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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd February 1982

EMS was realigned late yesterday evening. The Belgian franc was devalued by 8.5% and the Danish krone by 3%. All this was accomplished smoothly and, in the event, these two currencies were tossed to the top of the pile while the deutschemark reverted to the bottom. Meanwhile, the long-awaited decline in US money supply provoked another sharp fall in deposit rates and the dollar, although the latter, as often, refused to go quietly. Sterling was particularly soft, partly as a natural side-effect of the easier dollar (the deutschemark led the dollar down), partly on further consideration of the weak market in oil (and press comment on the attendant difficulties for budget planning) and later on the decline in sterling deposit rates. The ERI fell from 91.6 to 91.4.

The pound closed at 1.8592 in New York on Friday, where the dollar was generally easier in the wake of the weekly monetary statistics. This morning sterling opened at 1.8620 and traded up to 1.8637 on the early exchanges. These levels proved impossible to sustain and the pound went rapidly into reverse, although the dollar at that stage showed no marked trend. Sterling established a range around 1.8550 but, in late morning, the dollar rallied and sterling dropped to 1.85. With Federal Funds at 13½% and the bond market better, Americans took the dollar down again but the pound was restored no higher than 1.8520. Late in the day, with the dollar vacillating, sterling was once more sold down to 1.8474 before closing at 1.8505. Three-month Euro-dollar deposits (14 15/16%) were softer by ½%, sterling deposits (14½%) by ¾%. The forward premium narrowed by 5/16% to 1 1/16% p.a. so that the covered differential fell slightly to ¼% in London's favour.

The pound shed ¾% in Paris (11.08½), ½% in Zurich (3.45½) and 1% in Frankfurt (4.33½). The dollar eased in these centres to 5.99 (after 5.96), 1.8685 and 2.3445 (after 2.3392) respectively. EMS finished 1½% in width (having opened fully stretched) with the Belgian franc (42.73) narrowly outstripping the Danish krone (7.8235) in top place and the deutschemark at the tail. The Belgians recouped \$36mn.-worth of deutschemarks and \$32mn.-worth of French francs but the Italians sold \$70mn., the French \$35mn., the Danes \$12mn. and the Germans \$8mn. The Irish spent \$19mn. and sterling worth \$38mn. Elsewhere the Norwegians took in \$25mn. (forward). The yen rose strongly to 230.60 in Tokyo but weakened thereafter to 232 (after 233) in London.

Gold remained very soft. Further producer selling this morning drove the metal down to \$363, after an active fixing had set a level of \$364. Another lively fixing this afternoon brought a price of \$364.25 and by the close a modest improvement to \$365.50 had been registered.

Operations:	Market	-	\$18mn.
	Interest	+	20
	IDA	+	13
	Sundries	-	1
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		+	\$14mn.
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22nd February 1982.
JGH

US BOND AND MONEY MARKETS

Monday, 22nd February 1982

Federal Funds

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

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$ (+ $\frac{3}{8}$) 14 5/16%
5-year: 95 $\frac{7}{8}$ (+ $\frac{5}{8}$) 14 $\frac{1}{4}$ %
10-year: 103 $\frac{7}{8}$ (+ $\frac{5}{8}$) 13 $\frac{7}{8}$ %
30-year: 102 $\frac{3}{8}$ (+ $\frac{3}{4}$) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{3}{8}$ %
1-month: 14 $\frac{1}{2}$ %
3-months: 14 15/16%
6-months: 15 1/16%

Federal Reserve Operations:

\$1.5bn. customer repurchase
agreements with Fed Funds at 13 $\frac{3}{8}$ %.
Stop rate 13%.

Indicators

Preliminary estimate of 4th quarter GNP revised from
-5.2% to -4.7%.

Comment:

Following the good money supply figures, the market opened higher and improved during the morning as Funds eased down to 13 $\frac{3}{8}$ %. By mid-morning the long bond was showing a gain of 1 $\frac{1}{2}$ points but retail participation was again rather light. The Fed action was widely anticipated and had little impact. During a quiet afternoon there was some profit-taking which was encouraged by the revision to 4th quarter GNP and by an upward shift in the Funds rate. The market closed having surrendered about half its gains on the day.

23rd February 1982.

TRS