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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th January 1980

The dollar extended and consolidated yesterday's gains today. Sterling looked a little soft this morning, but this afternoon's banking figures were well received and the pound closed in good shape. The ERI rose to 70.9.

The pound closed well bid in New York yesterday at 2.2650 (after 2.2670); the dollar there was generally easier. This morning the dollar was better from the outset and sterling, having met such demand yesterday, reacted rather more sharply than most. The opening price was 2.2581 but, after touching 2.2585, the pound drifted back to around 2.2550, then fell rather more sharply to 2.2490 before finding a level. Volume, however, was not significant and trading tended to reflect the dollar's fortunes. Some further U.S. interest carried sterling back to opening levels by the time the Banking figures were released and, in their aftermath, business took place up to 2.26. American profit-taking was seen at this level, however, and sterling closed comfortably at 2.2580. Eurodollars were a little easier and forward margins widened in consequence, the three months' to 2 1/8% p.a. The covered differential remained at 1/4% in London's favour.

Sterling gained 1/8% in Switzerland (3.56 1/4), 1/4% in France (9.09 3/8) and 3/8% in Germany (3.88). The dollar closed below its best levels but still comfortably better overall. The deutschemark was 1.7182 and the Swiss franc 1.5777. The E.M.S. closed still 1 7/8% spread between the French franc (4.0275) and the Belgian franc (27.94). The French sold \$40 mn. and the Belgians \$26 mn. but the Dutch took in a further \$25 mn. The punt (2.1507) was at 4 1/4% discount on sterling. The yen closed at 233.80 in Tokyo and 234.62 in London.

Gold gave up further ground early this morning but was thereafter a little more stable than of late. Fixings were \$615.75 and \$610.

Operations:	Market	+ \$ 2 mn.
	Ireland	+ 23
	Interest	+ 6
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		<u><u>+\$31 mn.</u></u>

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