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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th February 1982

A strong rally in the US bond market late yesterday - sparked by a modest decline in Federal Funds but also by expectations (subsequently fulfilled) of weak US economic indicators today - turned the dollar significantly easier. Today's session was comparatively featureless, the dollar neither confirming nor refuting yesterday's weakness as make-up day money remained very tight. After London's close, however, the dollar recovered most of its losses, in the wake of a general increase of $\frac{1}{2}\%$ in US banks' prime rates to 17%. Sterling remained quite firm and the ERI moved up from 91.6 to 91.7.

The pound advanced to 1.8397 at the close in New York yesterday as the dollar retreated. This morning sterling opened at 1.8388 and traded through a dull day between 1.8373 and 1.8415, closing at 1.8397. In the twilight hour, however, as the dollar recovered, it fell to 1.8317 and was last seen at 1.8335. The three-months forward premium narrowed to $2\frac{1}{2}\%$ p.a. Three-month Euro-dollars lost $\frac{1}{4}\%$ (16 9/16%), sterling deposits 1/16% (14 $\frac{1}{8}\%$). A modest intrinsic premium remained.

The pound was little changed in Zurich (3.50 $\frac{1}{2}\%$) and a touch firmer in Paris (11.15 $\frac{1}{2}\%$) and Frankfurt (4.39 $\frac{1}{4}\%$). The dollar eased in these centres to 1.9059 (later 1.9147), 6.0637 (later 6.0875) and 2.3875 (later 2.4012) respectively. EMS was $1\frac{1}{2}\%$ spread between the lira (1273.90) and Belgian franc (40.68). The Belgians sold \$46mn., \$10mn.-worth of florins and \$8mn.-worth of Swiss francs. The Dutch bought \$17mn.-worth of deutschemarks (outright forward). The yen improved to 239.40 (but later 240.05).

After a steady day, with fixings at \$375.50 and \$374, gold gave up a little further ground on the dollar's late rally and touched \$372.50 before steadying.

Operations:	Market	+	\$8mn.
	National Coal Board	+	33
	(PSB G'teed)		
	Iraq	+	18
	Interest	+	5
	Government	-	6
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		+	\$58mn.
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17th February 1982.

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US BOND AND MONEY MARKETS

Wednesday, 17th February 1982

Federal Funds

Opening: 16 $\frac{3}{8}$ %
Range: 10% - 16 $\frac{3}{8}$ %
Close: 10%

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (- $\frac{1}{8}$) 15 $\frac{1}{8}$ %
5-year: 93 $\frac{3}{8}$ (- $\frac{1}{8}$) 14 $\frac{5}{8}$ %
10-year: 100 $\frac{1}{4}$ (- $\frac{1}{8}$) 14 $\frac{1}{2}$ %
30-year: 98 $\frac{1}{8}$ (+ $\frac{1}{4}$) 14 $\frac{1}{4}$ %

Euro-dollars (Today's opening
London bid)

7-day: 16 $\frac{1}{2}$ %
1-month: 16 5/16%
3-months: 16 $\frac{3}{8}$ %
6-months: 16 $\frac{3}{8}$ %

Federal Reserve Operations:

Overnight system repurchase
agreements with Fed Funds at 16 $\frac{1}{2}$ %.
Stop rate 14.90%.

Indicators

Industrial production in January -3.0% (after -2.1% in
December).

Housing starts in January -0.6% (December revised from
+13.3% to +4.9%).

Prime Rates to 17% from 16 $\frac{1}{2}$ %.

Comment:

The market opened quietly, with prices drifting lower in the early going. The large drop in industrial production at first had little impact but some modest retail interest developed and prices began to improve. The Fed's action was well received and with Funds falling as well, the market took on some colour, particularly at the long end. During a quiet afternoon prices ended a little below their best levels.

The \$5.25bn. new two-year was auctioned at an average of 15.21.

18th February 1982.

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