

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 9th January 1980

After an uncertain start, sterling attracted some good demand at times today, much of which was thought to be on overseas official accounts. The dollar traded off this afternoon, but without any serious selling pressure. Sterling's ERI rose to 71.1, its highest level for nearly four months.

The pound eased to 2.2550 in New York yesterday. This morning it started at 2.2578 but, with the Swiss tending to sell, fell away to 2.2522 at one stage. Fairly soon, however, the dollar began to drift off and sterling recovered, bolstered by some modest commercial demand in London and a sizeable buying order on Central Bank account placed largely in Paris. By late morning the pound had crested 2.26 and renewed demand from Germany and the United States early this afternoon saw business up to 2.2695. The rest of the day was quieter; sterling remained firm and closed at 2.2680. Later the pound traded up through 2.27, its best level against the dollar for five months. The cost of three months' forward cover was unchanged at 2 $\frac{1}{8}$ % p.a. but, with eurodollar deposits easing further, sterling's intrinsic premium rose to $\frac{3}{8}$ %.

The pound was a touch firmer in Paris (9.09 $\frac{1}{2}$) and Frankfurt (3.88 $\frac{1}{2}$) and gained $\frac{1}{8}$ % in Zurich (3.57 $\frac{1}{2}$). The dollar closed around its lowest levels since Monday - 1.7116 against the deutschemark, 1.5753 against the Swiss franc and 4.0107 against the French franc. The Bundesbank bought \$22 mn. and the Bank of France took in \$32 mn. In the EMS, the Belgian franc (27.83) remained around 1 $\frac{1}{4}$ % adrift of the French franc and the Belgian National Bank sold \$43 mn. The punt (2.1555) weakened to 5% discount on sterling causing the Irish to sell £20 mn. in support. The yen closed at 236.10 in Tokyo and 234.72 in London.

Gold traded in much the same range as yesterday, without exhibiting any marked trend. The price was fixed at \$599.25 and \$607.20.

Operations:	Market	+ \$59 mn.
	India	+ 23
	Iraq	+ 23
	Switzerland	+ 8
	Interest	+ 5
	EEC	- 12
	Sundries	+ 9
		<u>+ \$115 mn.</u>

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