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FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 1st February 1980

It was a typically quiet Friday for sterling, which, with the dollar, proved relatively firm against the European currencies. These currently seem to be undergoing a reappraisal in the market, in the light of relative interest rates and the prospects for current account balances. Sterling's ERI rose to 72.0.

The pound closed firm in New York yesterday at 2.2720 and opened at that level this morning. Despite a generally better dollar, sterling hardened on the opening exchanges and touched 2.2745 on several occasions. The increase in Iranian oil prices was said to be a factor. Apart from some Swiss professional interest, however, volume was light. Late this morning, profit-taking out sterling back to around 2.27 and another brief flurry of selling followed the Lords' reversal of the Appeal Court's ruling on the steel dispute. Sterling was marked back to 2.2680 but quickly recovered to close quietly and steadily at 2.2707. The cost of three months' cover was 3 $\frac{3}{4}$ % p.a. and this produced interest parity on the usual comparison.

The pound gained  $\frac{1}{4}$ % in Zurich (3.70 $\frac{1}{2}$ ) and  $\frac{1}{4}$ % in Paris (9.27 $\frac{1}{2}$ ) and Frankfurt (3.96). The Swiss franc continued to weaken, falling to 1.6312 against the dollar. The DM cross-rate neared SF.0.94 at one stage and the National Bank sold \$30mn. to bring the rate back to around 0.93 $\frac{1}{2}$  at the close. The deutschemark itself was relatively soft and the Bundesbank were aggressive sellers of \$52mn. to stem the tide. The mark closed at 1.7439. Even the French franc (4.0855) lost its shine and ceded hegemony in the EMS to the lira for a while. By the close, however, the French franc and Belgian franc (28.34) again spanned the band, which was 1 $\frac{1}{4}$ % in width. The Belgians sold \$7 mn. and the Dutch took in deutschemarks worth \$14 mn. The Danish krone (5.4602) continued to suffer severe week-end pressure and the Danes spent \$103 mn. and \$3 mn.-worth of marks in support. The Irish sold £16 mn.; their punt (2.1152) stood at 6 $\frac{1}{4}$ % discount on sterling. The yen weakened to 240.30 in Tokyo and 240.42 in London.

Gold traded erratically in New York yesterday and again in Hong Kong this morning, brushing \$700 at one stage. Prices in London were much steadier and the fixings set levels of \$675 and \$676.50. Late in the day, however, New York took the metal back up to around \$690.

Operations:	Market	+ \$3 mn.
	Sundries	+ <u>1 mn.</u>
		+ \$4 mn.
	Overnight	+ <u>\$7 mn.</u>

*JGH*

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