

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 14th February 1980

The dollar lost favour in a fickle early market which chose to dally with the leading Continental currencies instead. Sterling was courted with investment money later in the day, and the ERI closed at 73.3, a new six-month high. The yen and gold went unwooded.

Sterling closed a quiet session in New York at 2.3050. London opened 5 points higher, and sterling soon advanced in the wake of the main Continental currencies, reaching 2.3088 in late morning before receding to 2.3068 at noon. The money figures had little effect, but a large buyer on investment account appeared in mid-afternoon, and it was his business which drove the rate up to 2.3155 before the official close was taken at 2.3133. Interbank sterling and the cost of forward cover were steady, but a fall in euro-dollars halved sterling's intrinsic discount to $\frac{1}{8}\%$.

The pound lost ground on the Continent early on, slipping below DM.4.00, but recovered later to close firmer at 4.01 $\frac{1}{2}$, 3.73 $\frac{1}{2}$ and 9.40 $\frac{1}{2}$ against the mark, Swiss and French francs respectively. Perhaps surprisingly, reports that the hostages would soon be released weakened the dollar early on, on the grounds that the Iranians would gain extra freedom to diversify. The mark was as strong as 1.7303 during the morning, buoyed by lively commercial buying, but it closed only slightly firmer at 1.7345. The French franc (4.0645 after 4.0537) gave up top place in the EMS to the lira (804) which closed 1 15/16% above the Belgian franc (28.18 and more divergent at 74 on the index). The French bought \$10 mn.; the Belgians sold \$38 mn. of French francs. The Danish crown gained $\frac{1}{8}\%$ to 5.4220, after the central bank had sold \$46 mn. and \$28 mn.-worth of French francs. The Netherlands Bank picked up \$5 mn. The Swiss franc moved alongside the mark, touching 1.6111 before reacting to close at 1.6159. The threat of poor trade figures hit the yen; after 242.50 in Tokyo (where \$53 mn. of support was given) it weakened to 243.35 in London. A rise in discount rate is rumoured.

Prospects of reconciliation between the United States and Iran caused gold to fall to \$668 in the late afternoon. Fixings were at \$688 and \$682.

Operations:	Market	+ \$23 mn.
	BIS	+ 34
	Australia	+ 5
	Sundries	+ 6
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		+ \$68 mn.
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