

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 20th September 1979

A remarkable and quite unexpected change in intervention tactics by the Federal Reserve brought massive selling pressure on the dollar today with the deutschemark and Swiss franc the favoured havens. Sterling had an uneasy morning but recovered quite strongly this afternoon, the ERI closing only slightly lower at 68.1.

The pound closed at 2.1445 in New York yesterday and opened at 2.1465 this morning. With attention focussed entirely on the dollar sterling was on the sidelines at first and drifted back to 2.1385 and up again to 2.1440. Later, some large Swiss sellers, together with a commercial buyer of marks in London, drove the pound back to 2.1335. Once these were clear, however, some cheap buying interest spurred a recovery and with good Scandinavian demand emerging in late morning, sterling topped 2.15 shortly after midday. A sudden rumour that MLR was to be raised brought a sharp flurry in which sterling ran swiftly up to 2.1655 and, while it declined as quickly to 2.1525 when the rumour proved unfounded, the generally higher levels were maintained. The pound thereafter seemed to gain from the dollar's weakness and traded up to 2.17 before closing at 2.1645. Three months' cover cost 1 9/16% p.a. and sterling's intrinsic discount was 1/2%.

The pound lost 3/8% to the French franc (9.00 1/4), 1 1/4% to the deutschemark (3.82 1/2) and 1 1/4% to the Swiss franc (3.42 1/2). Yesterday, the Federal Reserve had bought in \$577 mn. against deutschemarks, holding first the 1.80 1/2 level and then 1.80 at which the currency closed. This morning, to universal surprise, they did not defend the currency in the Far East and it tumbled fast and far from the outset. The Swiss bought \$690 mn. (and swapped in \$665 mn.) holding the DM cross-rate at 0.89 1/2 for most of the day; it closed at 0.8942. Against the dollar the Swiss franc hardened to 1.5805. The deutschemark advanced to 1.7675. The Bundesbank seemed reluctant to support the dollar at first but eventually took in \$116 mn. Most of the other EMS currencies weakened within the band. The Belgians spent \$167 mn.-worth of marks and their franc (28.35) closed 2% from the mark. The French franc (4.1617) and Danish krone (5.0895) slipped down the band to within an ace of the franc. The French sold marks worth \$107 mn. and their cross-rate fell from 2.33 1/4 to 2.35 1/2 to the DM. At 805 1/2 the lira was only 2 1/8% above the floor. The punt, however, retained its position in the band, rising to 2.1245 (only 1 1/8% discount on sterling) as the Irish sold \$41 mn. and \$11 mn. of sterling. The yen firmed to 222.30 in Tokyo and 219.70 in London.

Gold opened firmer but showed great reluctance to gain from the dollar's weakness. The first fixing produced a price of \$375.35. This afternoon, however, the price soared again. The fixing set a new record level of \$380 and the metal traded up to \$386 afterwards.

Operations:	Market	+ \$16 mn.
	IDA	+ 9
	Post Office	+ 4
	(PSB G'teed)	
	Greece	- 10
	Sundries	- 8
		<hr/>
		+ \$11 mn.
		<hr/>

20th September 1979.
JGH