -  $14\frac{3}{4}\%$   
Close:  $14\frac{3}{4}\%$

US Governments (NY closing bids)

2-year:  $101\frac{1}{8}$  ( $-\frac{1}{4}$ )  $14\frac{7}{16}\%$   
5-year:  $99\frac{3}{8}$  ( $-\frac{1}{4}$ )  $14\frac{3}{16}\%$   
10-year:  $103\frac{3}{8}$  ( $-\frac{1}{4}$ )  $14\%$   
30-year:  $101\frac{1}{8}$  ( $-\frac{3}{4}$ )  $13\frac{13}{16}\%$

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Indicators M1 + \$1.2bn. (latest 13 weeks + 11.7%)

Comment: The market opened rather weak, came back to the previous day's close within the first half hour and then settled into lethargy, waiting for money supply. As Funds moved higher the market eased down and by 4 p.m., when Funds were at  $14\frac{1}{2}\%$ , the market was at its lows for the day. Prices dropped further on the money figures but bounced back in late business.

1st March 1982

TRS