

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 18th February 1980

The coincidence of Washington's birthday, the Chinese new year and pre-Lenten festivities made for quiet exchange and gold markets in which the yen's weakness provided the only feature. Sterling recorded a steady 72.9 on the effective index, 0.1 down from Friday's close.

Sterling recovered from its weakness in late trading on Friday to close in New York at 2.2972. Having opened at 2.2970 this morning, the rate soon rose to 2.2990 on no business in particular; but this proved to be the highest level of the day, and sterling relapsed to 2.2926 in mid-morning before trading narrowly around 2.29½ for the rest of the day. The close was taken at that level. Scattered selling from the Continent and the Middle East during the morning was the only business worth noting. Euro-dollars were considerably higher after the rise in US discount rate on Friday; interbank sterling rose too and the cost of cover fell to 2 13/16%, leaving the intrinsic discount narrower at ½%.

The pound eased against the main Continental currencies from Friday's official close, going to 3.99½, 3.74 and 9.36½ against the mark, Swiss and French francs respectively. At 1.7412, 1.6294 and 4.0797 these went only fractionally softer against the dollar in quiet and featureless markets, the large increase in US money supply announced late on Friday having taken some of the shine off the discount rate rise. The EMS was stretched 1 15/16% between the lira (806.40) and the Belgian franc (28.27). Some swapping by the Dutch was the only significant official business in Europe. The Japanese were active, however, selling another \$55 mn. Their yen closed at 243.80 in Tokyo and weakened further to 244.60 in London. Poor balance of payments figures took away any benefit which the long-awaited increase in discount rate (by 1% to 7½%) might have brought.

With Hong Kong and New York on holiday, gold also had a quiet day, fixing at \$665½ and \$661½.

Operations:	Market	+ \$8 mn.
	BIS	+ 11
	IDA	+ 8
	Sundries	- 4
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		+ \$23 mn.
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