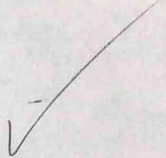


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SECRET



THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 24th February 1982

Sterling remained under pressure today. The ½% reduction in Clearing Bank base rates, though to some degree anticipated, yet occasioned further selling. The dollar meanwhile remained firm, despite some further softening in short-term interest rates, as the bond market continued to trade without conviction. Sterling's ERI fell from 91.2 to 90.8.

The pound closed at 1.8330 yesterday in New York, where the dollar failed to sustain the exalted levels of London's twilight hour, as Federal Funds traded down towards 12% at one stage. This morning, however, Euro-dollars opened somewhat firmer - largely due to press comment on Volcker's cautionary testimony - but then traded easier. The dollar itself began steadily, a little cheaper than yesterday's levels. Sterling opened firmer at 1.8350 and advanced to 1.8383 on the early exchanges. The reduction in Barclays' base rate brought renewed pressure and the pound lost over a cent before settling around 1.83. Some sizeable commercial selling was seen. This afternoon the dollar was well bid, both from Germany and the USA. The pound fell to 1.8225 but attracted some cheap buying from London and New York at this level and thus recovered to close at 1.8285. The three-month forward premium narrowed slightly to 1 1/16% p.a. Three-month Euro-dollars (14 15/16%) hardened by 1/16%, the sterling deposit (14 1/16%) lost ½%. The covered differential thus fell sharply to 3/16% in London's favour.

The pound lost around 7/16% in each of France (11.01½), Switzerland (3.42½) and Germany (4.32½). The dollar finished fractionally easier in each of these countries at 6.0220, 1.8720 and 2.3639 respectively. EMS contracted to 15/16% in width. The Danish krone (7.9250) and Belgian franc (43.27) shared top place, the deutschemark again brought up the rear. The Italians sold \$234mn. The Danes spent \$7mn. The Irish sold \$49mn. and \$7mn. of sterling. The yen was a touch firmer at 234.20.

Gold was a shade better. Both fixings set a level of \$362.75 and the metal traded up to \$365 between sessions.

Operations:	Market	-	\$6mn.
	Iran	+	13
	Interest	+	7
	India	+	6
	Sundries	-	5
			<hr/>
			+ \$15mn.
			<hr/> <hr/>

JGH

24th February 1982.

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US BOND AND MONEY MARKETS

Wednesday, 23rd February 1982

Federal Funds

Opening: 12½%
Range: 9% - 13¾%
Close: 12¾%

US Governments (NY closing bids)

2-year: 101½ (+¼) 14 3/16%
5-year: 96 (+⅛) 13 13/16%
10-year: 104½ (+¾) 13 13/16%
30-year: 102¾ (+⅝) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 13¾%
1-month: 14¾%
3-months: 14 15/16%
6-months: 15%

Federal Reserve Operations:

Indicators

US Treasury surplus of \$9bn. in January.

Comment:

The market opened firm as Funds moved down quickly to 12¾%. However, they backed up again to 13% within the first half hour and the market fell, the long bond losing half a point. Trading was very quiet, with little retail interest, but the market picked up during the afternoon following the announcement of the large Treasury surplus in January. It closed at the highs for the day.

The new \$3.25bn. five-year was auctioned at an average of 14.01.

25th February 1982.

TRS