



MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 29th January 1980

After a further bout of queasiness this morning, sterling gained comfort from a dose of short-covering and traded comfortably through the rest of the day. The dollar again moved within a very narrow range. Sterling's ERI fell to 71.4.

The pound recovered to 2.2535 by the close in New York yesterday. This morning it opened at 2.2520 and rose to 2.2555 on the opening exchanges behind some reasonable Swiss demand. At this level, however, another wave of selling, emanating from Bahrain, engulfed the pound and, with other dealers hastily closing modest long positions, sterling was washed down to 2.2465 before sharp buyers were tempted in. Further oil price increases from the Middle East lent some buoyancy to sterling which then traded up to 2.2560 before mid-day. Early Americans were sellers and the pound touched 2.25 again. However, further thin interest from Switzerland and the Middle East carried sterling to 2.2605 before closing at 2.2560. Forward margins widened substantially following yesterday's selling in the futures market. The cost of three months' cover was 3 1/16% p.a. and the covered differential was 3/16% against London.

Sterling gave up a little more ground in Switzerland (3.64 1/2), France (9.16 5/8) and Germany (3.91 1/2). The dollar improved modestly in these centres to 1.6152, 4.0629 and 1.7361 respectively. The EMS neared 2% in width at times (though closing a little over 1 7/8%) and the French bought \$28 mn. and \$23 mn.-worth of deutschemarks, while the Belgians spent \$47 mn.-worth of French francs. The Dutch, too, bought marks equivalent to \$9 mn. The yen recovered to 239.40 in Tokyo and 239.20 in London.

Gold was actively bought in Hong Kong and continued to advance in London, where the price was fixed at \$678 this morning. Thereafter, the market was much less active and this afternoon's fixing set a level of \$674.25.

Operations:-

Market	+ \$10 mn.
Iraq	+ 45
Interest	+ 23
Iran	+ 20
Sundries	- 2
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	+ \$96 mn.
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Overnight	+ \$5 mn.
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