

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 8th October 1979

The Federal Reserve Board's weekend package was initially received with some scepticism on the exchanges but this quickly evaporated once the new marginal reserve requirements began to impact on dollar deposit rates and the dollar finished the day in very much better shape. For the most part, sterling held up well against other currencies but, given the dollar's advance, the ERI inevitably fell from 68.8 to 68.3.

The pound closed at 2.1767 in New York on Friday but opened at 2.1590 this morning in response to a general mark-up for the dollar. Sterling was sold in the Far East and again in Europe but conditions remained orderly and the pound retreated no further than 2.1535 before finding a level. Swiss banks later returned to sell in some size but this was eventually well absorbed and, although the dollar was advancing further elsewhere, sterling recovered to 2.1640 on some keen Middle East buying interest. Despite the Columbus Day holiday, American banks found ways to participate and proved eager takers of dollars. Sterling backed off in a thin market to 2.1422 before steadying to close at 2.1445. Forward margins narrowed substantially leaving a very small premium only for all periods out to six months. Eurodollar deposits eventually firmed by around 1% for all periods up to twelve months. This left a covered differential of  $\frac{3}{8}\%$  against London on the three months' comparison.

The pound gained  $\frac{1}{8}\%$  on the French franc (9.04 $\frac{1}{8}$ ),  $\frac{1}{8}\%$  on the deutschemark (3.85 $\frac{1}{8}$ ) and  $\frac{7}{8}\%$  on the Swiss franc (3.46 $\frac{7}{8}$ ). The Swiss franc touched 1.6212 before closing at 1.6172 and the deutschemark was 1.7970 (after 1.7980). Neither Central Bank supported its currency. The French franc eased to 4.21 $\frac{1}{8}$  but improved against the mark to 2.34 $\frac{1}{8}$ . Unusually the EMS came under modest pressure and the band was almost fully extended at the close between the Belgian franc (29.02) and Danish krone (5.2455). The Belgians sold \$6 mn.-worth of kroner and the Danes bought \$15 mn.-worth of marks. The punt (2.0860) remained at 2 $\frac{1}{2}\%$  discount on sterling. In Tokyo, the yen closed at 225.20, while in London it eased modestly to 225.72.

Having adjusted downwards in price in the Far East this morning, gold was then fairly steady and the fixing set a level of \$376.75. The dollar's strong upsurge brought some relapse this afternoon and the price was fixed at \$372, at which level the metal closed.

Operations:	Market	- \$62 mn.
	Bangladesh	- 5
	Interest	+ 9
	Sundries	+ 5
		<hr/>
		- \$53 mn.
		<hr/>

*JGH* 8th October 1979.  
JGH