

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 14th January 1980

Sterling started the week in fine form, running back up past recent high levels, while other currencies were barely changed. The ERI closed at 71.4, its highest since September last. Gold advanced to record levels.

The pound was bid up to 2.2640 by the close in New York on Friday, while the dollar was otherwise only a touch softer. This morning sterling began at 2.2590 and touched 2.2580 on the opening exchanges as the market struggled to establish a level. Suddenly, however, a flurry of commercial buying interest sparked a rally which carried sterling to 2.2680 before professional selling - partly, it was thought, on Middle East account - brought a reaction. By mid-afternoon the pound was again testing the higher levels, with steady, general demand from New York and Chicago and a persistent buyer (again from the Middle East) of one-year forward sterling (against Swiss francs) providing the impetus. Eventually, sterling touched 2.2710 before closing at 2.27 and went on to trade up to 2.2805, its highest level since last July. Three months' cover cost $2\frac{3}{4}\%$ p.a. and sterling's intrinsic premium was $3/16\%$. Longer-dated margins, however, narrowed under the influence of the outright forward buying of pounds.

Sterling gained $\frac{1}{2}\%$ in Paris (9.14 $\frac{1}{2}$) and $\frac{3}{8}\%$ in both Zurich (3.58 $\frac{1}{2}$) and Frankfurt (3.90 $\frac{1}{2}$). European currencies were little changed against the dollar; the deutschemark was 1.7189 and the Swiss franc 1.5810. The EMS remained around $1\frac{1}{2}\%$ spread between the Belgian franc (27.92) and French franc (4.0280). Scandinavian currencies met fresh selling pressure and the Swedes sold \$50 mn., the Norwegians \$20 mn. and the Danes \$12 mn. The punt (2.1487) dropped to $5\frac{1}{2}\%$ discount on sterling, the Irish selling £5 mn. The yen eased to 236.65 in Tokyo but recovered to 236.05 in London.

Renewed demand in the Far East took gold up to \$665 there before sellers were drawn in. The price was fixed in London this morning at \$647.75 but another rally this afternoon left the fixing at \$660, another record level for the fix.

Operations:	Market	+ \$74 mn.
	Ireland	+ 23
	India	+ 11
	New Zealand	+ 7
	EEC	- 12
	Sundries	+ 2
		<u>+ \$105 mn.</u>

Overnight	+ \$19 mn.
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