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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th February 1982

After a quiet morning, with no discernible trend, New York's return brought a sharply weaker bond market and a significantly stronger dollar. The latter's firmer tendency, however, did not persist and, as the bond market turned off the bottom, so the dollar retreated to close around the day's cheapest levels. Sterling remained steady and relatively firm despite an apparent preponderance of sellers. The ERI declined from 91.7 to 91.6.

The pound opened little changed this morning at 1.8327 and moved between 1.8305 and 1.8343 in a quiet morning session. Some Swiss selling was seen. This afternoon, the dollar was bid from New York as Americans returned from holiday to find Federal Funds at 16½% and the bond market very much weaker in the wake of Friday's increase in M1. Sterling was traded down to 1.8265 but the dollar's surge soon passed as the domestic markets turned up again. The pound advanced to 1.8335 before closing at 1.8330. The three-month forward margin was unchanged at 2¼% p.a., reflecting an easing of 1/16% in both the Euro-dollar (16 13/16%) and sterling (14 11/16%) deposits. A small intrinsic premium thus remained.

The pound was fractionally easier in Paris (11.13¾) and Frankfurt (4.38½) but gave up another ¼% in Zurich (3.50 9/16%). The dollar showed similar losses in each of these centres, closing respectively at 6.0762, 2.3945 and 1.9125. Furthermore, its best levels today were some way below those of yesterday. EMS finished 2% in width between the lira (1277.75) and Belgian franc (40.85). The Belgians spent \$9mn. and the Italians \$96mn. The Irish sold \$18mn.-worth of sterling. The Dutch bought \$21mn.-worth of deutschemarks (forward) and the French took in \$24mn.-worth of deutschemarks (while swapping out \$141mn.). The Swedes lost a further \$45mn. The yen was marginally firmer at 240.65.

Gold remained fairly steady around yesterday's depressed levels. Fixings were \$376.25 and \$375.25.

Operations:	Market	+	\$1mn.
	BIS o/a Nigeria	+	18
	Sundries	+	2
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		+	\$21mn.
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16th February 1982.

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US BOND AND MONEY MARKETS

Tuesday, 16th February 1982

Federal Funds

Opening: 16 $\frac{1}{8}$ %  
Range: 16% - 16 $\frac{1}{2}$ %  
Close: 16 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{8}$  (-) 15%  
5-year: 93 $\frac{3}{8}$  (+ $\frac{3}{8}$ ) 14 9/16%  
10-year: 100 $\frac{1}{8}$  (+ $\frac{1}{4}$ ) 14 $\frac{1}{2}$ %  
30-year: 97 $\frac{1}{8}$  (+1) 14 5/16%

Euro-dollars (Today's opening  
London bid)

7-day: 16 7/16%  
1-month: 16 $\frac{1}{2}$ %  
3-months: 16 9/16%  
6-months: 16 9/16%

Federal Reserve Operations:

Two-day system repurchase  
agreements with Funds at 16 $\frac{1}{2}$ %.  
Stop rate 15.20%

Indicators Announcement of \$3.25bn. 5-year notes to be auctioned  
on 24.2.82.

Comment:

Following last week's money supply figures (M1 +\$2.3bn.) the market opened sharply lower this morning and within half an hour the long bond was 1 $\frac{1}{2}$  points below last Thursday's close. Although Funds moved higher, some cautious retail bargain-hunting appeared and prices started to improve. The Fed action was widely expected but a furious rally developed during the afternoon as Funds moved back to 16 $\frac{3}{8}$ % and market operators became bullish about some weak economic statistics expected on Wednesday. The rally was probably partly technical, in that the long bond failed to breach an important chart point on the downside, and was based largely on professional, rather than retail, demand. The market closed at its highs.

17th February 1982.

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