



MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th February 1980

The exchanges were relatively quiet today with most operators awaiting the US trade figures. Discount Rate increases in Switzerland and Germany prevented any further appreciation for the dollar but did little to produce any significant hardening of the currencies in question. There was, however, renewed pressure on the Belgian franc. Sterling's ERI fell to 73.1

The pound closed lower at 2.2835 in New York overnight but began this morning at 2.2867. Sterling looked firm on the opening exchanges, as the dollar eased generally on expectations of a poor trade result and an increase in German discount rate. Later, however, as the dollar recovered ground on profit-taking, sterling dipped to 2.2842. Interest rate increases in Europe, however, stopped the dollar in its tracks and sterling traded quietly thereafter, closing at 2.2857. The cost of three months' cover narrowed to 1 1/4% p.a. and sterling's intrinsic discount fell to 9/16%.

The pound fell slightly against the deutschemark (4.02 1/2) and French franc (9.43 1/2) but was unchanged against the Swiss franc (3.81 1/2). The Swiss increased Discount and Lombard rates by 1% to 3% and 4% respectively and the Germans followed by raising Discount Rate by 1% to 7% and Lombard Rate by 1 1/2% to 8 1/2%. For all that the deutschemark closed barely firmer at 1.7610 - even after the Bundesbank had sold \$39 mn. - and the Swiss franc was little changed at 1.6690. The Italians, too, sold \$27 mn., although the lira, (814.95) remained at the head of the EMS, which extended to 2 1/16% in width. At the bottom of the band, however, the Belgian franc (28.60) came under renewed pressure and the Belgians shelled out \$33 mn.-worth of lire, \$28 mn.-worth of marks, \$17 mn.-worth of French francs and \$15 mn.-worth of Dutch florins. Their franc finished at 75 on the index of divergence. The yen was firmer and relatively stable closing at 248.05 in Tokyo and 248.15 in London.

Gold was fixed at \$638 and \$646. Some investment demand was seen early this morning and the first fixing was very active. Otherwise the metal traded steadily.

Operations:	Nigeria	+ \$54 mn.
	Kenya	+ 10
	Interest	+ 6
	Sundries	+ 1
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		+ \$71 mn.
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