

MR. MCMAHON

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 22nd December 1980

Markets turned ever more thin and volatile today as the holiday week began. Deposit rates were particularly uncertain and dictated the course of the dollar, opening weaker, following encouraging declines in the monetary aggregates, reacting harder this morning, then easing again late in the day. Sterling by contrast saw some sizeable two-way business, mainly on commercial account. The ERI rose to 77.7.

The pound traded up to 2.3550 in New York on Friday before closing there at 2.3512. This morning it began at 2.3480 but quickly scaled 2.35 as the dollar weakened on the early exchanges. Soon, however, the easier trend in deposits was reversed and the dollar firmed, sterling trading down to 2.3395. A large buying order on Central Bank account then hit the market and, with sizeable commercial demand also evident, the pound was bid back up to 2.3515 by mid-morning, despite continuing firmness in the dollar. The higher levels then incited commercial offerings and sterling traded actively around 2.3450 into the afternoon. Americans then sold the dollar and the pound recovered strongly to 2.3560 before closing at 2.3545. Three-month eurodollars lost a further 1½%. Sterling's three-month premium narrowed only 1½% to 4½% p.a. so that the covered differential rose to 7/16% in London's favour.

The pound lost ¼% in Paris (10.68%) and Frankfurt (4.62) and a full 1% in Zurich (4.18). The French franc (4.54) was relatively depressed by the Central Bank order to buy pounds. This carried the deutschemark (1.9620) with it, leaving the Swiss franc (1.7755) to reap the full benefit of the dollar's decline. In EMS the Belgian franc (31.57) closed 2½% below the French franc and the lira (934) was 3½% off. The French bought \$11 mn.-worth of Belgian francs; the Italians sold \$23 mn., the Irish \$18 mn. and the Danes \$9 mn. Elsewhere the Swedes sold \$28 mn. and the Norwegians \$25 mn. The yen closed at 207.80 in Tokyo, where the Japanese bought \$1 mn., and 207.60 in London.

Gold soared in New York on Friday but failed to breach \$600 in the Far East this morning. European markets were steady and the fixings in London set levels of \$594 and \$594.75. Later the metal traded up to \$601.

Operations:	Market	+ \$11 mn.
	France	+ 59
	(o/a Nigeria)	
	Sundries	+ 2
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		+ \$72 mn.
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