

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS
Wednesday, 24th October 1979

After some further, heavy selling pressure this morning, sterling soon developed a good, two-way market as recent sellers returned to square their positions and give some stability to the rate. The dollar was generally easier but recovered late in the day on the announcement of a new US bond issue in deutschemark. Sterling's ERI fell to 67.7.

In after-hours trading yesterday, the pound recovered to 2.1150, only to be sold down again in New York, where it closed at 2.1062. This morning, the Far East were quite bearish and selling was clearly the order of the day. Sterling opened in London at 2.1025 and London banks quickly joined in, offering the pound quite heavily down to 2.0955. Even at this stage, however, there was a notable absence of Continental participation and, once sterling steadied, buyers appeared in increasing size from Switzerland and the Middle East especially. The pound rebounded quite quickly to 2.1140 and then fluctuated in a one cent range below that level in response to some sizeable, two-way commercial business. New York and Chicago proved good takers of sterling this afternoon and 2.1165 was paid more than once. This clearly owed something to a generally easier dollar but was doubtless also the squaring of yesterday's oversold positions. With the dollar firming at the close, sterling came back a little to finish at 2.1128. Dollar deposits were easier and sterling's three month forward premium fell to 1%. Nonetheless, the intrinsic discount widened to $\frac{1}{2}\%$.

Sterling lost $\frac{3}{8}\%$ to the deutschemark (3.80 $\frac{1}{2}$), nearly $\frac{1}{2}\%$ to the French franc (8.91 $\frac{1}{2}$) and 1 $\frac{1}{2}\%$ to the Swiss franc (3.49 $\frac{1}{4}$). These were all a good deal firmer against the dollar at 1.8016, 4.2207 and 1.6550 respectively. The French took in \$40 mn. and the Swiss swapped in \$131 mn. The florin (1.9986) remained at the foot of the EMS, 2% below the Danish krone (5.2522). The Belgians bought \$8 mn. of marks. The punt (2.0680) was at 2 $\frac{1}{2}\%$ discount on sterling. The Irish sold \$6 mn. and sterling worth \$17 mn. In Tokyo the yen closed at 234.17, after official sales of \$81 mn. In London it firmed to 234.20.

Gold opened better, traded without feature, then moved firmer once US markets opened. Fixings were \$389 and \$395.

Operations:	Market	- \$34 mn.
	India	+ 21
	Iran	+ 10
	Post Office	+ 5
	(PSB G'teed)	
	Sundries	+ 4
		<u>+ \$6 mn.</u>

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