

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 2nd January 1980

Events in Afghanistan - and their impact on the gold price - depressed the dollar today. Sterling remained subdued for a while on account of the steel strike but enjoyed a late rally this afternoon. The ERI closed unchanged at 70.2 after 69.8 this morning. Gold gained around \$40.

The pound closed under pressure in New York on Monday at 2.2137. This morning, the dollar was marked down from the outset and sterling began at 2.2215, falling to 2.2175 on the early exchanges as the dollar recovered a little ground. Thereafter, the dollar receded and sterling picked up gradually. This afternoon, the pace accelerated and some keen interest in pounds was seen from London and the Continent. Sterling touched 2.2340 before closing at 2.2330 and trading after hours up to 2.2395. Forward margins widened, the three months' to 2 1/16% p.a. discount. Sterling's intrinsic premium fell to 3/16%.

The pound was 3/8% lower in Germany (3 32%) and 3/8% worse in Switzerland (3.52%). Against the French franc, however, it was 3/8% better at 8.96%. The French franc was unchanged on the dollar at 4.0157 following bearish economic news. The French nonetheless bought \$50 mn. The EMS consequently contracted to a 13/16% in width, with the Belgian franc (27.84) still at the tail. The deutschemark firmed to 1.1220, despite purchases by the Bundesbank of \$85 mn. The punt (\$1.1550) was at its discount on sterling. Elsewhere, the Swiss franc hardened to 1.06 and the yen to 238.40. Tokyo was closed.

Gold closed almost \$30 firmer in Hong Kong around \$560. Each of the London fixings set a new record, with levels of \$559 and \$559.50, and later in the day New York took the metal up to \$571, a gain of around \$40 on Monday's close. The conflict in Afghanistan continued to excite demand.

Operations:	Market	+ \$50 mn.
	Ireland	+ 22
	Sundries	+ 1
		<u>    </u>
		+ \$3 mn.
		<u>    </u>
	Overnight	+ <u>18 mn.</u>

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