

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 11th October 1979

Sterling was a little soft at times this morning but recovered to a comfortable close. The dollar, too, continued to decline this morning but it, too, had regained a good deal of ground by the end of the day. Sterling's ERI slipped to 68.7.

The pound closed better at 2.1725 yesterday in New York where the dollar was generally easier. On the early exchanges today, sterling again mirrored the dollar, beginning at 2.1675 and rising to 2.1725. Sellers then moved in from London and the Middle East and the pound fell very rapidly to 2.1620 before recovering. The dollar was by now recovering on a broad front and a second wave of selling hit the pound from Switzerland. Commercial offerings in London also were seen. Sterling fell again to 2.1635 but successfully weathered this storm and, when German buying later emerged, some short-covering was induced in Switzerland; sterling rebounded to 2.1695 late in the session. The afternoon was less eventful and the pound traded in much the same range. The close was struck at 2.1645. Three months' forward sterling stood at a premium of 11/16% p.a.: the intrinsic discount was again 3/8%.

The pound lost 1/8% to the Swiss franc (3.48 1/2) and French franc (9.05) and 1/4% to the deutschemark (3.85 1/2). These all closed a little firmer on the dollar at 1.6110, 4.1810 and 1.7815 respectively. The French took in \$28 mn. (and swapped out \$70 mn.). The EMS was more relaxed and closed at around 2% in width between the Belgian franc (28.73) and Danish krone (5.2055). The Danes bought \$7 mn. The punt (2.0930) stood at 3 1/4% discount on sterling. The yen closed at 225.90 in Tokyo and 226.03 in London.

Yesterday's IMF auction set an average price of \$412.78. However, with bids received for only 666,000 ounces (for 440,000 ounces on offer), the price fell this morning to around \$400, at which level the first fixing was concluded. Erratic movements around or below this level were repeated this afternoon and the price was fixed at \$401.50 at the later session.

Operations:	Market	-	\$5 mn.
	Nigeria	-	22
	Sundries	+	1
		-	<u>\$26 mn.</u>

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