

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 7th January 1980

Sterling's early steadiness was the prelude to a strong advance during the afternoon. The ERI rose 0.5 to 70.8. The dollar began badly but gained during the day in most centres. Gold rose to a new high in the Far East but was more subdued in Europe.

Like most major currencies, sterling improved in late trading on Friday, closing at 2.2417 in New York. 2.2470 was the opening level this morning, and sterling traded between 2.24½ and 2.25 for some time although the dollar was strengthening from its weak start in other centres. By mid-afternoon the pound was in good demand, from New York in particular but also more generally, and 2.2615 was seen before the close was taken at 2.2610, 2½ cents higher than on Friday and the strongest since early August. The increase in wholesale prices was less than expected but could hardly explain such an advance which seemed to be based on the view that, with oil, high interest rates, and hope for an early settlement to the steel strike, sterling is attractive. The cost of forward cover narrowed to 2%, increasing the covered differential in London's favour to ¼%.

The pound gained on the Continent too, closing at 3.86½ against the mark, 3.55½ against the Swiss franc, and 9.06½ in Paris. The dollar opened rather weak, for example touching 1.7055 against the mark early on, but tended to improve over the day. The mark closed at 1.7102. The EMS parity grid was never extended, the French franc (4.0105) closing only 1¼% above the Belgian franc (27.82); but the latter recorded 74 on the divergence index this morning, and the central bank sold \$91 mn. It finished at 69 on the index. The lira, guilder and Danish crown all improved against the dollar, without special features. The Dutch bought \$10 mn. A firm punt (2.1582, 4¼% discount on sterling) enabled the Irish central bank to buy \$38 mn. The yen continued to improve: from 233.90 in Tokyo it advanced to 232 at the close in London.

Gold traded as high as \$675, the highest ever, in Hong Kong, but retreated to fix at \$634 and \$633½ at the two sessions today. The price closed at \$629. The market is nervous and volatile.

Operations:	Market	+ \$112 mn.
	India	+ 23
	Ireland	+ 15
	IDA	+ 9
	Interest	+ 6
	New Zealand	- 6
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		+ \$159 mn.
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	Overnight	+ \$7 mn.
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