

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th September 1979

Today's was a much more active session, with diversification out of sterling into deutschemarks and Swiss francs the favoured pastime. As the vehicle currency, the dollar wilted in consequence. Sterling's ERI declined from 71.3 to 70.6.

The pound met sizeable commercial selling in New York yesterday and touched 2.2295 before finishing at 2.2315, over a cent down on the London close. This morning sterling opened at 2.2350 and met early selling pressure in London and the Far East, falling to 2.2305. Two-way business soon developed, however, and, with Paris a good buyer, sterling regained 2.2342. Thereafter sellers predominated with orders - for deutschemarks in particular - on both commercial and investment account. Sterling fell to 2.2262, steadied for a while around 2.2275, but turned again to breach 2.2250 before midday. New York came in as a heavy seller of pounds and the rate was knocked quite sharply down to 2.2175. One or two cheap buyers, however, emerged in the late afternoon and, with attention now on the weakening dollar, sterling steadied, touching 2.2220 before the close was struck at 2.2195. Forward margins widened, the three months to  $1\frac{1}{2}\%$  p.a. discount. The covered differential was  $3/16\%$  against London.

Sterling lost  $1\%$  to the French franc (9.38) and  $1\frac{1}{2}\%$  to each of the deutschemark (4.01 $\frac{1}{2}$ ) and Swiss franc (3.61 $\frac{1}{2}$ ). The French franc struggled to keep pace and the authorities sold \$37 mn. to effect a close little changed at 4.22 $\frac{3}{4}$ . They also spent \$71 mn.-worth of marks, while letting the cross-rate rise from 2.33 $\frac{1}{2}$  to 2.33 $\frac{3}{4}$ . The Bundesbank bought \$24 mn. (yesterday the Federal Reserve had taken in only \$10 mn. against marks with the dollar performing rather better) and the mark closed a little firmer overall at 1.8089 (after 1.8060), with Chase Manhattan's increase in Prime Rate to 13% providing a boost for the dollar towards the close. The Swiss were idle, apart from swapping in \$50 mn. for a month, and their franc hardened rather more to 1.6293. The snake was stretched for much of the day, though by the close the Danish krone (5.2172) was only  $2\frac{3}{16}\%$  from the mark. The Danes sold \$26 mn.-worth of marks and the Germans bought \$53 mn.-worth of kroner. The Belgians, too, lost \$63 mn.-worth of marks and their franc finished at 76 on the divergence indicator. The lira (813.30) slipped to only  $3\frac{1}{2}\%$  above the floor and the punt (2.07 $\frac{1}{2}$ ) improved to  $6\frac{1}{2}\%$  discount on sterling. The yen weakened to 222.35 in Tokyo, where the Japanese sold \$35 mn., and closed in London at 222.16.

Gold was a little easier in a still active market. Fixings were \$336.95 and \$337.10.

Operations:	Market	- \$39 mn.
	Saudi Arabia	+ 34
	Iraq	+ 18
	IDA	+ 5
	Sundries	+ 4
		<hr/>
		+ \$22 mn.

*JGH*  
12th September 1979.  
JGH