

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th October 1979

Citibank's prime rate increase to 15½% induced some selling of sterling out of New York and Chicago and gave the pound a disappointing finish to an historic week. The ERI fell to 67.5.

A quiet New York evening (close: 2.1125) led into a quiet morning today in London. Sterling opened at 2.1105 and drifted 30 points either side up to mid-afternoon when the prime rate change was announced. A short, sharp burst of selling saw business down to 2.1010 but as the echoes died away the rate recovered a little to close at 2.1034. Euro-dollars opened inclined offered but rose later to beyond last night's closing levels, touching 15 13/16% for 3 months. The forward premium for sterling increased to ¾% p.a. and the intrinsic discount shaded lower at 5/16%.

The pound was a touch lower against the deutschemark (3.79½) and French franc (8.89½) but better in terms of the Swiss franc (3.50½), which eased last night after Leutwiler's statement had indicated that the Swiss would be coy about supporting their currency if it weakened. Today, in fact, it moved very little although easing one rappen to 1.6672 compared with last night in London. In the EMS the Danes fought hard against further pressure on the krone, which at worst stood at 5.3482 at noon; by the close, at a cost of \$76 mn., it had recovered to 5.3132. The lira stayed top, at 830.85, some 1¼% away from the florin (2.0063) which cost the Dutch \$24 mn. to support. The Belgians recouped, \$27 mn. in deutschemarks. The deutschemark was 1.8042, the punt 2.0562 (2¼% discount). The yen eased to 234.70 in Tokyo and closed in London at 234.40.

Gold moved comparatively narrowly around its fixing levels of \$374.80 and \$375, having fallen overnight on the latest news of American gold auction plans (an increased offering, at 1½ mn. ounces, only 17 days after the last auction).

Operations:	Market	- \$43 mn.
	Nigeria	- 106
	Government	- 6
	Sundries	- 8
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		-\$163 mn.
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Jan
for 26th October 1979.
DAHB