

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 31st December 1979

The decade went out with barely a whimper on the exchanges. Sterling found one decent commercial buyer this morning but was otherwise featureless. The dollar marked time. Gold alone seemed to point the way ahead. Sterling's ERI slipped back to 70.2, almost 10% higher over a year ago (64.0).

The pound closed at 2.2235 on Friday in New York, where the dollar improved slightly on the latest trade figures while sterling was marked down following news of the steel strike. This morning the pound began at 2.2210, improved steadily to 2.2275 in mid-morning on commercial demand then eased back to trade quietly for the rest of the day. The closing level was 2.2250, compared with 2.0410 a year ago. Three months' cover cost 2½% p.a. and this gave sterling an intrinsic premium of ½%.

Sterling was a fraction better against the Swiss franc (3.55½) and a little easier against the deutschemark (3.84) but lost ¾% to the French franc (8.93½). A year ago these rates were 3.29½, 3.71½ and 8.50½. The French franc firmed slightly to 4.0150 (4.1675 last year) but there was little movement in either the Swiss franc (1.5960 against 1.6150 last year) or deutschemark (1.7260 compared with 1.8200 year ago). The Belgian franc (28.02) finished more than the full 2½% adrift of the French franc but with many centres partly or fully closed, there was little official concern. The punt (2.1460) stood at 3½% discount on sterling. The yen closed at 239.90 in Tokyo and 239.65 in London. Last year it finished at 195.10.

Gold yet again set new records trading up to \$529 this morning before fixing at \$524. There was no fixing this afternoon but the metal was quoted at \$531.50 in New York. At the end of 1978, the metal stood at \$226½ (already 38% up on the previous year); an appreciation of 134% over the course of 1979 has therefore taken place.

Operations:	Market	+ \$91 mn.
	India	+ 22
	Interest	+ 8
	Sundries	+ 4
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		+\$125 mn.
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Overnight	- \$20 mn.
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The result for December was a reserve increase of \$302 mn. to a level of \$22,719 mn., after net public sector and government debt repayments of \$188 mn. The overbought forward position was increased by \$137 mn. to \$756 mn.

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