

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st November 1979

Markets were thin today with parts of Europe closed for All Saints Day. Sterling traded comfortably over a fairly wide range and the ERI finished unchanged at 66.9. Later, however, the pound was sold sharply down in the United States.

Sterling closed at 2.0780 in New York yesterday and opened at 2.08 this morning. Having touched 2.0770 on the early exchanges, the pound began a steady recovery and, when a determined buyer appeared in London, it was swept up to 2.0890. The market was generally thin, however, and a few, small commercial sellers sufficed to bring a retreat. Further offerings from Scandinavia this afternoon brought sterling back to 2.0765 from which point it recovered quietly to close at 2.0821. Some heavy selling in New York and Chicago, however, then brought a collapse and sterling was traded at one stage below 2.07. Forward margins were little changed. Sterling's three month premium was 11/16% p.a. and its intrinsic discount rose to 7/16%.

The pound lost 1/8% to the French franc (8.76 7/8), 3/8% to the deutschemark (3.74 1/4) and 1/2% to the Swiss franc (3.43 3/4). The dollar generally eased as yesterday's interest rate increases in Germany and the Netherlands began to impact. The Swiss franc (1.6510) was particularly firm and the Swiss took in \$49 mn. Only the yen failed to gain, despite a 1% increase in Bank Rate to 6 1/4% this morning. The currency closed at 238.05 in Tokyo and 237.85 in London. The Japanese sold \$200 mn. The E.M.S. finished at 1 11/16% in width between the Belgian franc (29.03) and lira (830.35). The deutschemark was 1.7980. The Dutch sold \$10 mn. as their florin briefly touched the bottom of the band. The Danes sold \$60 mn. as their krone continued to weaken relative to the rest. The punt (2.06) was a little over 1% discount on sterling. The Irish sold \$5 mn. and sterling worth \$31 mn.

Gold eased into the U.S. auction but firmed again to last night's levels (\$382) once the deadline for bidding had passed. Fixings were \$379.70 and \$378.50.

Operations:

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|-------------|------------|
| Market | + \$2 mn. |
| New Zealand | - 20 |
| Sundries | + 2 |
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| | - \$16 mn. |
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JGH 1st November 1979.

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