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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th February 1982

Europe enjoyed another quiet morning on the exchanges, although active bullion markets met heavy sellers of the precious metals. This afternoon, the dollar enjoyed a brief surge but, as the pressure came off short-term interest rates, so it eased substantially after London's close. Sterling again traded comfortably. The ERI was unchanged throughout at 91.7.

Despite a marked downturn in Federal Funds yesterday, US markets were a little disappointed at the modest decline in Housing Starts and the dollar as a result was reluctant to weaken. Sterling improved to close at 1.8368 in New York. This morning, however, with Euro-dollars easier, the dollar was sold down a little further. Sterling opened at 1.8415 and traded close to that level throughout a quiet morning. New York returned with Federal Funds at 15½% and clearly destined to soften. The dollar was sold again, sterling rising to 1.8471. White House denials of impending cuts in defence spending then brought a reaction and, as the dollar recovered, the pound fell to 1.8395 before closing at 1.8420. Later, Federal Funds traded down to 15%, the US bond market rallied strongly and the dollar weakened substantially. The pound gained a cent and was last seen at 1.8515. The three-months forward premium narrowed to 1 13/16% p.a., reflecting a decline of ¼% in Euro-dollars to 16 5/16% (later 16 1/16% in New York). A modest intrinsic premium remained.

The pound was unchanged against the deutschemark (4.39½), a touch firmer against the French (11.16½) and Swiss (3.51) francs. The dollar closed in London a little easier against all these at 2.3845 (later 2.3670), 6.06 (later 6.0437) and 1.9055 (later 1.8940) respectively. EMS remained 1½% spread between the lira (1274) and Belgian franc (40.70). The Belgians sold \$9mn. and florins worth \$4mn. The Irish sold \$18mn.-worth of sterling. The yen firmed to 236.82 (later 235.60).

Gold was a very busy market in Europe this morning and was sold down from \$375 to \$367 ahead of the first fixing. That session was very active and set a level of \$367.50. Some Middle East selling was seen - though in no great size - and there was a suspicion, too, of some resumption in producer offerings. In any event, the selling was ascribed to yesterday's Prime Rate increases and fears of a further escalation in financing costs. Later, the metal scored a modest recovery and, with American markets quiet, the second fixing was struck at \$369.25. Thereafter, however, despite the sharp decline in the dollar, there seemed great reluctance even to test \$370.

Operations:	Market	+ \$11mn.
	BIS	+ 10
	India	+ 9
	Iran	+ 9
	Iraq	+ 9
	New Zealand	- 74
	Sundries	+ 4
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		- \$22mn.
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18th February 1982.

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US BOND AND MONEY MARKETS

Thursday, 18th February 1982

Federal Funds

Opening: 15½%  
Range: 14½% - 15½%  
Close: 14¾%

US Governments (NY closing bids)

2-year: 100¼ (+¾) 15%  
5-year: 94½ (+½) 14 7/16%  
10-year: 101¾ (+1½) 14½%  
30-year: 99¾ (+1½) 14 1/16%

Euro-dollars (Today's opening  
London bid)

7-day: 15¾%  
1-month: 15¾%  
3-months: 15¾%  
6-months: 15¾%

Federal Reserve Operations:

Four-day repurchase agreements with  
Fed Funds at 15¾%. Stop rate  
14.02%.

Indicators

Capacity utilisation in January -2.5% to 70.4% - lowest  
level since 1975.

Comment:

The market opened higher, with Funds unexpectedly low at 15½%. As Funds eased down further, prices rose and some retail demand, including institutional buying, was seen. The Fed action fuelled the rally and by early afternoon, when Funds were below 15%, the long bond was showing gains of almost two points. The bond showed some resistance, however, to breaking through the par level and with some profit-taking as well, prices ended the day a little below their best.

19th February 1982.

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