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FOREIGN EXCHANGE AND GOLD MARKETS
Thursday, 3rd January 1980

A breathtaking advance in the gold price in the Far East this morning brought considerable pressure on the dollar today and determined official support was required to contain the downward movement. The deutschemark hit a new high against the dollar this morning. Sterling was actively traded and tended to reflect the dollar's gyrations. The ERI rose to 70.5.

The pound closed at 2.2490 yesterday in New York where the dollar finished considerably weaker. This morning sterling began at 2.2450 and, with good two-way business in evidence, traded up to 2.2557 as the dollar eased. Thereafter the pound backed off as the dollar recovered and touched 2.2405 late this morning. This afternoon was less active and, though the dollar made further headway, sterling recovered to 2.2465 before closing at 2.2438. The three months' forward discount narrowed to $2\frac{1}{2}\%$ p.a. as eurodollar deposits firmed. Sterling's intrinsic premium fell to 1/16%.

The pound was unchanged against the Swiss franc (3.52%) but gained $\frac{1}{8}\%$ in Paris (8.98%) and $\frac{3}{8}\%$ in Frankfurt (3.83%). Yesterday the Federal Reserve bought \$239 mn. for deutschemarks and \$23 mn. for Swiss francs. Today they were reported as active buyers of dollars in the Far East. The Bundesbank, too, gave \$105 mn. of support to the dollar. The deutschemark touched a new record 1.6996 this morning before easing late in the day to 1.7105. The Swiss franc closed at 1.5722 after purchases of \$35 mn. by the National Bank. The EMS widened to 2% between the French franc (4.0050) and Belgian franc (27.82). The French bought \$28 mn. but the Italians sold \$70 mn. and the Danes spent \$19 mn. of French francs and \$13 mn. of marks. The punt (2.1625) closed at $3\frac{1}{2}\%$ discount on sterling.

Gold continued to firm in New York yesterday following an IMF auction which set an average price of \$562.85. In Hong Kong this morning, however, the metal gained over \$80 at one stage with business reported up to \$660 before a reaction set in. Conditions in European markets were extremely difficult and the atmosphere remained nervous. The fixings, however, were very active and each set a new record with levels of \$632 and \$634.

Operations:	Market	+ \$14 mn.
	Sundries	+ 7
		<u>+ \$21 mn.</u>
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	Overnight	- \$14 mn.
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