

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 16th January 1980

Activity in sterling was somewhat reduced today but the pound continued to retreat from yesterday's exalted levels. The dollar, too, reacted to its recent surprising strength and, as a result, sterling's ERI fell from 72.1 this morning to 71.7 at the close.

The pound recovered to 2.2850 in New York yesterday before closing there at 2.2820. This morning sterling opened at 2.2792 and was marked back to 2.2760 as the dollar strengthened generally. Later, however, as the dollar settled down, sterling recovered to 2.2845 before finding a trading range around 2.28 for the rest of the morning. This afternoon, some speculative selling from London and New York gave the pound a softer tone and, though the dollar, too, tended easier, sterling fell to 2.2710 at one stage before rallying late in the day to close at 2.2773. Forward margins widened, the three months' to 2½% p.a. discount; the covered differential fell to 1/4% in London's favour.

Sterling gave up 3/8% to both the French franc (9.18 7/8) and deutschemark (3.92½) and 1/2% to the Swiss franc (3.61½). These all recovered against the dollar to 4.0345, 1.7235 and 1.5867 respectively. The Belgian franc (27.98) continued to move around 1 3/4% - 1 7/8% below the French franc in the EMS. The Danes sold \$11 mn. The yen fell to 240 in New York yesterday but recovered - without official support - to 238.80 in Tokyo this morning and further to 237.50 in London.

Gold was driven up through \$700 in New York yesterday following Secretary Miller's observation that the present was not a suitable moment for any further U.S. sales. The morning fixing was extremely active and, with turnover very large, the price was set at a record \$765 - \$81 higher than at yesterday afternoon's session. Thereafter, the metal did not trade significantly better and the price at the later fixing was \$760.

Operations:-

Market	- \$7 mn.
Bangladesh	- 23
New Zealand	- 5
India	+ 23
I.D.A.	+ 7
Australia	+ 5
Sundries	- 4
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	- \$4 mn.
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