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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 25th February 1980

The exchanges were none too active today. The dollar remained very firm and only sterling withstood the challenge. Demand for pounds, however, was very light. The ERI rose to 72.9.

The pound closed easier in New York on Friday at 2.2695 after the breakdown of the latest steel talks. This morning it opened at 2.27 and quickly established a trading range around 2.2725 which lasted for much of a quiet morning. Late in the morning some professional interest from the Middle East took sterling to 2.2752 and, when New York returned, another quick flurry saw the pound trade to 2.2805. This strength did not persist, however, and, when the earlier Middle East buyers took their profits, sterling relapsed to close at 2.2760. Eurodollar deposits were easier and forward margins widened, the three months' to $1\frac{1}{2}\%$ p.a., leaving an adverse covered differential of $\frac{1}{2}\%$.

The pound scored modest gains in France (9.40 $\frac{1}{2}$) and Germany (4.01) but put on $\frac{1}{2}\%$ against the Swiss franc (3.80 $\frac{1}{2}$). The Swiss sold a further \$45 mn. outright forward as their franc weakened to 1.6717. They also swapped in \$200 mn. On Friday the Federal Reserve sold \$40 mn. for deutschemark and the Bundesbank today sold \$80 mn. The deutschemark eased to 1.7621. The lira (815.10) and the Belgian franc (28.59) continued at the top and tail of the EMS which closed around $2\frac{1}{2}\%$ in width. The Belgians sold a mixed bag worth \$10 mn. The yen closed at 248 in Tokyo, where the Japanese spent a further \$161 mn., and eased to 248.40 in London.

Gold was quiet but softer. Fixings were \$625 and \$616.50. Late in the day, a flurry of buying interest from the USA took the metal up beyond \$650 but it closed here at \$642.

Operations: Sundries - \$5 mn.

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