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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 3rd February 1982

With the dollar uncertain and tending softer this morning, Schmidt's unveiling of a reflationary package and his plea to the Bundesbank for greater expansion in the money supply brought the deutschemark to its knees again and the dollar back into favour. Sterling was again a fairly active two-way market. The ERI fell slightly to 91.8, having earlier posted 92.0 at noon.

The dollar was generally a little firmer in New York yesterday and sterling closed there almost a cent cheaper at 1.8605. This morning eurodollars were, for the most part, a little easier and the dollar tended softer, albeit reluctantly, from the outset. The pound opened at 1.8640 and, in an active first hour, traded up to 1.8695 before settling around 1.8675. Later this morning good demand from Germany accompanied a rumour of Middle East portfolio switching from dollars to pounds and sterling topped 1.87. Early Americans sold dollars and the pound improved to 1.8745 but the news from Germany smartly turned the dollar and this movement was reinforced when Federal funds opened at 15½% and traded up to 16%. Sterling was sold in the closing stages and touched 1.86 before closing at 1.8636. Three month sterling deposits were easier by 1/16% at 14 1/2%, comparable eurodollars unchanged at 15 11/16%. The forward premium, however, narrowed by 1/16% to 1 3/8% p.a so that the covered differential dropped to 3/16% in London's favour.

The pound gained 1/8% in each of Switzerland (3.51 7/8) and France (11.14) but lost 1/8% in Germany (4.38, after 4.39). The dollar strengthened variously in these countries to 1.8880, 5.9775 and 2.3505. The lire (1257) replaced the French franc at the head of EMS, almost 1 1/2% distant from the Belgian franc (40.00) at the tail. The French bought \$21 mn-worth of deutschemarks and the Italians \$37 mn; the Belgians sold \$40 mn. and \$4 mn. worth of florins. Elsewhere the Norwegians took in \$42 mn. (forward) and the yen eased to 234.02.

Gold traded in a narrow range and was quite active at times. Fixings were \$378.75 and \$378.

Operations:	Market	+ \$16 mn.
	Iran	+ 10
	National Water Council	
	(PSB G'teed)	+ 10
	Interest	+ 7
	Sundries	+ 1
		<hr/>
		+ \$44 mn.
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JGH  
3 February 1982

US BOND AND MONEY MARKETS

Wednesday, 3rd February 1982

Federal Funds

Opening: 15¼%  
Range: 15¼-17%  
Close: 16¼%

US Governments (NY closing bids)

2-year: 100½ (-½) 14 15/16%  
5-year: 93½ (-¼) 14 5/8%  
10-year: 98½ (-¾) 14 5/8%  
30-year: 97¾ (-¾) 14 3/8%

Euro-dollars (Today's opening  
London bid)

7-day: 15 5/8%  
1-month: 15 5/8%  
3-months: 15 3/4%  
6-months: 15 3/4%

Federal Reserve Operations:

Overnight system repurchase  
agreement with Fed Funds at 15½%.  
Stop rate 14.76%

Indicators

Comment:

The market opened unchanged but soon started to drift lower as it became clear there was no retail follow through to the previous day's three-year auction. As Funds moved steadily higher so the market gave further ground and although it tried to improve when the Fed supplied reserves to the system, the downward drift was resumed when Funds continued on their upward path. The market closed at, or close to, its lows for the day.

The \$2.5bn. new 10-year was auctioned at an average of 14.68.

4th February 1982

*Jen*  
pp. TRS