

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 15th February 1980

An active end to the week offered much for the markets to digest. The 1% increase in the Federal Reserve Discount Rate strengthened the dollar this afternoon. Sterling was unmoved by a poor Retail Price Index but was sold following the large increase in the trade deficit and ended the week on an uncertain note. The ERI fell to 73.0.

The pound closed at 2.3080 in New York yesterday and opened at 2.3090 this morning. Some residual demand appeared from Switzerland over the early exchanges, the backwash, perhaps, of yesterday's substantial order. Sterling traded up to 2.3143 but soon settled back to trade around 2.3075 for the rest of the morning. Surprisingly, the RPI had no impact. Indeed, some modest interest this afternoon carried the pound back up to 2.3138 at one stage. The increase in US Discount Rate caused an instant mark up for the dollar and sterling fell to 2.3050. The trade figures followed soon after and were taken badly. The pound fell to 2.2995 before closing at 2.3010. The twilight hour was very uncertain and business took place as low as 2.2865. Forward margins narrowed, the three months' to 3 3/16% p.a. discount. The adverse covered differential increased to 3/4%.

The pound lost ground in France (9.38 1/4) and Germany (4.00 1/2) but gained a little in Switzerland (3.74 1/4). The dollar improved generally. The deutschemark closed at 1.7403 and the Swiss franc at 1.6260. The lira (805.40) and Belgian franc (28.24) spanned the EMS, nearly 2% apart. The Belgians sold \$53 mn.-worth of French francs as their currency touched 75 on the index of divergence. The Danes sold \$56 mn. and \$15 mn.-worth of French francs. They also raised Discount Rate by 2% to 13%. The yen closed at 243.05 in Tokyo, where the Japanese sold \$100 mn, and 243.60 in London.

Gold traded uncertainly but tended easier on balance. Fixings were \$674.50 and \$667 and the close around \$660.

Operations:	Market	- \$36 mn.
	Uganda	+ 12
	Sundries	+ 6
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		- \$18 mn.
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	Overnight	+ \$7 mn
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