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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 27th February 1980

Sterling continued to strengthen today as commercial demand persisted. The dollar, too, was a good deal firmer at times but sold off to close little changed. Sterling's ERI advanced to 73.2, after 73.3 at noon.

The pound closed at 2.2796 in New York yesterday and opened at 2.2820 this morning. A single commercial buyer soon set sterling on a rising trend and 2.2870 was paid before the market steadied. Renewed commercial demand - partly on oil company account - kept the pound underpinned and the rate touched 2.2885 at best. Thereafter, the strength of the dollar pushed sterling to the sidelines and it traded quietly in a narrow range until the close at 2.2867. Forward margins were steady. Three months' cover cost 2% p.a. and the covered differential was 11/16% against London.

The pound gained $\frac{3}{8}$ % in France (9.44%) and Switzerland (3.81%) and rather more than that in Germany (4.03). The deutschemark weakened to 1.7685 at one stage but recovered to close little changed at 1.7620 after Bundesbank sales of \$185 mn. The Swiss franc, too, closed unchanged at 1.6682 (after 1.6770). The Swiss sold \$50 mn. outright forward. The EMS narrowed slightly to 1 15/16% in width between the lira (816.50) and Belgian franc (28.61). The Belgians raised Bank Rate by $\frac{1}{2}$ % to 12%. The French sold \$8 mn. and the Dutch spent \$5 mn. The yen closed at 248.75 in Tokyo, where the Japanese sold only \$3 mn., and finished at 248.23 in London.

Having opened a touch easier, gold was steady for much of the day. The price was fixed at \$629 and \$636. Towards the close, New York bid the metal up to \$645.

Operations:	Market	+ \$18 mn.
	Interest	+ 33
	Iran	+ 20
	Government	- 57
	Sundries	+ 2
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		+ \$16 mn.
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	Overnight	- \$7 mn.
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