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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 8th February 1982

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Despite the obvious implications of President Reagan's budget, the dollar began the day somewhat softer, only to recover all and more of its recent strength as New York re-assessed the impending budget deficits. Sterling similarly was sold this morning - largely on continuing fears for the oil price - but thereafter found solid buying interest and finished in fine fettle. The ERI rose from 91.6 to 91.9, having dropped this morning to 91.3.

The pound regained some of its lost composure in New York on Friday, as the market focussed on the possibility of a reduction in OPEC oil production. It closed there at 1.8630 (DM 4.36), the dollar somewhat easier, perhaps in the wake of an easier money market. This morning sterling was heavily sold in the Far East for deutschemarks, partly, it was said, on an exchange rate view and partly on fears of a further fall in BNOC's price. The pound traded below 4.35 against the DM. The dollar weakened, too, in response to the demand for deutschemarks and continued to ease across the opening exchanges in London. Sterling opened here at 1.8603, touched 1.8588, then settled around the opening level, remaining in a tight band around that price throughout the day, despite the progressive strengthening of the dollar. The pound touched 1.8633 at best and closed at 1.8604. A large commercial buying order provided some stability this morning, while this afternoon saw strong Soviet demand and keen German buying interest both in Frankfurt and New York. Three-month sterling deposits (14 $\frac{3}{8}$ %) gained  $\frac{1}{8}$ %, while comparable Euro-dollars (15 13/16%) were unchanged. The forward premium, however, widened a touch to 1 $\frac{3}{8}$ % p.a. and a modest intrinsic premium was re-established.

The pound improved by  $\frac{1}{8}$ % against each of the Swiss franc (3.52 $\frac{3}{8}$ ), French franc (11.15 $\frac{3}{8}$ ) and deutschemark (4.39). The dollar scored a similar gain against these currencies, closing at 1.8957, 5.9955 and 2.36 respectively. Federal Funds traded below 15%, but the US bond market, after a quiet opening, went into retreat as participants re-assessed the impending budget deficits. The lira (1258 $\frac{3}{8}$ ) and Belgian franc (40.08) continued to span EMS, now 1 9/16% apart. The French took in deutschemarks worth \$64mn., while swapping out \$85mn. The Irish sold \$17mn. and \$5mn.-worth of deutschemarks. The yen eased to 234.60.

Gold lost a little ground, as the dollar strengthened. The fixings set levels of \$381.50 and \$379.75.

Operations:	Market	-	\$7mn.
	Government	+	9
	Egypt	+	5
	IBRD	+	5
	Sundries	+	5
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		+	\$17mn.
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8th February 1982.

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US BOND AND MONEY MARKETS

Monday, 8th February 1982

Federal Funds

Opening: 14 $\frac{3}{4}$ %  
Range: 14 $\frac{5}{8}$ % - 14 $\frac{7}{8}$ %  
Close: 14 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{3}{4}$  (- $\frac{1}{4}$ ) 15 $\frac{1}{8}$ %  
5-year: 92 $\frac{3}{4}$  (- $\frac{3}{4}$ ) 14 13/16%  
10-year: 98 $\frac{5}{8}$  (- $\frac{7}{8}$ ) 14 $\frac{7}{8}$ %  
30-year: 95 $\frac{1}{8}$  (-1 $\frac{5}{8}$ ) 14 $\frac{3}{4}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 15 $\frac{3}{8}$ %  
1-month: 15 11/16%  
3-months: 15 15/16%  
6-months: 16%

Federal Reserve Operations:

Indicators

Chase Manhattan and Marine Midland prime rates to 16 $\frac{1}{2}$ %  
from 16 $\frac{1}{4}$ %.

Comment:

Reagan's budget was regarded as unrealistic by the Street and Kaufman and Wojnilower both predicted that the deficit was underestimated by some \$50bn. The market accordingly opened lower, despite Funds at 14 $\frac{3}{4}$ %, and after an attempt to hold opening levels, started to slide as retail selling developed. Some Middle East buying halted the fall around mid-morning but the downward movement was renewed during the afternoon. The market closed in dispirited fashion, close to its lows for the day.

9th February 1982.

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