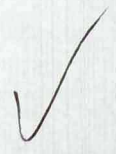


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SECRET



THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 25th February 1982

Sterling recovered considerable ground against the Continental currencies in New York yesterday and enjoyed a quiet and comfortable session today. The dollar remained unusually firm, given the continuing softness in interest rates. Sterling's ERI rose from 90.8 to 91.2.

The pound closed at 1.8365 yesterday in New York where the dollar gave up the gains of London's twilight hour after Federal Funds traded down to 9%. This morning, while Euro-dollars were largely unchanged, the dollar opened somewhat firmer, spurred perhaps by the especial weakness of the yen in Tokyo. Sterling began the day at 1.8330 and traded quietly around this level until mid-morning, touching 1.8350 at best. The dollar advanced further in late morning and with one or two Americans in London selling pounds, the rate dipped to 1.8260 before recovering. New York returned with Federal Funds at 13¼% but this rate quickly eased back and the dollar followed suit, sterling recovering to close at 1.8320. Three-month Euro-dollar and sterling deposits each lost 1/16% at 14¾% and 14% respectively. The forward premium was unchanged at 1 1/16% p.a. as was the intrinsic premium at 3/16%.

The pound regained ½% in Frankfurt (4.34½) and ⅝% in both Paris (11.07½) and Zurich (3.44½). The dollar firmed in all these centres to 2.3700, 6.0457 and 1.8805 respectively. The 0.3% rise in the US Consumer Price Index was very much in line with expectations. EMS contracted further to ⅞% in width between the Danish krone (7.9475) and deutschemark. The Irish sold \$15mn., the French bought \$42mn.-worth of deutschemarks. Elsewhere the Norwegians took in \$25mn. (forward) but the Japanese spent \$99mn. in Tokyo this morning. The yen closed there at 235.75 and weakened further to 236.70 this afternoon in London before recovering to close at 235.90.

Gold rallied in New York yesterday but failed to retain all of its gains in the face of the dollar's persistent strength. Fixings were \$368 and \$366.45.

Operations:	Iraq	+ \$11mn.
	Sundries	- 2
		<hr/>
		+ \$9mn.
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25th February 1982.

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US BOND AND MONEY MARKETS

Thursday, 25th February 1982

Federal Funds

Opening: 13 $\frac{1}{4}$ %  
Range: 12 $\frac{7}{8}$ % - 13 $\frac{3}{8}$ %  
Close: 13 $\frac{3}{8}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{3}{8}$  (- $\frac{1}{8}$ ) 14 5/16%  
5-year: 99 $\frac{5}{8}$  (- $\frac{3}{8}$ ) 14 1/16%  
10-year: 103 $\frac{3}{8}$  (- $\frac{3}{4}$ ) 13 15/16%  
30-year: 101 $\frac{1}{8}$  (- $\frac{7}{8}$ ) 13 $\frac{3}{4}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 13 $\frac{3}{4}$ %  
1-month: 14 5/16%  
3-months: 14 13/16%  
6-months: 15%

Federal Reserve Operations:

Indicators Consumer price index for January +0.3%.

Comment:

CPI at the start of trading was exactly in line with market expectations and merely provoked some profit-taking. Trading activity was light with, as so often recently, little real investor interest. Prices drifted down during the morning but the pace of the decline quickened during the afternoon as Funds moved up and the market became anxious about Friday's money supply number. The market closed at its lows.

26th February 1982.

TRS