

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 12th February 1980

A New York holiday contributed to the air of calm on the exchanges until the vote against British Leyland's pay offer broke the peace. The ERI fell 0.1 to 72.9. The dollar was quietly firm.

Having closed a quiet session in New York at 2.3065, sterling opened in London at 2.3045. The market was evidently not put out by the threat of a strike by water workers. This proved to be the highest point of the day, however, as the rate bobbed about between 2.30 and just below the opening level until mid-afternoon. There was some commercial business both ways but professionals were largely absent. The news that British Leyland workers had voted against the company's pay offer attracted some selling, notably from Chicago (where traders were not celebrating Lincoln's birthday), and the rate eased back to 2.2995 at the official London close. Further selling from the same source took the rate down to 2.2940 in late trading until it turned again on buying from South America. The cost of cover rose to 3 7/16%, reflecting a further increase in sterling deposit rates; with eurodollars slightly higher, an adverse covered differential of 1/16% emerged.

Sterling was a little easier on the Continent, closing at 4.00½, 3.72½ and 9.37½ against the mark, Swiss franc and French franc respectively. These all eased against the dollar, to 1.7410, 1.6191 and 4.0765. The EMS stretched 1¼% between the lira (806.90) and the Belgian franc (28.25 and 72 on the divergence index). The Belgians sold \$7 mn.- worth of French francs; the Italians sold \$8 mn. The Danes also supported their currency with \$25 mn., but the Dutch added \$20 mn. to reserves. The yen closed at 241.15 in Tokyo and subsequently at 241.50 in London.

Gold eased back over the day, fixing at \$703½ and \$694½.

Operations: Market	-	\$18 mn.
Ireland	+	35
Iran	+	20
Iraq	+	12
Interest	+	8
Sundries	-	3
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	+	\$54 mn.
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