

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 4th January 1980

The inevitable reaction to yesterday's gold frenzy was the only feature today. The exchanges were relatively peaceful and the dollar scored modest gains. Sterling traded comfortably for the most part; the ERI fell to 70.3.

The pound was sold down to 2.2360 at the close in New York yesterday as the dollar's recovery continued. This morning sterling began at 2.2387 but was quickly marked down as the dollar went further ahead. Volume was light but the pound looked a little uncertain at times, falling to 2.2317 at one stage. Once the dollar steadied, however, sterling recovered and some modest buying interest was seen. This afternoon brought little fresh activity, though the pound generally looked firmer. 2.2395 was paid more than once before sterling eased slightly to close at 2.2370. Forward margins were a little narrower as eurodollars eased a touch. Three months' forward cover cost 2 3/16% p.a. and sterling's intrinsic premium was 1/8%.

The pound gained a little in Switzerland (3.53½) and France (9.00 1/8) but was a touch easier in Germany (3.83 3/8). Yesterday, the Federal Reserve soaked up \$182 mn. against deutschemarks but today no significant support for the dollar was necessary. The deutschemark eased to 1.7139, the Swiss franc to 1.5802 and the French franc to 4.0240. The E.M.S. slimmed to 1 13/16% in width, the Belgian franc (27.90) still at the tail. The Dutch bought \$20 mn., the Italians sold \$20mn. and the Danes sold \$12 mn. The punt (2.1520) stood at 3 3/4% discount on sterling. The Irish sold £4 mn. The yen firmed this afternoon to close at 235.60.

Gold remained a highly nervous and volatile market as profit-taking followed yesterday's huge advance. Fixings were \$596 and \$588 but the metal closed a little over \$600.

Operations:-

Market	+ \$8 mn.
India	+ 22
Sundries	- 3
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	+ \$27 mn.
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The reserves have also gained from an allocation of S.D.R. and a restitution of IMF gold. The effect of these is to increase the reserves by \$392 mn. and \$79 mn. respectively.

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J.G.H.