

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 21st January 1980

Buoyed by the swiftly rising level of short-term money rates, sterling swam strongly for much of today until forceful resistance by the dollar eventually turned the tide. Sterling's ERI rose to 72.3 (after 72.4 this morning).

Having touched 2.29 late on Friday, the pound closed at 2.2832 in New York where the dollar was generally a good deal firmer. This morning the dollar opened below its best New York levels, but was still quite firm and indeed remained so throughout the day. Sterling began at 2.2875 but was soon in good demand from Switzerland and the Middle East, trading up to 2.2950 on the early exchanges. This level, however, provoked both profit-taking from earlier buyers and a degree of commercial selling, in either case with an eye to 2.30 as a psychological or official barrier. The pound settled a little over 2.29 and a good two-way market developed. The afternoon was somewhat less active. Late in the day the dollar strengthened generally and sterling eased back to close at 2.2885, trading on afterwards down to 2.2835. Forward margins widened dramatically. This movement, which began after hours on Friday following the announcement of the new tap stocks, was both in anticipation of - and later in response to - sharply higher sterling deposit rates. The three months' deposit was over  $\frac{1}{2}\%$  firmer at  $17\frac{1}{2}\%$  and, with eurodollars only  $\frac{1}{8}\%$  harder, the cost of forward cover rose to  $3\frac{1}{2}\%$  p.a., leaving sterling with an intrinsic premium of  $3/16\%$ .

The pound gained  $\frac{1}{8}\%$  in both Paris (9.25%) and Frankfurt (3.95%) and  $\frac{1}{8}\%$  in Zurich (3.65%). The dollar gained in all these centres, closing at 4.0445, 1.7266 and 1.5966 respectively. The French bought \$20 mn. while the Swiss sold \$11 mn.-worth of Dutch florins and the Dutch themselves took in \$17 mn.-worth of deutschemarks. The EMS remained around  $1\frac{1}{2}\%$  in width between the French franc and Belgian franc (28.04). The yen closed at 240.20 in Tokyo, where the authorities intervened for the first time this year to sell \$20 mn., and weakened in London to 241.10.

Gold strengthened modestly throughout much of the day, fixing at successive record levels of \$843 and \$850. Late in the day, a reaction in New York brought the metal back to around \$830.

|             |           |                    |
|-------------|-----------|--------------------|
| Operations: | Market    | + \$13 mn.         |
|             | Nigeria   | + 100              |
|             | Iran      | + 20               |
|             | Iraq      | + 12               |
|             | Interest  | + 6                |
|             | Sundries  | + 2                |
|             |           | <u>+ \$153 mn.</u> |
|             | Overnight | <u>- \$41 mn.</u>  |

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JGH