

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Friday 28th September 1979

The dollar fell sharply in New York yesterday following the release of the latest U.S. trade deficit but recovered its poise this morning and traded comfortably - though still supported - for much of the day. Sterling was less active than of late and tended to mirror the dollar's performance. The ERI slipped to 69.0.

The pound closed at 2.2097 in New York on Friday in response to the weaker dollar. This morning it began at 2.2072 and, as the dollar regained lost ground, quickly retreated as far as 2.1933. Volume was not heavy and, when some commercial buyers entered the fray, sterling topped 2.20 again. Americans returned as sellers of pounds and for a while this afternoon the tone was uneasy as sterling fell to 2.1908 in a thin market. Late in the day, however, the dollar relapsed and sterling recovered to close comfortably at 2.2020. Forward margins narrowed again, the three months' to 1 1/4% p.a. discount. Interest parity was maintained.

Sterling lost 1/8% to the French franc (9.02 3/8) and 1/4% to each of the deutschemark (3.83 3/8) and Swiss franc (3.41 1/2). Yesterday, the Federal Reserve bought up \$181 mn., almost entirely against deutschemark and almost all done in the Far East. Today, the Bundesbank took in \$102 mn. and the Swiss \$67 mn. The mark firmed to 1.7410 and the Swiss franc to 1.5510. The E.M.S. was relaxed for much of the day but the band was extended again by the close. The Danes bought \$5 mn. of Belgian francs and the Belgians sold \$7 mn. of Danish kroner. The punt (2.1380) stood at 2 7/8% discount on sterling. The yen eased to 223.45 in Tokyo and further to 224.40 in London.

Gold passed the \$400 level in the Far East this morning, but never quite achieved that goal in London. Nevertheless the fixings again set successive records with levels of \$397 and \$397.25. Conditions were generally less active.

Operations:

Market + \$13 mn.

Overnight + \$1 mn.

The result for September is a reserve loss of \$554 mn. to a level of \$22,751 mn. This was struck after net public sector debt repayments of \$123 mn. The overbought forward position was reduced by \$188 mn. to \$1,544 mn.

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J.G.H.