

FE 21214

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 11th February 1982

Another fairly quiet day on the exchanges. As yesterday, the dollar threatened another rally but could not sustain it. Sterling was once more very steady and, in token of this, the ERI was an unchanged 91.6 throughout.

The pound closed at 1.8720 in New York yesterday, gaining rather more than most from a general easing in the dollar following a surprisingly large dip in US Retail Sales. This morning sterling opened at 1.8530 and traded close to that level throughout the morning, touching 1.8548 at best. Some early professional selling was seen but there were also buyers of pounds for deutschemarks at around 4.37½. This afternoon, Federal Funds opened at 15½% and traded up to 16%. US domestic markets had expected some tightness before the long weekend, but the exchanges reacted by bidding for the dollar. Sterling dipped to 1.8488 but thereafter traded quietly around 1.85. It closed at 1.8515. Three-month deposits - both sterling and Euro-dollar - were 1/16% easier at 14½% and 16 5/16% respectively. The forward premium widened by 1/16% to 1½% p.a. and a very small intrinsic premium was re-established.

The pound was modestly firmer in each of Paris (11.11½), Frankfurt (4.37½) and Zurich (3.51½). The dollar was little changed in these centres at 6.0035, 2.3645 and 1.8972 respectively. EMS was extended to 1½% in width, the lira (1262.75) regaining the lead from the French franc, after sales of \$101mn. by the Bank of Italy, while the Belgian franc (40.33) remained at the tail. The French bought \$13mn., the Belgians sold \$60mn., \$10mn.-worth of florins and \$10mn.-worth of deutschemarks. Elsewhere, the Swedes spent \$56mn. and the yen, with Tokyo closed, advanced to 235.67.

Gold rose to \$385 in the Far East this morning but suffered profit-taking in London. Fixings were \$381.50 and \$380.

Operations:	Market	-	\$3mn.
	BIS	+	11
	Interest	+	9
	Iran	+	8
	Sundries	+	14
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		+	\$39mn.
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11th February 1982.

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US BOND AND MONEY MARKETS

Thursday, 11th February 1982

Federal Funds

Opening: 16%
Range: 15½% - 16%
Close: 15½%

US Governments (NY closing bids)

2-year: 99¾ (-) 15%
5-year: 93¾ (+¼) 14¾%
10-year: 99¾ (+½) 14¾%
30-year: 96¾ (+¾) 14 7/16%

Euro-dollars (Today's opening
London bid)

7-day: 15 15/16%
1-month: 16¾%
3-months: 16¾%
6-months: 16¾%

Federal Reserve Operations:

5-day repurchase agreements for
system account with Fed Funds at
15¾%. Stop rate 14.92%.

Indicators

Comment:

The market opened hesitantly with Fed Funds higher than expected at 16%. Some retail and professional short-covering demand soon developed and within an hour prices at the long end were showing gains of nearly a point. Although the market eased back following the Fed's repurchases, which were widely anticipated, it recovered again during the afternoon in, by then, rather thin trading. The market closed only a little below its best levels at the long end but showed only modest gains elsewhere.

12th February 1982.

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