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SECRET

THE DEPUTY GOVERNOR

DAW

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th February 1982

Sterling was rather soft for much of today. This morning's news of Laker's problems was depressing and sellers predominated throughout the day. The reduction in BNOC's price came after the close and occasioned a mark-down of half a cent which was subsequently recovered. The dollar meanwhile finished very firm, following an unexpected reduction in US unemployment. Sterling's ERI fell to 91.6.

The pound closed at 1.8740 yesterday in New York, where the dollar was considerably weaker following apparently unintentional indications from the White House that the President was seeking ways of reducing interest rates. This morning it began much weaker still but sterling started no higher than 1.8765 and, having touched 1.8772, traded steadily around the opening level throughout the early exchanges. Eventually the dollar began to firm and, with the news of Laker now abroad, sterling was sold down through 1.87. An American commission house was an active buyer of dollars against all major currencies, while a major oil company was a large seller of sterling. New York returned to find US unemployment reduced from 8.9 to 8.5%. Although the number of unemployed had in fact risen (while the size of the workforce had risen rather more), the dollar turned much firmer. Sterling met further professional selling and fell to 1.8560 before closing at 1.8595. Soon after the market received news of the $1.50 reduction in BNOC's oil price. Sterling was marked down to 1.8542 but quickly recovered to 1.8585. Three-month sterling deposits lost 1/16% (14½%), comparable eurodollars gained 1/16% (15 13/16%). The forward premium widened by 1/16% to 1 5/16% p.a. and interest parity prevailed.

The pound gave up ¼% to each of the Swiss franc (3.50⅞), French franc (11.10) and deutschemark (4.36¾). Each of these finished a touch firmer on the dollar, closing at 1.8870, 5.9692 and 2.3485 respectively. EMS widened to 1 13/16% between the lira (1255.50) and Belgian franc (40.08), though only after sales of $123mn. by the Bank of Italy. The Belgians evidently suffered week-end pressure and spent $95mn., $16mn.-worth of florins, $11mn.-worth of Swiss francs and $3mn.-worth of deutschemarks. The Germans sold $18mn. and the Irish $5mn. Elsewhere the Swedes lost $27mn. and the yen finished a touch firmer at 233.87.

Gold was quiet and very steady. Fixings were $384.50 and $384.25.

Operations:	Market	+ $2mn.
	Sundries	+ 1
		+ $3mn.

JGH

5th February 1982

JGH

US BOND AND MONEY MARKETS

Friday, 5th February 1982

Federal Funds

Opening:	15⅛%
Range:	15 - 15⅜%
Close:	15%

US Governments (NY closing bids)

2-year:	100	(-⅛)	15%
5-year:	93½	(+⅛)	14⅝%
10-year:	99½	(=)	14¾%
30-year:	96¾	(+¼)	14½%

Euro-dollars (Today's opening London bid)

7-day:	15¼%
1-month:	15⅜%
3-months:	15 9/16%
6-months:	15 9/16%

Federal Reserve Operations:

Indicators US unemployment in January 8.5% (c.f. 8.9% in December). M1 - $1.4bn. (latest 13 weeks + 14.3%). Target for growth of M1 in 1982 1st quarter reduced to 4-5% from 7%.

Comment: Prices opened lower when US unemployment in January was announced as showing a sharp fall instead of the expected rise. When Funds moved to 15⅜%, the market sustained further losses and by mid-morning the long bond had shed ⅜ of a point. However, the Fed's absence (they had been expected to drain reserves from the system) put new heart into the market, and as Funds also moved down price improved during the afternoon, so that at this time the market showed overall gains on the day. The money supply figures and the reduction in the growth target wiped out most of these gains.

8th February 1982

TRS