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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th January 1980

Sterling finished an active week in fine form. The dollar was little changed but gold continued its surge to new heights. Sterling's EMI rose to 71.9.

The pound gained a cent at one stage in New York yesterday before reverting to close there at 2.2770. This morning it opened at 2.2745 and dipped to 2.2722 on the opening exchanges. Some modest Swiss demand, however, sufficed to pull sterling higher and a trading range was established around 2.28. The RPI was welcomed and confirmed the higher levels of trading while a large commercial order to buy pounds assured a firmer footing. Early Americans sold sterling back to 2.2770 but the trend did not last and, with good demand from Chicago, the pound closed in London at 2.2815 before trading on up to 2.2900. Eurodollars were a little firmer following the increase in Prime Rate by a major Chicago bank. Sterling deposits, too, were much firmer. Three months' cover cost 2 5/8% p.a. and sterling's intrinsic premium was 3/16%.

The pound gained around 3/8% against the Swiss franc (3.62½), French franc (9.20) and deutschemark (3.93). The French franc firmed against the dollar to 4.0322 but the Swiss franc (1.5887) and deutschemark (1.7229) were little changed. The EMS again showed signs of stress, widening to about 2% at one stage but closing at last night's levels, after the Belgian franc (27.98) had received support from the National Bank, who sold \$71 mn. and \$30 mn. worth of French francs. The Danes, too, sold \$52 mn. but the French took in \$10 mn. and the Dutch bought \$15 mn. of deutschemarks. The yen closed at 239.45 in Tokyo and 239.60 in London.

Gold breached \$800 in New York yesterday and traded up to \$834 in Hong Kong. In London this morning the \$800 was tested on the downside but support was found and the fixing set a level of \$825.50. Further sightings of Soviet ships sent the metal higher this afternoon and \$845 was traded before a long and difficult fixing established a level of \$835 - a new record for the fix.

Operations:-

Market	+ \$96 mn.
Iran	+ 40
India	+ 23
Interest	+ 5
Government	- 6
Sundries	- 2
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	+ \$156 mn.
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