

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th September 1979

Widespread and massive selling of sterling persisted throughout much of today. There were no new factors, but the prospect of Britain's entry into the EMS, at a rate somewhat lower than the prevailing level, loomed large in dealer's considerations. Some short-covering this afternoon brought a welcome relief but the ERI nonetheless fell from 69.3 to 68.4 (after 67.8 at midday). The index has now declined over 4% in the last four days.

The pound closed at 2.1665 in New York on Friday, a cent below its final London level. This morning it began easier still at 2.1608 following selling by Australian banks in the Far East. 2.1628 was seen on the early exchanges but the bigger professionals were soon taking short positions and, once London was under way, another rapid decline set in with heavy, general offering of pounds. Sterling fell to 2.1475 before any natural support was found and any attempted recovery was quickly nipped in the bud by worried commercial customers who did not miss a chance to cover their currency requirements. One such large commercial seller eventually shattered the uneasy peace and sterling dropped immediately to 2.1433 continuing its slide to 2.1375 before further temporary support was engendered. This level, too, persisted for a while but two large European professionals returned in concert for a final push and the pound was driven forcibly down to 2.1285 before the combatants withdrew for the lunch interval. Early this afternoon, with sources close to the Chancellor declaring that sterling's entry into the EMS was still a long way off, the market took heart and the pound slowly regained a little ground. Late in the day the movement gained pace and 2.1517 was traded shortly before the close, which was struck at 2.1480. Three months' cover cost 1 15/16% p.a. and sterling's intrinsic discount was 9/16%.

Sterling lost a further 1½% to the Swiss franc (3.50¼) and 1¼% to each of the French franc (9.08¼) and deutschemark (3.89). Activity in Europe was relatively muted. The Swiss bought \$10 mn. as their franc firmed marginally to 1.6311; the deutschemark, too, was a shade better at 1.8113. The French sold \$17 mn.-worth of marks to keep pace and their franc, too, rose a little to 4.2305, advancing to 2.3356 on the mark. Friday's 2% increase in Danish Bank Rate had a lagged effect, in that the Danish krone suddenly took off from the snake's floor, leaving the Belgian franc (29.08) at the bottom, some 2½% distant from the mark. The Belgians spent only \$6 mn.-worth of marks. The lira (814.15) closed still 3¼% above the base of the band. The punt (2.07½) closed at only 3¼% discount on sterling. The yen closed in Tokyo at 223.70 and in London at 223.42.

Gold began the day above \$350 for the first time ever. New records were set at each fixing with levels of \$350.75 and \$351.75 and the market closed on a buoyant note at a level of \$355½.

Operations:	Market	- \$308 mn.
	Iran	+ 10
	Sundries	- 1
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		- \$299 mn.
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Overnight + \$4 mn.

*JGH*  
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