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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th February 1982

The approach of a four-day weekend in the United States (there are partial or countrywide holidays on Friday and Monday) made for a quiet session on the exchanges. The dollar threatened briefly to repeat yesterday's show of strength but there was no follow-through and most currencies traded in a relatively narrow range. Sterling's ERI rose slightly to 91.6.

The pound recovered to 1.8517 yesterday in New York, where the dollar continued to ease and the New York banks found themselves particularly short of sterling. This morning the pound began at 1.8530 - once more the high for the day - and, after a quiet spell around 1.85, buoyed only by some modest European demand, receded in the face of a strong advance by the dollar to 1.8450. The presence of several small commercial buyers was felt at the lower levels, however, and sterling had crested 1.85 again by mid-day. The rate was never far from this level throughout the afternoon, despite some professional selling from New York. The pound closed quietly at 1.8494. Three-month Euro-dollars gained another $\frac{1}{8}\%$ at $16\frac{3}{8}\%$, while the comparable sterling deposit (14 $\frac{11}{16}\%$) lost $\frac{1}{16}\%$. The forward premium, however, narrowed by $\frac{1}{16}\%$ to $1\frac{11}{16}\%$ p.a. so that yesterday's sizeable intrinsic premium was entirely eliminated.

The pound was fractionally firmer in Frankfurt (4.37 $\frac{1}{2}$), a little easier in Paris (11.10 $\frac{1}{4}$) but lost $\frac{1}{8}\%$ in Zurich (3.51). The dollar eased in these centres to 2.3655, 6.0030 and 1.8982 respectively. EMS remained $\frac{1}{8}\%$ in width with the French franc edging out the lira (1264.75) from first place. The Belgian franc (40.33) continued to bring up the rear. The French bought \$42mn. of deutschmarks but the Belgians spent \$36mn. and a mixed bag of currencies worth \$20mn. The Italians sold \$28mn., the Germans and Irish \$9mn. apiece. Elsewhere the Norwegians took in \$25mn. (forward) and the Swedes lost \$10mn. The yen closed a touch firmer at 236.25.

Gold was again remarkably steady at levels slightly firmer than yesterday. Fixings were \$382.60 and \$382.15.

Operations:	Market	+	\$13mn.
	Iran	+	7
	Sundries	-	1
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		+	\$19mn.
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10th February 1982.

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US BOND AND MONEY MARKETS

Wednesday, 10th February 1982

Federal Funds

Opening: 15 $\frac{1}{4}$ %
Range: 15 $\frac{1}{4}$ % - 15 $\frac{3}{4}$ %
Close: 15 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{7}{8}$ (+ $\frac{1}{8}$) 15%
5-year: 93 $\frac{1}{4}$ (+ $\frac{1}{8}$) 14 11/16%
10-year: 99 $\frac{3}{8}$ (- $\frac{1}{8}$) 14 $\frac{3}{4}$ %
30-year: 96 (+1 $\frac{1}{4}$) 14 9/16%

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Indicators US retail sales in January -1.1% (c.f. -0.2% in December,
revised from +0.4%).

Comment:

After the declines of the past two days, the market opened with a better tone, despite higher Funds, on the feeling that it had temporarily been oversold. Prices rose in the early going and the long bond quickly gained $\frac{1}{8}$ of a point. Some modest retail demand was again evident and there was some buying from the Middle East as well in mid-morning. Volcker's testimony had little impact and prices continued to move a little higher throughout the afternoon in, by then, rather quiet trading, helped by the decline in retail sales. The market closed virtually at its highs.

11th February 1982.

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