

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 19th February 1980

Tighter monetary policy strengthened the dollar in virtually all centres. Sterling suffered more than most, falling over $\frac{1}{2}\%$ to 72.3 in effective terms. The yen was also weak, and gold softened again.

Sterling opened at 2.2930. The first move was up to 2.2935, but the market soon had second thoughts and Swiss sellers quickly drove the rate down to 2.2850. The pound then firmed until another raid shortly before noon sent it down to 2.2820. This time Middle Eastern sellers were seen, and they were joined by Chicago in the afternoon when the rate fell to 2.2670 before reacting to 2.2705 at the official close. There was no fresh news affecting the economy, but concerns about the industrial situation and inflation seemed to strike home. However, the cost of cover shrank to $2\frac{5}{16}\%$; divergent movements in dollar and sterling deposit rates (the former rising to $15\frac{15}{16}\%$ at three months) left the intrinsic discount little changed at $9\frac{1}{16}\%$.

Fresh money targets, prime rate increases (with several banks raising their rate $\frac{1}{2}\%$ to $15\frac{1}{2}\%$), and a rise in Federal funds, which traded as high as $16\frac{1}{4}\%$ before the Fed. supplied reserves, all helped the dollar to gain across the board. Sterling fell more than most, yielding around $\frac{1}{2}\%$ to the mark ($3.97\frac{1}{4}$), Swiss franc ($3.72\frac{1}{2}$) and French franc ($9.30\frac{1}{4}$). These currencies closed at 1.7494 (after 1.7505), 1.6405 and 4.10 respectively; the central banks concerned did nothing or confined themselves to swapping. The EMS stretched to $2\frac{1}{2}\%$ between the lira (808.60) and the Belgian franc (28.39). The Belgians sold a cocktail of French francs, marks and guilders worth \$43 mn. altogether. The Dutch bought some dollars on the swap. Other intervention was negligible except in Japan, where the central bank sold another \$180 mn. as the yen weakened to 245.10 in Tokyo. It closed at 245.55 in London. The Canadian dollar was the only unit to improve against the US currency today, gaining $\frac{1}{8}\%$ after Mr. Trudeau's election win.

Gold wilted before the advancing dollar, fixing at \$661 $\frac{1}{4}$ and \$652 $\frac{1}{4}$. It later traded as low as \$644.

Operations:	Market	- \$107 mn.
	EC	- 18
	Uganda	- 7
	India	+ 11
	Sundries	+ 9
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		- \$112 mn.
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