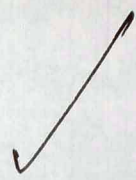


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SECRET

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th February 1982

The dollar continued softer today as short-term interest rates registered a substantial decline. Sterling was not active, remained comfortable, but, as often, lost ground on the Continent as the dollar eased. The ERI fell from 91.7 to 91.6.

The dollar's weaker trend was maintained in New York yesterday as Federal Funds drifted down to 14½% before closing at 14¾%. Sterling closed there at 1.8565. This morning, Euro-dollars opened around ¾% softer and later tended easier still. The dollar, however, started the day marginally better and was very steady through the early morning. Sterling began at 1.8550 and remained very close to that level until late morning when a further downturn in deposit rates sent the dollar lower and sterling was traded up to 1.86. Early Americans, however, bid for the dollar and the deposits. The pound fell very quickly to 1.8520. Federal Funds then opened at 14¾% and were soon easing again. The dollar turned tail and the pound was restored to 1.8580. Thereafter, the dollar improved - partly perhaps because the bond markets lacked conviction, notwithstanding that money traded on down to 13¾% - and sterling declined once more to 1.8505 before closing at 1.8518. Three-month Euro-dollars lost ¾% (15 9/16%), the sterling deposit 3/16% (14½%). The forward premium narrowed by 7/16% only to 1¾% p.a., so that the covered differential rose to 5/16% in London's favour.

The pound was little changed in Paris (11.16½) but lost ½% in Frankfurt (4.38½) and ½% in Zurich (3.49). The dollar eased in these centres to 6.0275, 2.3680 and 1.8847 respectively. EMS narrowed to 1¾% in width between the lira (1263.50) and Belgian franc (40.32). The Italians sold \$147mn. and the Belgians spent \$88mn., \$21mn.-worth of deutschemarks, \$19mn.-worth of guilders and \$11mn.-worth of Swiss francs. The Germans sold \$12mn., the Danes \$20mn. and the Irish \$28mn.-worth of sterling. Elsewhere the Swedes spent a further \$45mn. The yen improved to 233.10.

Gold remained very uncertain after yesterday's hectic session. The \$370 level was toyed with, but never seriously breached, on several occasions. Fixings were \$368.75 and \$369.25 and the close, despite the continued decline in the cost of carry, a disappointing \$367.

Operations:	BIS	+	\$28mn.
	National Water Council	+	28
	(PSB G'teed)		
	Sundries	+	<u>10</u>
		+	<u>\$66mn.</u>

JGH

19th February 1982.

JGH

US BOND AND MONEY MARKETS

Friday, 19th February 1982

Federal Funds

Opening: 14 $\frac{3}{8}$ %
Range: 13 $\frac{3}{8}$ % - 14 $\frac{3}{8}$ %
Close: 14%

US Governments (NY closing bids)

2-year: 101 (+ $\frac{1}{8}$) 14 9/16%
5-year: 95 $\frac{1}{4}$ (+1 $\frac{1}{8}$) 14 1/16%
10-year: 103 $\frac{1}{4}$ (+1 $\frac{3}{8}$) 14%
30-year: 101 $\frac{1}{8}$ (+1 $\frac{7}{8}$) 13 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{5}{8}$ %
1-month: 14 13/16%
3-months: 15 1/16%
6-months: 15 3/16%

Federal Reserve Operations:

\$800mn. customer repurchase
agreements with Fed Funds at 14%.
Stop rate 13.27%.

Indicators M1 -\$3.1bn. (latest 13 weeks +12.7%)

Comment:

The market opened stronger at the short end but little changed at the long end and started to improve further as Funds eased down to 14%. Trading was rather typical of a Friday - thin and with minimal retail participation. There was little reaction to the Fed's entry and prices drifted back a little during a quiet afternoon, waiting for money supply, which was widely expected to be unchanged from last week's level. When M1 was announced as down \$3.1bn. the market gapped up by $\frac{1}{2}$ -1 point and traded higher in late business.

22nd February 1982.

TRS