

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 2nd October 1979

A day of mixed and widely fluctuating fortunes for the dollar. Battered further this morning, it responded later to official support, Solomon's hints of a further package and market rumours of an imminent Presidential press conference. When the last of these proved unfounded, the currency eased back from the day's better levels. Sterling saw little activity and gained overall from the dollar's recovery. The ERI rose from 68.6 to 69.0.

The pound closed firmer in New York yesterday at 2.1990 but opened this morning back at 2.1940. The opening exchanges saw modest two-way business and sterling tended to mirror the dollar's performance. The pound was marked up to 2.2005 but proved reluctant to advance beyond that and turned back when the dollar began its recovery. This afternoon sterling was very steady around 2.19, despite sharp movements elsewhere, and only late in the day did it ease to 2.1830 before recovering as sharply to close at 2.1915. The cost of three months' forward cover was $1 \frac{3}{16}\%$ p.a. and this gave sterling a small intrinsic discount on the covered comparison.

The pound regained $\frac{3}{4}\%$ against the deutschemark (3.83 $\frac{3}{4}$) and 1% against each of the Swiss franc (3.42 $\frac{7}{8}$) and French franc (9.03 $\frac{7}{8}$). The Federal Reserve sold marks equivalent to \$217 mn. and Swiss francs equivalent to \$19 mn. (the latter shared with the Swiss, who themselves bought a further \$25 mn. late in the day). Today, with the Swiss franc threatening to outdistance all-comers, the Swiss moved in early to buy \$175 mn. The Bundesbank took in only \$68 mn. By the end of the day, the franc had eased to 0.89 $\frac{3}{8}$ to the mark; against the dollar the franc was 1.5650 and the mark 1.7510. The French bought \$60 mn. (swapping out \$55 mn.), although their franc eventually closed easier against both the dollar (4.1245) and mark (2.35 $\frac{1}{2}$). The E.M.S. was relaxed and the Punt (2.14: 2 $\frac{3}{8}\%$ discount on sterling) moved to the top of the band, $1 \frac{15}{16}\%$ above the Belgian franc (28.36). The Danes bought \$7 mn. of marks. The yen closed at 224.85 in Tokyo and 225.35 in London.

Gold seemed a more frenzied market than ever before and the day's price range was all of \$40. Opening at \$422, the metal ran up to a new record \$444 - \$447 as the dollar weakened this morning. Heavy Middle East interest was rumoured. The price turned before the fixing, which set a level of \$437, itself a new record for the fixing. This afternoon, with U.S. futures markets again an influence, the metal moved uncertainly. A long and difficult fixing produced a level of \$426 and the market closed offered at around \$413.

Operations:

Market	+ \$ 1 mn.
India	+ 10
Sundries	+ 2
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	+ \$13 mn.
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JGH 2nd October 1979.

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