

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 22nd January 1980

Sterling tended weaker today as the dollar advanced on a broad front behind a spectacular fall in the price of gold. Sterling's ERI dropped to 72.0.

The pound closed a cent lower in New York yesterday at 2.2785 (after 2.2730). Some heavy selling was seen there at times. This morning sterling began at 2.2833 and, despite the continuing firmness of the dollar, touched 2.2863 at one stage on the opening exchanges. Trading was less than brisk, however, and when one London professional turned a seller in mid-morning, the pound fell away to establish a level around 2.28. This afternoon began as quietly but, as New York pushed the gold price lower, so dollars came into demand and sterling proved a natural target for would-be sellers. American banks were prominent in offering pounds and the rate touched 2.2737 before closing at 2.2764. Forward margins narrowed as sterling deposit rates came off yesterday's high levels. Three months' cover cost 3 1/8% p.a. and sterling held an intrinsic premium of 1/8%.

Sterling gained a touch on the Swiss franc (3.65 5/8) but lost up to 1/4% on the French franc (9.24 1/8) and deutschemark (3.94 1/2). All three fell against the dollar to 1.6062, 4.0595 and 1.7327 respectively. The Swiss franc's relative weakness was again resisted by official sales of Dutch guilders (worth \$21 mn.). The EMS was steady, the French franc and Belgian franc (28.14) still at top and tail. The Scandinavian currencies met renewed pressure and the Swedes sold \$92 mn., while the Danes lost \$31 mn. The yen closed at 240.35 in Tokyo and 239.77 in London.

Gold was a nervous market throughout. Heavy selling was encountered at the earlier fixing and again at other times, with some of the bigger professional banks unloading long positions. The fixings set levels of \$763 and \$737 1/2, a record fall of \$112 1/2 between two afternoon fixings. Later the metal plunged a further \$57 1/2 before turning to close at \$695.

Operations:

Market	- \$42 mn.
India	+ 11
Sundries	+ 1
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	- \$30 mn.
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Overnight	- \$4 mn.
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