

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th February 1980

A less exciting day on the exchanges proved largely a technical reaction to the trends of the last day or two. The dollar closed a touch better on balance and sterling was somewhat easier, the softness accentuated this afternoon by British Leyland's refusal to reinstate Mr. Robinson. The ERI slipped back to 72.9, having this morning set another six-month high at 73.2.

The pound closed well bid in New York yesterday at 2.3150. This morning it opened at 2.3135 and touched 2.3155 on the opening exchanges, another six-month high. There was little significant activity, however, and the morning soon fell prey to rumour. A Kuwaiti press report, indicating imminent release of the hostages in Tehran, gave the dollar a sharp uplift and sterling came back to 2.3025 before finding a trading range around 2.3050. A later denial from the student captors themselves set in train a modest reversal of this trend and, when an unexpected buyer came to market late this morning, sterling topped 2.31 again. Most of the afternoon was quiet, with the pound trading around 2.3075. The news from British Leyland, however, brought in the sellers, with the United States and Chicago, in particular, prominent. The pound fell to 2.2990 before closing at 2.3020. Later, in a thin market, it moved uncertainly between 2.3025 and 2.2965. Sterling deposits again softened and forward margins narrowed further. Three months' cover cost 2 3/4% p.a. and the covered differential stood at 1/16% in London's favour.

The pound suffered marginal losses against the deutschemark (4.00), Swiss franc (3.71 1/4) and French franc (9.36%). The dollar's recovery followed suprisingly large intervention by the Federal Reserve yesterday. They purchased \$23lmn. against deutschemarks and \$8mn. against Swiss francs. The Swiss franc again performed marginally better than other European currencies falling to 1.6135. The deutschemark eased to 1.7375 and the French franc to 4.07. The French nonetheless bought \$3lmn. and swapped out \$36mn. The French franc remained at the head of the EMS, only fractionally ahead of the lira and 1 1/4% above the Belgian franc. With their franc comfortably below 75 on the index of divergence, the Belgians did not intervene. The yen closed at 240.10 in Tokyo and 239.85 in London.

Gold advanced to \$717 early this morning, following yesterday's IMF auction at which 444,000 fine ounces were sold at an average price of \$712.12. On the dollar's recovery, however, the metal eased and the fixings set levels of \$704 and \$699.25.

Operations:	Market	- \$25 mn.
	India	+ 23
	Government	+ 21
	Iran	+ 10
	Sundries	+ 4
		<u>+ \$33 mn.</u>

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