

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th October 1979

The dollar turned easier this morning as dealers began to look in vain for some external support to buttress the weekend's domestic package. Sterling was again well bid, with further evidence of Middle East demand. Markets were generally quieter this afternoon and sterling slipped back towards opening levels. The ERI rose to 68.8.

The pound closed at 2.1562 in New York yesterday and began this morning at 2.1607, a cent higher than yesterday's closing level in London. The early morning session was not overactive and sterling was marked up in response to the dollar's general decline. Later, however, Middle East banks were seen bidding for pounds again and the rate was swept up quickly to 2.1765. With the demand satisfied, however, the pound relapsed as swiftly to settle around 2.17. The afternoon was generally much quieter and steadier but sterling continued its decline and touched 2.1625 before closing at 2.1658. Eurodollar deposits opened yet firmer but thereafter traded somewhat steadier than yesterday. Three months' forward sterling closed at a premium of $\frac{1}{8}$ % p.a. The covered differential, however, moved to $\frac{3}{8}$ % against London.

Sterling eased a shade against each of the deutschemark (3.86 $\frac{1}{2}$), Swiss franc (3.49 $\frac{1}{2}$) and French franc (9.06 $\frac{1}{2}$). All gained considerable ground on the dollar with respective closing levels of 1.7850, 1.6125 and 4.1862. The Bundesbank bought \$34 mn. and the French took in \$159 mn., holding the DM cross-rate at 2.34 $\frac{1}{2}$. The EMS was again under some pressure, though finishing slightly less than fully stretched between the Belgian franc (28.83) and Danish krone (5.2122). The Danes bought \$16 mn. and \$25 mn.-worth of Belgian francs. The Belgians sold \$3 mn.-worth of kroner. The punt (2.0942) stood at 3 $\frac{1}{8}$ % discount on sterling. Tokyo was closed for PE Day. In London, the yen closed slightly firmer at 225.70.

Gold opened sharply higher but thereafter traded indecisively. The fixings attracted very heavy turnover and set levels of \$409.25 and \$413.

Operations:	Market	+ \$51 mn.
	Interest	+ 12
	Sundries	- 1
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		+ \$62 mn.

Jm 10th October 1979.
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