

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 27th September 1979

The dollar continued very weak today on fears for a further rise in oil prices and sterling, this morning at least, was again in good demand. The ERI rose from 68.7 to 69.1, after 69.5 this morning. Gold set a new record and moved within sight of the \$400 level.

The pound continued wanted in New York last night, advancing to 2.2005 by the close. This morning, the dollar began very soft again - despite very heavy official support - and sterling soon found ready buyers. The opening rate was 2.2065 and, having touched 2.2035, the pound forged ahead to 2.2140 before official support for the dollar on the Continent brought some reaction. This was short-lived, however, and, when the dollar sagged again, sterling was bid up to 2.2170. This level attracted professional sellers, with Scandinavians prominent, and the pound fell steadily, in an otherwise thin market, to 2.20 by early afternoon. Some general profit-taking in the dollar as early Americans returned took sterling lower still and 2.1906 was traded before the announcement of a 6% rise in Venezuelan oil prices turned the dollar down again. Sterling recovered swiftly to 2.2052 before closing at 2.2030. Forward margins narrowed, the three months' to 1½% p.a. discount. This produced interest parity on the usual comparison.

The pound was little changed against the French franc (9.03½) but lost ¼% to the Deutschmark (3.84½) and ⅓% to the Swiss franc (3.42½). Yesterday the Federal Reserve took in \$475 mn. against marks and this morning they were again intervening forcefully in the Far East. Today, the Bundesbank bought \$131 mn. but the mark appreciated nonetheless to 1.7455. The Swiss bought only \$50 mn.; their franc rose to 1.5562. The Danish krone (5.0925) and Belgian franc (28.20) spanned a snake that was fully-stretched at the close. The Belgians sold kroner worth \$14 mn. and the Danes bought \$16 mn. and \$4 mn. of marks. The punt (2.1392) was at 2⅞% discount on sterling; the Irish sold \$13 mn. and sterling worth \$28 mn. The yen closed at 222.75 in Tokyo and 223.07 in London. The French soaked up \$83 mn., their franc firming to 4.10.

Gold set new records at each fixing with levels of \$386.25 and \$395.50. Turnover was heavy and the metal was particularly well wanted this afternoon on short covering in the futures markets.

Operations:	Market	+ \$44 mn.
	Interest	+ 45
	India	+ 11
	Ireland	- 66
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		+ \$34 mn.
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*JGH* 27th September 1979.  
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