

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 5th February 1980

It was a very active day on the exchanges, with sterling, in particular, attracting a high volume of two-way interest. The dollar, however, lost some of its recent shine but sterling's ERI nonetheless rose to 72.5, after 72.7 at noon, the highest level since the end of last July.

The pound continued wanted in New York yesterday and traded up to 2.2950 before closing at 2.2930. This morning it opened at 2.2887 and again topped 2.29 on the opening exchanges. Middle East professionals proved large sellers of sterling at these levels, however, and the rate fell away to 2.2860 before some of yesterday morning's Continental operators returned to cover short positions. With Middle East profit-taking, too, sterling recovered to 2.29 and met good demand early this afternoon from France and Germany. New Yorkers, too, were in unusually early to continue yesterday's trend and sterling advanced to 2.2958 by early afternoon, its highest level against the dollar for over six months. Profit-taking had already begun some time before the Banking Statistics were released and sterling stood a little over 2.29 at the time of the announcement. This was not taken well and a mark-down to 2.2880 followed. However, sterling's underlying firmness quickly showed, as it recovered to 2.2921 again before closing at 2.2880. Three months' forward sterling finished at 3 $\frac{1}{2}$ % p.a. discount, giving a covered differential of $\frac{1}{2}$ % in London's favour.

Sterling gained $\frac{1}{2}$ % in Frankfurt (3.98 $\frac{1}{2}$) and Paris (9.33 $\frac{1}{2}$) but lost $\frac{1}{2}$ % in Zurich, where the Swiss franc led a general reaction to the dollar's recent strength. It firmed to 1.6212 to the dollar and 0.93 $\frac{1}{2}$ to the mark. The Swiss swapped in a further \$450 mn. for a week. The deutschemark was 1.7404. The lira (808) passed most of the day at the head of the EMS but by the close the French franc (4.0790) had regained the lead, now only 1 $\frac{1}{2}$ % above the Belgian franc (28.25). The Belgians sold \$36 mn.-worth of French francs and the Danes spent \$51 mn. The yen closed a fraction firmer at 239.85 in Tokyo and 239.71 in London.

Gold was quiet and a little soft this morning. The price was fixed at \$661.25. This afternoon, however, with the dollar easing, gold was bid up to a fixing level of \$682 and later to \$690.

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| Operations: | Market | + \$25 mn. |
| | Interest | + 7 |
| | Sundries | - 1 |
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| | | + \$31 mn. |
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