

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th October 1979

The dollar continued relatively firm today with few dealers prepared to take short positions while expectations of a support package remained high. Sterling was in demand this morning following renewed rumours that OPEC producers would take part of their royalties in pounds. The ERI rose from 68.8 to 69.0.

With the dollar continuing to improve in New York yesterday, sterling closed lower at 2.1840. This morning the pound opened at 2.1860 and, after a quiet start, met good demand on the rumoured OPEC consideration of sterling royalties, rising to 2.1965 before profits were taken. This afternoon, the dollar jumped sharply ahead as American markets reopened and sterling came back swiftly to 2.1792. By the close, however, the dollar was off its best levels and sterling rebounded to finish at 2.1890. Three months' forward cover cost  $\frac{3}{4}\%$  p.a. and sterling retained a very small intrinsic premium.

The pound gained  $\frac{3}{8}\%$  on the deutschemark (3.85 $\frac{1}{2}$ ),  $\frac{1}{8}\%$  on the French franc (9.07 $\frac{1}{2}$ ) and  $\frac{1}{8}\%$  on the Swiss franc (3.46 $\frac{1}{8}$ ). Against the dollar, all three again eased to 1.7610, 4.1460 and 1.5835 respectively. Outright official intervention was negligible, although the Bundesbank swapped in  $\frac{1}{2}$  bn. and the Swiss swapped out \$50 mn. The Danish krone (5.1575) led the EMS, less than 2% removed from the Belgian franc (28.46). The punt (2.1175) stood at 3 $\frac{1}{2}\%$  discount on sterling. Elsewhere, the yen closed at 223.50 in Tokyo; having firmed later to 221.45 in London, it then weakened sharply, following a report that Iran was increasing the price of oil sold to Japanese importers, and closed at 223.07.

Gold followed recent trends. An early rally, which lacked conviction, gave way to a lower fixing (\$394.50) and a further, sharp sell-off once US futures markets reopened. The later fixing, which was again difficult, produced a level of \$384.

Operations:	Market	+ \$26 mn.
	Interest	+ 13
	India	+ 11
	Sundries	- 4
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		+ \$46 mn.
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