

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 16th October 1979

Most currencies moved in a narrow range today and activity was again quite modest. Spurred by a very weak yen, the dollar tended generally firmer. Sterling held up as well as most and the ERI rose slightly to 68.9.

The pound closed at 2.1555 in New York yesterday and opened at 2.1538 this morning. Modest two-way business was seen this morning with rather less activity this afternoon. Sterling ranged between 2.1515 and 2.1552, closing at 2.1543. The trade figures were well received. The premium on three months' forward sterling narrowed again to $\frac{1}{2}\%$ p.a. as dollar deposits eased. The adverse covered differential widened to $\frac{1}{4}\%$.

Sterling gained $\frac{1}{4}\%$ on the Swiss franc (3.52 $\frac{1}{2}$) and rather less on the French franc (9.09) and deutschemark (3.87 $\frac{1}{2}$). The yen proved the major feature, easing sharply in London to 233.60 at one stage following the announcement of another large current account deficit in September. The Bank of Japan sold \$69mn. in New York yesterday and \$447mn. in Tokyo this morning. The close in Tokyo was 231.70 and in London 231.92. European currencies gave further ground to the dollar: the Swiss franc finished at 1.6340, the French franc at 4.2195 and the deutschemark at 1.7981. The French swapped out \$85mn. The E.M.S. was again comfortable, though it closed fully-stretched between the Belgian franc (28.99) and Danish krone (5.2380). The Danes took in \$16mn. The punt (2.0780) stood at 3 $\frac{1}{2}\%$ discount on sterling. The Irish bought \$29mn.

Having fallen below \$400 late yesterday, gold opened slightly firmer today but baulked at the \$400 level and thereafter declined progressively throughout the day. Fixing levels were \$398.60 and \$394.25 and the metal closed around \$390.

Operations:	Market	+\$27mn.
	Bangladesh	- 22
	Government	- 12
	Sundries	- 1
		<hr/>
		-\$ 8mn.
		<hr/> <hr/>

Overnight: -\$28mn.

JGH 17 October 1979.

JGH