

2/2/4  
9+12  
SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 1st February 1982

With money supply in the United States showing only a nominal decline, the dollar was strongly bid today. Sterling outperformed allcomers in resisting the dollar's advance and rose to new recent high levels on the Continent. The ERI rose to 91.8.

The pound closed at 1.8650 on Friday in New York (a fall of nearly two cents) where the dollar was considerably firmer in the wake of the \$0.6bn. reduction in M1. This morning Euro-dollars were around  $\frac{1}{2}\%$  firmer but the dollar was unable to maintain its best levels. Sterling opened at 1.8705 and met modest professional demand in early dealings, rising to 1.8740 before other professional sellers helped establish a range around the opening level. Central Bank buying interest was seen at this stage, as the dollar began to firm generally, and sterling was relatively well protected this afternoon, when the dollar set new, recent high levels as Federal Funds traded up to  $15\frac{1}{2}\%$ . The pound's low point was 1.8648 and the close 1.8670. Three-month Euro-dollars gained  $13/16\%$  ( $15\ 7/16\%$ ), comparable sterling deposits just  $1/16\%$  ( $14\ 9/16\%$ ). The forward premium widened by  $\frac{3}{4}\%$  to  $1\ 1/16\%$  and a modest intrinsic premium for sterling remained.

The pound gained  $\frac{1}{2}\%$  on the French franc (11.14 $\frac{1}{2}$ ) and  $\frac{5}{8}\%$  on the Swiss franc (3.49 $\frac{1}{2}$ ) and deutschemark (4.38 $\frac{1}{2}$ ). The dollar hardened against these currencies to 5.9680, 1.8720 and 2.3465 (later 2.3525) respectively. EMS narrowed to around  $1\frac{1}{2}\%$  in width between the florin (2.5706) and Belgian franc (39.92). The French bought deutschemarks worth \$43mn. (while swapping out \$60mn.) and the Irish sold \$17mn. The yen eased to 232.00.

Reflecting the dollar's strength, gold eased sharply in the Far East this morning and drifted lower still over the European session. Fixings were \$381.25 and \$379.50.

Operations:	Market	+	\$26mn.
	BIS o/a Nigeria	+	28
	IDA	+	7
	Sundries	+	7
			<hr/>
		+	\$68mn.
			<hr/>
	Overnight	-	\$7mn.
			<hr/>

JGH  
1st February 1982.

JGH

US BOND AND MONEY MARKETS

Monday, 1st February 1982

Federal Funds

Opening: 15½%  
Range: 15¼% - 16%  
Close: 15¾%

US Governments (NY closing bids)

2-year: 99 15/16 (-9/16) 15 1/16%  
5-year: 93¼ (-1) 14 11/16%  
10-year: 98¼ (-1¼) 14 9/16%  
30-year: 97½ (-2) 14¾%

Euro-dollars (Today's opening  
London bid)

7-day: 15 13/16%  
1-month: 15¾%  
3-months: 16 1/16%  
6-months: 16%

Federal Reserve Operations:

Three-day repurchase agreements for  
the System with Fed Funds at 15¾%.  
Stop Rate: 14.64%

Indicators Citibank and Crocker increased Prime Rate from 15¾% to  
16½%.

Comment:

The market opened sharply lower, following Friday's money supply and a substantial mark-up in Federal Funds, and continued softer throughout the day. The increase in Prime Rate added further pressure towards the close.

*JGH* 2nd February 1982.

JGH