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CA 28/10

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FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 18th - Friday 26th October

Until announcement about Exchange Control on 23rd markets were quiet. Sterling closed at 2.1472 on 17th (ERI 68.8). Better on publication of September money figures and remained around 2.1510 in quiet markets until Tuesday. Weaker on morning of 23rd as dollar strengthened, reaching 2.1395 by lunch. Speculation about abolition of exchange controls followed H.M.T. advice of "important announcement" by Chancellor and led to considerable selling. Before announcement sterling stood at 2.1286 by which time \$86 million spent in support. Heavy and persistent selling followed announcement, exacerbated by increase of Morgan Guaranty's prime rate to 15%. Sterling closed at 2.1130 (ERI 67.9); later fell to 2.1062 in New York. Support after announcement totalled \$211 million. Pressure continued following morning: rate 2.0955. But good two-way market developed around 2.11 with commercials prominent. Closed 24th 2.1128 (ERI 67.7). Since then quiet again. Closed period 2.1034 (ERI 67.5).

U.S. interest rates continued to rise. Premium on forward sterling up to  $\frac{3}{8}\%$ . Margin between domestic and eurosterling remained at about  $\frac{1}{2}\%$  in favour of latter. Table 1 summarises EEA transactions.

Sterling weaker against other main currencies. Swiss franc down to DM.100 = SF93 following decision by Swiss apparently no longer to support SF90-91 level. Yen held up to Y235 against dollar only by dint of substantial intervention. EMS under no pressure. Speculation on devaluation of Danish krone saw it <sup>effectly</sup> replaced today at top of band by French Franc. Belgian franc was replaced at bottom by Dutch Guilder. Table 2 shows main exchange rates and intervention.

Gold fairly quiet. Fixed at \$395 on afternoon of 24th but fell to fix at \$375 this afternoon following U.S. announcement of increased auction (1.2 mn.oz) next Thursday.

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Dealers: 26.10.79

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\$ millions

EEA TRANSACTIONS

The figures so far for October at today's close were:

| 1. | <u>Spot Reserves</u>             | <u>Overbought<br/>Forward position</u> | <u>Total</u> |
|----|----------------------------------|--|--------------|
|    | -143                             | +894                                   | -793         |
|    | <i>(Actual figure := 22,608)</i> |  |              |

| 2. | <u>Main Transactions</u> |       |
|----|--------------------------|-------|
|    | Market (net)             | - 334 |
|    | Nigeria                  | - 322 |
|    | Bangladesh               | - 70  |
|    | India                    | + 98  |
|    | Iraq                     | + 49  |
|    | Iran                     | + 41  |

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TABLE 2

|                        | <u>close 17.10.79</u>   | <u>close 26.10.79</u> |
|------------------------|-------------------------|-----------------------|
| 1. <u>\$ against</u>   |                         |                       |
| £                      | 2.1472                  | 2.1034                |
| DM                     | 1.8000                  | 1.8042                |
| Swiss franc            | 1.6442                  | 1.6672                |
| French franc           | 4.2210                  | 4.2292                |
| Yen                    | 234.30                  | 234.40                |
| 2. <u>£ against</u>    |                         |                       |
| DM                     | 3.86½                   | 3.79½                 |
| Swiss franc            | 3.53 1/16               | 3.50 11/16            |
| French franc           | 9.06 5/16               | 8.89 9/16             |
| 3. <u>£ ERI</u>        | 68.8                    | 67.5                  |
| 4. <u>Intervention</u> |                         | <u>\$ millions</u>    |
| U.K.                   | - 427 (net)             |                       |
| Japan                  | - 587                   |                       |
| Denmark                | - 96                    |                       |
| Sweden                 | - 48 (net)              |                       |
| Canada                 | - 9 (net: - 173, + 164) |                       |
| France                 | + 105                   |                       |
| Norway                 | + 60 (o/r x 3 months)   |                       |