

SECRET

MR. McMAHON.

FOREIGN EXCHANGE & GOLD MARKETS

Monday, 22nd October 1979

Sterling enjoyed another quiet day and stood up well to a further general advance by the dollar. The latter was spurred by yet firmer deposit rates as well as additional sales of Swiss francs for marks by those who expect Central Bank support for the mark.

The pound closed at 2.1530 in New York on Friday and opened at 2.1523 this morning. Sterling touched 2.1550 on the opening exchanges despite a firm dollar, but both eventually retreated, the pound to 2.1502 at worst. Thereafter, sterling moved narrowly within that range. Some Swiss selling was easily absorbed and the pound closed at 2.1515. As eurodollar deposits firmed, forward discounts widened: three months' forward sterling commanded a premium of $\frac{1}{4}\%$ p.a. at the close and the adverse covered differential was $\frac{1}{2}\%$.

Sterling gained $\frac{1}{8}\%$ on the beleaguered Swiss franc (3.57) but was little changed against the French franc (9.08 $\frac{1}{2}$) or deutschemark (3.87 $\frac{1}{2}$). These all weakened against the dollar to 1.6588, 4.2237 and 1.8026 respectively. The French bought \$12 mn. The EMS closed comfortably at 1 $\frac{13}{16}\%$ in width between the Belgian franc (28.96) and Danish krone (5.2552). The punt (2.0735) stood at 3 $\frac{1}{2}\%$ discount on sterling. In Tokyo, the Japanese sold \$210 mn. as the yen fell again to 232.80. In London, it eased further to 233.33.

Gold was unusually steady. Some selling this afternoon brought the price down in the lower end of the day's range. Fixing levels were \$395.50 and \$392.

Operations:	Market	- \$9 mn.
	India	+ 22
	Iraq	+ 15
	Sundries	+ 5
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		+ \$33 mn.
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	Overnight	- \$22 mn.
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