

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 23rd October 1979

The abolition of exchange controls induced persistent and increasingly heavy selling of sterling this afternoon, although markets were never in any disarray. The dollar was already firm and it gained some additional strength from sterling's weakness. The ERI fell from 68.9 to 67.9.

The pound closed lower at 2.1445 in New York yesterday. This morning it opened at 2.1458 and remained on a soft tack, although selling was only sporadic and owed something to the firmness of the dollar. Having touched 2.1460 on the opening exchanges, sterling eased quickly to 2.1394 but then steadied to trade around this level through the morning. The Treasury's announcement early this afternoon that a major policy statement was imminent occasioned a sharp period of selling pressure but this eventually passed and the market calmed while awaiting the announcement. The pound then stood at 2.1286 and, following the announcement, it was marked down progressively. Persistent and heavy selling ensued, with US banks prominent. The pressure increased for a while when Morgan Guaranty announced an increase in Prime Rate to 15%. Sterling remained offered through to the close which was struck at 2.1130. Afterwards a brief recovery occurred with the pound rising to 2.1155 on profit-taking but selling was soon resumed and the pound fell to 2.1075. The premium on three months' forward sterling rose to 1 3/16% p.a. as margins moved towards their natural arbitrage points. At the close, an adverse covered differential of 5/16% still remained.

Sterling lost 1/8% to the Swiss franc (3.54 1/8) and 1 1/2% to each of the French franc (8.95 1/2) and deutschemark (3.82 1/2). The Swiss franc remained well offered and fell to 0.92 1/2% to the mark and 1.6760 to the dollar. The French franc and deutschemark, too, eased against the dollar to 4.2392 and 1.8094 respectively. The French swapped out \$100 mn. The Dutch guilder (2.0050) fell to the bottom of the EMS, 1 1/4% adrift from the Danish krone (5.2787). The punt (2.0575) closed at 2 1/8% discount on sterling. In Tokyo, the Japanese sold \$57 mn. and the yen closed at 234.75. In London, it weakened further to 235.50.

Gold eased back in a relatively dull market. Fixings were \$387.60 and \$385.

Operations:	Market	- \$297 mn.
	Nigeria	- 58
	IDA	+ 7
	Sundries	+ 2
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		- \$346 mn.
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