

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 6th February 1980

Though not quite so active as yesterday, sterling again attracted a good volume of business today. With buyers predominant, the pound eventually passed the two crucial psychological barriers of \$2.30 and DM 4.00 and this sparked substantial demand from the Chicago futures market. The dollar itself turned easier, partly in response to sterling's strength and partly perhaps as the gloom pervading domestic US markets at last infected the exchanges. Sterling's ERI rose to 73.0, its highest level since 30th July last.

The pound closed quietly at 2.29 in New York yesterday. This morning it opened at 2.2960, dipped to 2.2940 as some selling came out of the Far East and recovered to trade fairly actively around opening levels. A surge of demand from the Middle East then took sterling rapidly up through 2.30 but this level could not be held and the rate was back to 2.2972 by early afternoon. Americans returned again as buyers and the pound again crested 2.30. On this occasion the level was held and, as this became apparent, it sparked another chartist's trigger on the Chicago IMM. Heavy buying ensued and the pound was very quickly driven to 2.3105 before profits were taken elsewhere and sterling quietened to close at 2.3080. Sterling deposits eased but eurodollars were a good deal firmer. With the IMM, too, buying outright forward sterling, forward margins eased considerably, the three months' to 3% p.a. discount. This left an adverse covered differential of 1/16%.

The pound gained  $\frac{1}{8}\%$  in Zurich (3.71 $\frac{1}{2}$ ),  $\frac{1}{8}\%$  in Paris (9.37 $\frac{1}{2}$ ) and  $\frac{1}{8}\%$  in Frankfurt (4.00 $\frac{1}{2}$ ). The Swiss franc again performed well, firming to 1.6112 on the dollar and 0.92 $\frac{1}{2}$  on the deutschemark. The Swiss bought \$10mn. and swapped in \$250mn. for a week. The deutschemark hardened to 1.7347. The lira and French franc again vied for leadership of the EMS but by the close the French franc (4.0625) was well ahead, 1 $\frac{1}{2}\%$  above the Belgian franc (28.15). The French bought \$90mn. and the Dutch took in deutschemarks worth \$18mn. but the Danes were again sellers of \$47mn. The yen closed at 240.35 in Tokyo but recovered to 239.83 in London.

Gold tended firmer throughout the day. Opening at \$683 it advanced steadily but failed to break \$700 this morning and was fixed at \$696. This afternoon, the weaker dollar provided the necessary impetus for a surge through \$700. The price was fixed at \$704 and went on to close some \$10 better still.

Operations:	Market	+	\$56mn.
	Saudi Arabia	+	36
	British Airways		
	(PSB G'teed)	+	30
	India	+	23
	IDA	+	20
	Iraq	+	12
	Interest	+	8
	Zambia	-	9
	Sundries	-	1
			<u>+</u> \$175mn.
	Overnight	+	\$7mn

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J.G.H.