



MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 20th February 1980

The exchanges were much less excited today with both the dollar and sterling establishing viable levels. Further relaxations in inflow controls in Switzerland gave some temporary comfort to the Swiss franc but this did not persist. Sterling's ERI rose to 72.5.

The pound closed at 2.2765 in New York yesterday and opened at 2.2750 this morning. Sterling tended easier on the early exchanges - and the dollar generally firmer - and business took place down to 2.2715. Volume was modest, however, and when rumours began to percolate indicating that the Leyland strike was not to be, the pound recovered quickly. This trend was reinforced by news of a 25% reduction in Kuwaiti oil production. The Swiss inflow relaxations brought a generally softer dollar and sterling rose to 2.2823 this afternoon before closing comfortably at 2.2780. Eurodollars firmed further, while closing below best levels, and forward margins narrowed again in consequence. Three months' cover cost 2% p.a. and the covered differential was 5/16% against London.

Sterling scored modest gains in Zurich (3.72%), Paris (9.32) and Frankfurt (3.97%). The deutschemark, Swiss franc and French franc were all a little better against the dollar at 1.7464, 1.6367 and 4.0912 respectively. The lira (808.77) and Belgian franc (28.37) continued at top and tail of the EMS, some 2% apart. The Belgians sold deutschemarks worth \$18 mn. The yen continued weak, closing at 246.45 in Tokyo, where the Japanese sold \$50 mn., but recovering to 245.85 in London.

Gold weakened throughout the day, with fixings at \$625 and \$606, but rebounded sharply to \$632 at the close, as demand from Far Eastern sources was felt in New York.

Operations:	Market	+ \$8 mn.
	Kenya	+ 23
	Government	+ 6
	Interest	+ 6
	Jamaica	- 8
	Sundries	- 2
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		+ \$33 mn.
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