

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 22nd February 1980

Further sharp increases in US interest rates brought a marked improvement in the dollar today. Sterling fared much better than most, giving little ground until late in the day. The ERI closed unchanged at 72.8.

Having closed in New York at 2.2875, the pound opened today at 2.2863, touching 2.2867 in early dealings. The dollar was a good deal firmer on the opening exchanges but sterling was untroubled and traded quietly around the opening level until late in the morning when sellers appeared from Germany. The early afternoon followed a similar pattern, though the pound traded a little below 2.28. Later, however, US banks began a round of Prime Rate increases and the dollar picked up again. Sterling was sold down to 2.2710 late in the day but recovered to close at 2.2767. Eurodollars opened over $\frac{1}{2}\%$ better bid and the three months' deposit closed $\frac{1}{2}\%$ firmer still. Forward margins narrowed substantially as a result. Three months' cover cost 1 7/16% p.a. and the covered differential against London was 7/16%.

The pound gained $\frac{1}{8}\%$ in Frankfurt (4.00 $\frac{1}{2}$), $\frac{1}{8}\%$ in Paris (9.39 $\frac{1}{2}$) and $\frac{1}{8}\%$ in Zurich (3.77 $\frac{1}{2}$). The deutschemark fell to 1.7590 and the Bundesbank sold \$100 mn. The French and Swiss francs were especially weak at 4.1280 and 1.6592 respectively. The Swiss sold \$50 mn. outright forward. The EMS finished fully stretched between the lira (812.75) and Belgian franc (28.59). The Belgians sold \$50 mn., \$25 mn. of French francs and \$16 mn. of Dutch florins. Their franc was at 76 on the index of divergence. The yen closed at 246.35 in Tokyo, the Japanese selling \$213 mn., and at 247.52 in London.

Gold weakened in the face of the dollar. Fixings were \$643.50 and \$630.

Operations:	Market	- \$11 mn.
	Interest	+ 6
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		- \$5 mn.
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	Overnight	- \$7 mn.
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22. 2.80
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