

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th October 1979

A quiet end to a quiet week left the dollar steady and sterling with a reasonably firm tone. The ERI rose to 68.9.

The pound closed at 2.1535 in New York yesterday. This morning it began at 2.1505 and met scattered offerings from the Far East. Sterling slipped to 2.1470 but recovered quickly to opening levels and passed the morning quietly. The price indices were viewed not unfavourably and some modest Scandinavian demand took the pound to 2.1525 at midday. The afternoon engendered no more interest of substance until late American buying carried sterling to 2.1550, shortly before the close was struck at 2.1545. Eurodollar deposits opened markedly firmer and fluctuated somewhat uncertainly over the day before closing well bid in response to a sharp increase in the Federal Funds rate to 14½%. The premium on three months' forward sterling thus widened to 7/16% p.a., although the adverse covered differential also rose to 7/16%.

Sterling was marginally firmer in Paris (9.08½), Frankfurt (3.87½) and Zurich (3.53½). The dollar closed little changed in Europe with the deutschemark at 1.7976, the Swiss franc at 1.6422 and the French franc at 4.2172. The French bought \$18 mn. and the Germans swapped in \$550 mn. The EMS continued comfortable at around 2½% in width between the Danish krone (5.2385) and Belgian franc (28.96). The punt (2.0757) eased to 3½% discount on sterling. In Tokyo the Japanese sold \$50 mn. and the yen closed firmer at 231.80. In London it continued to strengthen and finished the day at 230.65.

Gold was bid up progressively through the day, the price moving most rapidly once US markets reopened. Fixing levels were \$388.75 and \$393.

Operations:	Interest	+ \$5 mn.
	Sundries	- 8
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		- \$3 mn.
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*JGH* 19th October 1979.  
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