

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 3rd October 1979

No firm, underlying trend emerged on the exchanges today. The dollar weakened following Miller's apparent denial of any support package but staged a technical rally later in the day. Sterling saw two-way activity and, after a soft start, gained strength from Libya's decision to cut oil supplies to the companies. The ERI fell to 68.8.

The pound closed easier at 2.1855 in New York yesterday. This morning it opened at 2.1825 and soon moved lower as early sellers moved in from Germany and London. Further offerings, in part commercial, took sterling back to 2.1755 but this level provoked profit-taking and flushed out some general buying interest, some of this also commercial. The pound had revived to 2.1860 by midday and, following the Libyan announcement, it moved strongly ahead to 2.1985. Once again, 2.20 seemed a barrier and, when Americans sold pounds to square their books, sterling backed off rapidly to 2.1860 before closing at 2.1870. Forward margins narrowed sharply, more than compensating for a marked convergence in dollar and sterling deposit rates. Three months' cover cost 13/16% p.a. at the close and sterling commanded an intrinsic premium of 1/8%.

Sterling gained 1/2% on the Swiss franc (3.44 1/2) but was little changed against either the French franc (9.02 7/8) or deutschemark (3.83 7/8). The dollar firmed against all three, closing at 1.5750, 4.1287 and 1.7550 respectively. Yesterday, the Federal Reserve took in \$87 mn. against marks but official support today was almost non-existent. The lira (807.40) led the E.M.S., 2 1/8% above the Belgian franc (28.35). The punt (2.1285) stood at 2 5/8% discount on sterling. The yen closed at 225.50 in Tokyo, where the Japanese sold \$150 mn. in support. This afternoon it recovered sharply, following strong demand from a source in Singapore, and closed in London at 224.27 (after 223.20).

Gold attempted a rally this morning but eased into the fixing which set a level of \$418.50. This afternoon the price was marked down dramatically, with selling from a large European operator followed by liquidation on the U.S. futures markets. The fixing price was \$402 and the closing level was around \$393 1/2.

Operations:

Market	+ \$4 mn.
Iraq	+ 13
Post Office	+ 11
(PSB G'teed)	
Iran	+ 5
Greece	- 5
Sundries	+ 5
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	+ \$33 mn.
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JGH 3rd October 1979.

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