

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st September 1979

The weight of official support for the dollar induced some covering by the bears today, although the extent of the recovery was none too substantial. Sterling traded comfortably for most of the session and the ERI improved to 68.2.

The pound closed at 2.1660 in New York on Friday and opened this morning at 2.1587. Buyers soon came in from the Far East and elsewhere and sterling traded as high at 2.1745 before settling around 2.17. The dollar's rebound did not affect sterling at first but later this morning a large Swiss selling order combined with a London commercial to depress the rate to 2.1575. Americans showed little interest and the pound traded around 2.16 for much of the afternoon. Some moderate transatlantic demand later carried sterling to 2.1687 but the close was struck quietly at 2.1645. Three months' forward cover cost 1 9/16% p.a. and the adverse covered differential was 3/16%.

The pound eased fractionally against the deutschemark (3.82½), was ¼% off on the French franc (8.98½) and lost ¼% to the Swiss franc (3.40½). Yesterday in New York the Federal Reserve returned to the charge, selling marks worth \$319 mn. and Swiss francs worth \$14 mn.; the Swiss for their part bought an additional \$173 mn. The dollar fell further against each of these currencies. Today the Swiss took in \$162 mn., largely it would seem to control the DM cross-rate which was let back from an opening 0.89½ to 0.89. Against the dollar the franc closed at 1.5730 (after 1.5810), a slight improvement for the dollar on its New York low. The deutschemark similarly finished at 1.7670 (after 1.7770). The Bundesbank bought only \$25 mn. The Danish krone (5.1007) closed as the weakest currency in the EMS, almost 2¼% from the mark. The Danes sold \$36 mn. of marks and the Belgians, whose franc was propping the snake for most of the day, spent marks worth \$108 mn. The French franc was very volatile, closing firmer at 4.1505. The DM cross-rate improved from 2.35½ to 2.34¼ after the French had sold \$21 mn. and marks worth \$215 mn. The lira (807¼) closed at 2¼% above the floor. The punt (2.1225) stood at 2% discount on sterling. The Irish sold \$17 mn. and a little sterling. The yen closed at 221.40 in Tokyo and 222.40 in London.

Gold eased in New York yesterday and again in Hong Kong this morning. This morning was relatively quiet and the fixing set a level of \$373.00. The price was rather more volatile this afternoon and, after falling to \$362, it was bid up to \$369.00 in the fixing.

Operations:	Market	+ \$9 mn.
	Government	- 40
	Mauritius	+ 5
	Sundries	+ 3
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		- \$23 mn.
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