

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 23rd January 1980

Sterling continued soft this morning but, as the dollar retreated in the face of profit-taking, rebounded to close in good shape. The ERI fell to 71.8.

The pound closed at 2.2770 in New York yesterday and opened five points cheaper this morning. Yesterday's trend persisted through the early morning with professional selling - both from London and Continental Europe - driving sterling down to 2.2645. These levels, however, provoked both profit-taking and fresh demand and sterling's passage was steadily firmer from there. Each new advance seemed to flush out more short-covering, often at a loss. The pound traded around 2.2725 for much of the afternoon but advanced sharply on transatlantic interest towards the close, which was struck at 2.2785. Forward margins again narrowed as sterling deposits declined. Three months' cover cost 2 13/16% p.a., leaving an intrinsic premium of 1/8%.

Sterling eased a touch in Switzerland (3.65 3/8) and lost 1/4% in both France (9.21 5/8) and Germany (3.93 5/8). These currencies recovered ground on the dollar at 1.6035, 4.0450 and 1.7275 respectively. The Swiss again sold guilders (worth \$11 mn.). The EMS widened to 2% between the French franc and Belgian franc (28.09). The Belgians sold \$10 mn. and the Danes \$50 mn. The yen improved sharply on a better Japanese trade performance and closed at 238.20 in Tokyo and 236.57 in London.

Gold was again a difficult market. By the time London opened, the metal had already shed a further \$100 from yesterday's depressed closing levels. Gradually, however, some of yesterday's sellers returned to take profits and the price was driven up to \$675 as the fixing began. At least one large seller appeared at the fixing and the price was eventually set at \$650 (after \$640). This afternoon, American bidding pushed the metal higher again and another difficult fixing tested \$745 before settling for \$695. Turnover at either session was heavy.

Operations:

Market	+ \$18 mn.
Government	+ 38
Iraq	+ 34
National Coal Board (PSB G'teed)	+ 33
Interest	+ 9
South Africa	- 11
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	+ \$121 mn.
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