

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 27th December 1979

Sterling's star shone brightly this morning as a spate of commercial buying orders drove the rate up. The dollar remained depressed. Gold struck new record levels. Sterling's ERI improved to 70.5.

The pound closed at 2.2145 in New York yesterday, having met modest demand through the day in response to a weakening dollar. This morning it began at 2.2155 and touched 2.2140 on the opening exchanges which were quiet. Later, however, the pound advanced suddenly through 2.22 as a number of Continental banks came in with orders to buy. The trend was reinforced in London where demand was seen on oil company account and buying continued well into the afternoon, with sterling eventually closing at 2.2390 and trading thereafter up to 2.2475. Three months' forward cover cost 1½% p.a. and this left sterling with an intrinsic premium of ½%.

Sterling gained ¼% in Zurich (3.53¼), ¼% in Paris (8.99½) and ¼% in Frankfurt, (3.84¼). The dollar continued to drift downwards under the influence of commercial and professional selling in the U.S. It was quoted at 1.7180 against the deutschemark, 1.5782 against the Swiss franc and 4.0175 against the French franc. Yesterday the Federal Reserve bought \$10 mn. for Swiss francs and \$57 mn. for deutschemarks, while the French bought \$18 mn. and a few Belgian francs. Today the Bundesbank took in \$70 mn. and the French \$50 mn. The EMS closed fully-stretched between the French franc and Belgian franc (27.99). The Belgians sold \$111 mn. and French francs equivalent to \$51 mn. The French bought \$12 mn.-worth of Belgian francs. The punt (2.1355) slipped to 4¼% discount on sterling. The yen closed in London at 239.70.

Gold breached \$500 yesterday in New York and traded up to \$512 in the Far East this morning. This morning's fixing (the only one today) set a new record at \$508.75 and the metal soon moved higher to close in London around \$511.

Operations:

Market	+ \$103 mn.
FRB o/a India	+ 67
Interest	+ 22
Germany	+ 18
Sundries	+ 4
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	+ 214 mn.
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