

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 31st October 1979

The month end conspired with tomorrow's holiday in parts of Europe to produce a quiet session on the exchanges for much of the day. Not even the 1% increase in German Discount Rate had any impact on the dollar. Sterling encountered some modest buying interest from those who had oversold yesterday and the ERI recovered to 66.9.

The pound closed at 2.0760 yesterday in New York where the dollar was generally softer following the latest US trade deficit. This morning sterling opened at 2.0735 and, despite the dollar's continuing easier tone, traded quietly around 2.0750 (after 2.0728) until mid-morning when one of yesterday's large sellers returned as a small buyer. The pound touched 2.0810 but was back to 2.0750 by early afternoon, following scattered offerings from Switzerland and Germany. Later, some moderate demand was seen from the United States, Germany and London and sterling firmed to 2.0833 before closing comfortably at 2.0808. After the close, the miners' rejection of the Coal Board's pay offer depressed the rate to 2.0775. Sterling's three-month forward premium rose to 11/16% p.a. and a covered differential of 1/4% persisted against London.

The pound regained 3/8% in France (8.78 1/8) and Germany (3.75 1/2) but was an 1/8% lower in Switzerland (3.45 1/2). The Swiss franc firmed to 1.6602 (and 0.92 to the DM) following reports of a meeting at which the authorities declared the intention to support the franc through the domestic markets. In token of this, the National Bank today sold \$14 mn. The deutschemark showed only a modest improvement to 1.8043, despite the 1% increase in discount and Lombard rates (which was followed by a 1/2% increase in the Dutch Bank Rate). The Belgians bought \$15 mn.-worth of marks, although their franc (29.09) remained at the tail of the snake, only 1 1/2% below the lira (833.25). The Danes, however, sold \$13 mn. The punt (2.0557) slipped to 1 1/4% discount on sterling. In Tokyo, the yen closed at 237.80 after official sales of \$45 mn. In London it finished five points firmer.

Gold advanced in price, although the market was rarely very active. Fixings were \$379.75 and \$382.00.

Operations:	Market	- \$6 mn.
	Government	+ 46
	Sundries	+ 2
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		+\$42 mn.
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The result for October is a reserve loss of \$253 mn. to a level of \$22,498 mn. after net public sector borrowing of \$40 mn. and a repayment of \$83 mn. to the IMF. The renewal of the ECU swap with the EMCF increased the value of the reserves by \$207 mn. The overbought forward position was reduced by \$586 mn. to \$958 mn. but \$207 mn. of this fall is attributable to the ECU swap.

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