

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 9th October 1979

Further sharp increases in dollar deposit rates brought healthy gains for the dollar this morning. By the end of the day, however, with deposits well off their best levels, the currency's net rise was rather less spectacular. Sterling was again protected from any adverse impact resulting from the dollar's strength: the increase in Kuwaiti oil prices was cited as a bull point for the pound. The ERI recovered to 68.6.

The pound opened at 2.1380 this morning, some half a cent down on yesterday's close. The dollar quickly picked up ground but sterling traded no lower than 2.1345 before professional demand emerged in London, spurred by the increase in Kuwait's oil prices. Sterling crested 2.14 and settled around that level, advancing later to 2.1455 when Swiss and Middle Eastern buyers came in for pounds. Returning Americans were once more keen takers of dollars and sterling was sold on a modest scale, retreating to 2.1360 at one stage. Late in the day, however, the dollar itself turned easier and some buying interest from Switzerland and the U.S.A. carried sterling up in a thin market to close at 2.1505. As eurodollars firmed further, forward sterling moved to a premium, the three months' closing at 5/16% p.a. This left a small covered differential in favour of London.

The pound put on 1/2% against both the deutschemark (3.87 1/4) and French franc (9.08 1/4) and gained 3/4% against the Swiss franc (3.49 3/4). These lost further ground to the dollar. The deutschemark closed at 1.8005 (after 1.8160), the Swiss franc at 1.6260 (after 1.6415) and the French franc at 4.2230 (after 4.27). The French bought \$28 mn.-worth of marks (and swapped out \$60 mn.) to hold the DM. cross-rate around 2.34 5/8. The EMS was again fully stretched between the Belgian franc (29.09) and Danish krone (5.2580). The Belgians sold \$18 mn.-worth of kroner, while the Danes took in \$19 mn., \$40 mn.-worth of marks and \$29 mn.-worth of Belgian francs. The punt (2.0690) slipped to 3 3/4% discount on sterling. In Tokyo, the Japanese sold \$91 mn. to effect a close for the yen of 226.40. In London, it improved to 225.92.

Gold advanced in the Far East from somewhat depressed overnight New York levels and thereafter enjoyed a steady morning with the price fixed at \$377. The increase in oil prices tended to support the metal while the stronger dollar acted as a counterweight. Some good demand, supposed to be from the Middle East, then took the price into a higher range and the later fixing set a level of \$385.80.

Operations:

Market	+ \$45 mn.
Saudi Arabia	+ 11
Sundries	- 6
	<u>+ \$50 mn.</u>
Overnight	<u>+ \$9 mn.</u>

JGH 9th October 1979.

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