

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th October 1979

A dull end to the week allowed both the pound and dollar to trade comfortably for most of the day. Sterling drifted off towards the close in a thin market and the ERI fell as a result from 69.0 to 68.8.

The pound closed at 2.1870 in New York yesterday and opened at 2.1873 this morning. Sterling touched 2.1895 on the opening exchanges and then meandered through the morning with little activity of consequence until some Swiss selling engendered a rapid decline to 2.1817 early this afternoon. Modest initial demand from the US took sterling back to 2.19 but later in the day American sellers caused a relapse to 2.1815 by the close. Conditions remained thin throughout. Three months' cover cost 13/16% p.a. and the covered differential moved to 1/8% against London.

The pound lost 1/8% to the Swiss franc (3.44) and 1/8% to each of the French franc (9.03) and deutschemark (3.83 1/2). All three gained a little on the dollar at 1.5770, 4.1392 and 1.7580 respectively. Once again, however, there was no significant official support for the dollar, although the Bundesbank swapped in \$600 mn. and the Swiss swapped out \$50 mn. The Danish krone (5.1570) and Belgian franc (28.46) continued to span the EMS, a little under 2% apart. The Dutch sold marks worth \$11 mn. The punt (2.1210) stood at 2 1/4% discount on sterling. The Irish bought \$18 mn. The yen closed at 224.90 in Tokyo and 223.97 in London.

Gold weakened sharply again this morning and the price was fixed at \$367.50. The metal then rallied as strongly this afternoon and, with turnover still heavy, the price was fixed at \$385.

Operations:	Market	- \$33 mn.
	India	+ 22
	Sundries	+ 3
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		- \$8 mn.
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