

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 12th October 1979

An unexceptional end to the week. The dollar was quite firm this morning but eased off at the close. Sterling, as yesterday, was a little soft at times but recovered to a comfortable close. With the dollar firmer, sterling's ERI rose to 68.9.

The pound closed at 2.1665 in New York yesterday. This morning it opened at 2.1655 and tended easier as the dollar strengthened, recovering nonetheless to 2.1670 as a Swiss buyer came to market on investment account (perhaps for a Middle East customer). Thereafter, however, sellers predominated with one Middle East bank, erstwhile a good buyer, now offering pounds in size. Sterling retreated in fits and starts, touching 2.1555 in mid-afternoon. With the dollar then retreating, sterling recovered to a quiet and comfortable close at 2.1625. Three months' forward sterling stood at $\frac{1}{8}\%$ p.a. premium. Interest parity prevailed on the covered comparison.

Sterling gained $\frac{3}{8}\%$ against the deutschemark (3.87 $\frac{1}{8}$), $\frac{1}{2}\%$ against the French franc (9.09 $\frac{1}{8}$) and $\frac{3}{8}\%$ against the Swiss franc (3.50 $\frac{1}{8}$). These all eased against the dollar, the Swiss franc to 1.6225 (after 1.6307), the French franc to 4.2062 (after 4.2230) and the deutschemark to 1.79 (after 1.7995). Central Bank intervention in Europe was negligible, but the Japanese sold \$61 mn. in Tokyo where the yen closed at 226.90. In London it weakened further to 2.2750. The EMS was again untroubled, closing at 1 $\frac{1}{8}\%$ in width between the Belgian franc (28.84) and Danish krone (5.2322). The punt (2.0782) stood at 3 $\frac{1}{8}\%$ discount on sterling.

Gold again moved uncertainly, although tending lower on balance. Fixings were \$387.75 and \$395.

Operations:	Market	- \$30 mn.
	Nigeria	- 43
	Government	- 6
	Iran	+ 6
	Sundries	+ 5
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		- \$68 mn.
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	Overnight	- \$17 mn.
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