

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 30th October 1979

Sterling was very heavily sold throughout much of today. There was little fresh news and the movement was ascribed variously to the miners' pay claim, the North Sea oil problems and the Exchange Control relaxations. In fact, the initial impetus came from very large Swiss selling - almost certainly on Middle East customer account - which probably owed as much to interest rate differentials as it did to an exchange rate view. The subsequent sharp fall in the rate, however, evidently caused panic amongst a number of domestic investment trusts, who moved into dollars while the going was good. The dollar was inevitably a little weaker as a result, while proving undoubtedly the main beneficiary of the outflow from London. Sterling's ERI fell from 67.5 to 66.6.

After a further burst of selling yesterday in New York, sterling remained quietly and nervously for the rest of the day at 2.0925 where it closed. This morning the pound encountered substantial selling in the Far East, largely of Swiss origin, and opened in London at 2.09. The Swiss continued to sell with London banks joining the band-waggon and sterling fell to 2.0855 before some profit-taking induced a recovery to 2.0915. At that stage, a couple of large commercial offerings were placed in London and, though these were handled with care, a snowball soon developed. Further Swiss selling was seen and, perhaps for the first time, investment trusts saw fit to move into dollars while the opportunity remained. The pound had fallen to 2.0740 before midday when an uneasy calm set in ahead of New York's return. One further avalanche then descended, not only from North America, but also from Europe, with the Swiss still prominent; sterling plummeted to 2.0582 but by then appetites were more than sated and the rest of the day saw a thin market with the pound bouncing in fits and starts back up to a closing level of 2.0685. Forward margins were surprisingly little affected. The three months' premium declined to 9/16% p.a. but with dollar and sterling deposit rates converging somewhat, the intrinsic discount was reduced to ¼%.

Sterling lost 1½% to the French franc (8.75), 1¼% to the deutschemark (3.74) and 1¾% to the Swiss franc (3.46½). These all improved against the dollar to 4.2302, 1.8079 and 1.6737 respectively. The Swiss swapped in a further \$150 mn. The French swapped out \$25 mn. and took in marks worth \$55 mn., although their cross-rate eased to 2.34. The Belgian franc (29.15) replaced the guilder at the bottom of the EMS which narrowed to 1¼% in width, with the lira (834.47) still at the head. The Danes sold \$15 mn. The Irish sold \$19 mn. and sterling worth \$39 mn., though the punt (2.0510) closed at only ¾% discount on sterling. Elsewhere the yen remained very weak. The Japanese sold \$131 mn. in New York yesterday and \$90 mn. this morning in Tokyo where the currency closed at 237.70. In London, it eased to 239.50 before finishing the day at 238.22.

Gold was again quiet and steady. Fixings were \$376 and \$377.60.

Operations:	Market	- \$389 mn.
	Nigeria	- 103
	Ireland	+ 63
	Iran	+ 10
	Interest	+ 9
	Sundries	- 3
		<u>- \$413 mn.</u>

Overnight	- \$2 mn.
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