

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th September 1979

Sterling traded for the most part comfortably and the day's range was relatively narrow. The increase in Discount Rate in the US seemed to do little more than ease the selling pressure on the dollar. The EMS was relaxed. Gold was again very volatile. Sterling's ERI fell from 68.7 to 68.2.

The pound fell over a cent after the close yesterday and finished in New York at 2.1455. Selling there was not very heavy. This morning it opened at 2.1431 and met small but steady offerings from the Far East on the opening exchanges. London followed this trend and the rate fell to 2.1385 before buyers appeared and a better two-way market developed. Thereafter, the currency traded according to the mood of the moment. 2.1470 was paid for pounds in mid-morning but the rate was back to opening levels by midday. In the interim, some large Swiss selling was well absorbed. Americans returned as small sellers and the pound breached 2.14 again on the downside. Some modest buying soon restored the balance, however, and sterling traded comfortably through to close at 2.1440. Forward margins were little changed, despite an increase in Prime Rate to 13½% by Chemical Bank. A softer Federal Funds rate acted as a depressant on Eurodollar rates. Three months' cover cost 1 11/16% p.a. and the covered differential was ½% against London.

Sterling fell by ¼% against the deutschemark (3.87½) and French franc (9.05½) and by ⅓% against the Swiss franc (3.48½). These currencies were all a little firmer against the dollar at 1.8076, 4.2253 and 1.6246 respectively. Yesterday, the Federal Reserve soaked up \$370 mn. against deutschemarks but the Bundesbank did nothing today. The Swiss bought \$15 mn (and swapped in \$200 mn.) as the Swiss franc/DM cross-rate hardened to SF 0.89½. The French, however, sold marks equivalent to \$17 mn. in order to hold their cross-rate at 2.33½. The EMS was comfortable and the Belgian franc (28.98) closed a little less than 2% from the mark. The Danes gave up the \$7 mn. of marks they had taken in yesterday. The lira (813.10) finished 3½% above the base. The punt (2.0777) closed at 3½% discount on sterling. The yen eased to 223.75 in Tokyo but recovered slightly in London to 223.55.

The gold market was again severely tried. Following yesterday's GSA auction (at which an average \$377.78 was paid for 750,000 ounces in coin bar form) the metal traded up through \$390 in Hong Kong this morning. London began at \$376 at which price the metal was later fixed. This afternoon, US markets prompted a sharp sell-off to around \$360 but in the fixing, a single buyer bid up the price again to \$369. For the first time, however, the rest of the market attempted to counter this tactic and a very large amount of metal was produced in concert to satisfy the demand.

Operations:	Market	- \$8 mn.
	Iraq	+ 6
	Post Office	+ 5
	(PSB G'teed)	
	Sundries	+ 5
		<u>+ \$8mn.</u>

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