

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 31st January 1980

The dollar continued to strengthen today, aided now by a report that the Russians intended to withdraw from Afghanistan. Sterling alone withstood the advance and the ERI in consequence rose to 71.8.

The pound closed at 2.2665 in New York yesterday and opened five points cheaper this morning, easing slightly to 2.2650 on the opening exchanges. Strong interest from a Swiss source, however, brought a rapid firming to 2.2697, but, with this complete, sterling settled to trade through the morning around 2.2675. Some modest diversification into pounds on Middle East account was the only other feature. Sterling began the afternoon a little firmer and 2.27 was paid at one stage. Volume, however, was fairly light and the pound backed away to close at 2.2672. Forward margins were little changed, although eurodollars were softer and sterling deposits a little firmer. Three months' cover cost 3 5/16% p.a. and the covered differential was 1/8% in London's favour.

The pound advanced by 3/8% against the French franc (9.24 3/8) and deutschemark (3.94 3/4) and 5/8% against the Swiss franc (3.69 5/8). All these weakened against the dollar to 4.0770, 1.7413 and 1.6302 respectively. The Swiss franc/deutschemark cross-rate moved out further to SF.O.93 5/8 and the Swiss sold \$37 mn. The EMS again neared 2% in width at times but closed at 1 7/8% after Belgian sales of French francs worth \$5 mn. The Dutch took in \$14 mn.-worth of deutschemarks. The Danes gave \$88 mn. support to their krone which was beset by devaluation rumours following a poor set of trade figures. The yen closed at 238.80 in Tokyo and 239.31 in London.

Gold tended easier throughout the day in response to the rumours over Afghanistan. Having opened at \$677, the metal was fixed at \$668 and \$653 and closed around \$645.

Operations:	Market	+ \$22 mn.
	Interest	+ 7
	I.D.A.	+ 5
		<u>+ \$34 mn.</u>
	Overnight	+ \$2 mn.

The result for January is a reserve increase of \$987 mn. to a level of \$23,706 mn. after net public sector debt repayments of \$252 mn. and an IMF repurchase of \$83 mn. under the oil facility. In addition, the reserves have gained \$80 mn. from a restitution of IMF gold, \$392 mn. from an allocation of SDR, and \$341 mn. as a result of the renewal of the ECU swap with the EMCF. The overbought forward position was increased by \$49 mn. to a level of \$805 mn.

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