

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th September 1979

Broad-based demand for sterling was evident throughout the day and carried the currency to its best levels for over a week. The dollar was kept steady as a result. Sterling's ERI rose to 68.7.

The pound closed at 2.1612 in New York yesterday and began today at 2.1627. Sterling soon began to advance, probably behind some professional squaring for the end-quarter. Later, however, there appeared a persistent Middle East interest in pounds and this drove the rate up through 2.17 before a range was found around that level. As time passed and sterling failed to relapse, commercial buyers were flushed out into the open and demand for sterling began to mount again. This afternoon saw persistent and solid demand, both from Europe and the USA, with a strong suggestion of further acquisitions by Middle East investment accounts. The pound closed at 2.1795 - its best level of the day - and went on to trade up to 2.19 afterwards. Forward margins narrowed as the pound improved. Three months' cover cost  $1\frac{1}{2}\%$  p.a. and sterling's intrinsic discount was  $1/16\%$ .

Sterling gained  $\frac{3}{8}\%$  on the French franc (9.03 $\frac{1}{2}$ ),  $1\%$  on the deutschemark (3.85 $\frac{1}{2}$ ) and  $1\frac{1}{2}\%$  on the Swiss franc (3.45). The dollar was steady in Germany, where the mark closed at 1.7679, and firmer in Switzerland, where the franc eased to 1.5832. After the close, however, it sagged in response to sterling's strength. The EMS narrowed to  $1\frac{1}{2}\%$  in width as the Belgian franc (28.48) gained ground on almost all the participants. Only the Dutch showed concern, selling \$11 mn. and \$20 mn.-worth of marks. The Italians, too, sold \$68 mn. and the lira (809.30) finished  $2\frac{3}{8}\%$  above the floor. The Danish krone (5.1642) closed at the top of the narrow band. The punt (2.1097) was at  $3\frac{1}{4}\%$  discount on sterling. The yen closed at 223.00 in Tokyo and 222.81 in London.

Gold traded in a relatively narrow range and tended softer for much of the day until a rise in the platinum price provoked an upward movement late in the day. Fixings were \$370.80 and \$373.75.

Operations:	Market	+ \$126 mn.
	National Water Council	
	(PSB G'teed)	+ 18
	India	+ 11
	Interest	+ 6
	Sundries	+ 1
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		+ \$162 mn.
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	Overnight	+ \$35 mn.
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*Jm*  
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