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THE DEPUTY GOVERNOR



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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 2nd February 1982

Following yesterday's increase in Citibank's Prime Rate by $\frac{1}{2}\%$ to $16\frac{1}{2}\%$, the dollar was again sharply firmer this morning. Sterling once more performed better than other currencies. Later, the news that President Reagan and Chairman Volcker would meet for breakfast (coming immediately prior to this month's FOMC meeting) provoked profit-taking in the dollar and, when Federal Funds opened softer and the bond markets took a turn for the better, nearly all the dollar's early gains were erased. Sterling's ERI rose to 91.9.

The pound closed over a cent lower at 1.8555 yesterday in New York, following the increase in prime rate. This morning, Euro-dollar deposits opened around $\frac{1}{2}\%$ firmer and the dollar moved stronger still in Far Eastern trading. Sterling, however, opened no lower than 1.8542 in London and remained very steady around that level throughout the morning, falling briefly to 1.8505 at worst. Some sizeable business was transacted in either direction. The Great Bear was seen as a substantial seller of pounds but routine Central Bank buying and good commercial demand from South Africa more than righted the balance. This afternoon the market turned very volatile. Clearly seeking an excuse to take profit in the dollar, dealers seized on a White House statement that the President and Chairman were to meet to discuss interest rates. Federal Funds opened lower at $15\frac{3}{8}\%$ and traded down to $15\frac{1}{2}\%$ over the afternoon. The bond market was much improved. Amid the volatility, the dollar's trend was clearly easier. Sterling advanced to close at 1.8685. Three-month Euro-dollars closed unchanged at $15\frac{11}{16}\%$ (after earlier trading to $16\frac{3}{16}\%$). The comparable sterling deposit, too, was unchanged at $14\frac{9}{16}\%$. Sterling's forward premium, however, widened to $1\frac{7}{16}\%$ p.a. so that the covered differential rose to $5/16\%$ in London's favour.

The pound finished a touch softer in France ($11.12\frac{1}{2}$), a touch firmer in Germany ($4.38\frac{1}{2}$) and $\frac{1}{2}\%$ better in Switzerland ($3.51\frac{3}{8}$). The deutschemark closed unchanged at 2.3465 (after 2.3690). The French franc touched 6.0265 this morning but recovered to close slightly firmer on balance at 5.9537, after the Bank of France swapped out \$135mn., taking over the lead role in EMS, $1\frac{11}{16}\%$ above the Belgian franc (39.97). Elsewhere the Swiss franc (1.8805, after 1.8962) was relatively soft, following inward swaps of \$1,565mn. by the Swiss National Bank. The yen closed at 233.60 in Tokyo and 232.77 in London. The Japanese sold \$60mn. in New York yesterday but were idle this morning.

Gold was sold down below \$375 this morning in face of the dollar's strength but met keen buying interest around that level and was fixed at \$376.25. The recovery was extended as the dollar retreated this afternoon. After fixing at \$379.15, the metal traded on to \$381.50 before closing around \$380.

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|-------------|-----------------|---|-------------|
| Operations: | Market | + | \$8mn. |
| | BIS o/a Nigeria | + | 19 |
| | Sundries | + | 10 |
| | | | <hr/> |
| | | + | \$37mn. |
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2nd February 1982.

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US BOND AND MONEY MARKETS

Tuesday, 2nd February 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 100¼ (+5/16) 14¾%
5-year: 93¼ (+½) 14½%
10-year: 98¼ (+½) 14½%
30-year: 98¼ (+¾) 14¼%

Euro-dollars (Today's opening
London bid)

7-day: 15 7/16%
1-month: 15½%
3-months: 15¾%
6-months: 15¾%

Federal Reserve Operations:

Indicators Most major banks prime rates from 15¾% to 16½%; Chase
Manhattan 15¾% to 16¼%.

Comment:

The market opened with a firm tone as Fed Funds were lower than expected at 15½%. When Funds moved down to 15¾% the market improved further, helped by some buying from the Middle East. At this stage the long bond had gained over a point on the day. The Fed's failure to supply reserves to the system caused some disappointment and the market shed more of its gains when Funds returned to 15¾%.

The \$5bn. new 3-year was auctioned at an average of 14.63.

3rd February 1982.

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