

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 29th October 1979

After a peaceful morning, sterling was heavily sold this afternoon from the United States, probably behind a sizeable commercial selling order. Until then the pound had stood up well to a strong advance by the dollar, which closed firmer on all fronts. Sterling's ERI finished unchanged at 67.5, after 67.7 at midday.

The pound recovered to close at 2.1105 in New York on Friday but, having opened at 2.1110 this morning, it quickly retreated to around 2.1050. This level proved a base for the morning and sterling traded quietly and comfortably throughout with no more than the occasional seller. Americans returned to bid generally for dollars and, while all currencies weakened initially, the pound soon found itself isolated as heavy and protracted selling built up. US banks were prominent and the movement seemed to stem from a commercial order placed in those quarters. Sterling retreated to 2.0972 shortly before closing at 2.0984. Later, the pound was offered down to 2.0957. Forward margins were steady, with sterling's three-month premium at $\frac{1}{2}\%$ p.a. and the covered differential at $5/16\%$ against London.

Having withstood the dollar's advance this morning, sterling ended the day with net gains of $\frac{1}{2}\%$ against the Swiss franc (3.52 $\frac{1}{2}\%$) and $\frac{1}{2}\%$ against the deutschemark (3.80 $\frac{1}{2}\%$) but lost $\frac{1}{2}\%$ to the French franc (8.88 $\frac{1}{2}\%$). The last of these was very firm, rising to 2.3380 to the DM while easing to 4.2364 only against the dollar. The French took in \$83 mn.-worth of marks. The Swiss franc weakened to 1.6805 on the dollar and 0.92 $\frac{1}{2}$ to the mark; the Swiss swapped in \$300 mn. over the month end. The Dutch sold \$40 mn. to support the guilder (2.0143) at the bottom of the EMS, which was 1 $\frac{1}{2}\%$ in width, the lira (834.15) remaining at the head. The punt (2.0565) was at 2% discount on sterling. The yen closed at 234.75 in Tokyo (where the Japanese sold only \$3 mn.) but weakened sharply to 235.85 in London.

Gold was steady and, for the most part, quiet. Fixings were \$374.50 and \$374.

Operations:	Market	- \$86 mn.
	South Africa	- 32
	BIS	- 12
	India	+ 21
	Interest	+ 18
	Iraq	+ 6
	Sundries	- 3

- \$88 mn.

Overnight - \$21 mn.

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