



MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 15th January 1980

An extremely active day's trading in sterling which at one time was bid to new recent highs before tumbling suddenly in the face of a resurgent dollar. Nevertheless, the ERI closed at 72.0, its highest level since the end of August.

The pound closed in good demand at 2.2865 in New York yesterday. This morning it opened at 2.2837 and, with interest from Hong Kong and some Swiss demand in the Middle East, soon moved ahead to 2.2905. At this point, persistent selling by a Continental European professional brought a relapse to 2.2855 and an excellent two-way market developed with commercial names prominent. The buyers eventually gained the upper hand - with further outright interest in one-year sterling evident - and the pound recovered again to 2.2913, trading comfortably thereafter around 2.29. This afternoon renewed buying from Europe and the United States carried sterling to 2.2950 - its highest level since late July last. Suddenly, however, a strong rally in the dollar, sparked by a rumour that the hostages in Tehran were to be released, sent all markets into reverse and, with heavy and widespread selling, sterling plummeted to close at 2.2800 and trade on down to 2.2755. Three months' cover cost 2 3/16% p.a. and the intrinsic premium was 3/8%.

With the dollar itself so much better, sterling gained 3/8% in Paris (9.22 1/2), 1% in Frankfurt (3.94) and 1 1/2% in Zurich (3.63 1/2). Against the dollar, the deutschemark eased to 1.7278 and the Swiss franc to 1.5942. The French franc (4.0475) remained at the top of the EMS, now 1 1/2% above the Belgian franc (28.07). The Danes sold \$15 mn. and the Swedes \$104 mn. The punt (2.1382) fell to 6 1/2% discount on sterling and the Irish sold £3 mn. With Tokyo closed, the yen weakened dramatically in London this afternoon and closed at 239.62.

Gold moved from strength to strength. The market now seems largely detached from events on the exchanges and the progression in the price is achieved in relatively orderly conditions. Each fixing set a new record at \$682 and \$684, and \$690 was traded just before the close.

Operations:	Market	+ \$3 mn.
	Interest	+ 11
	Iran	+ 10
	PSB	- 13
	Sundries	+ 2
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		<u>+ \$13 mn.</u>

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