

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 2nd November 1979

Sterling was weak throughout much of today with ready professional sellers finding few willing takers elsewhere. Some late respite came when a 1% increase in Swiss official interest rates put pressure on the dollar. Sterling's ERI fell to 66.2.

The pound closed at 2.0690 in New York yesterday following the sharp fall late in the day in London. This morning it opened at 2.0687 and briefly touched 2.0701 before quickly declining, first to 2.0655 and later to 2.0612 as sellers moved in from the Continent. An uneasy stability prevailed through the rest of the morning but further offerings from European and London banks this afternoon took sterling back to 2.0562. Americans were slow to take a position but eventually some demand set in from New York and sterling crested 2.06 again. The late fall in the dollar pushed the pound up to 2.0675 before it closed at 2.0655. Sterling's three-month forward premium remained at 11/16% p.a. and the adverse covered differential fell to 1/4%.

Sterling lost 3/8% to the deutschemark (3.70%), 1% to the French franc (8.68%) and 1 1/4% to the Swiss franc (3.39%). The dollar had been steady until the Swiss announcement which raised Discount Rate to 2% and Lombard Rate to 3%. Negative interest rates were cut, too, from 10% to 2 1/2%. The Swiss franc surged ahead to close at 1.6430 (and later 1.6345); the deutschemark and French franc followed at a distance closing at 1.7953 and 4.2025 respectively (later 1.7895 and 4.1875). The EMS contracted to only 1 1/4% in width. The lira (831.70) continued to lead and the Belgian franc (28.92) and Dutch florin (1.9940) were together at the base. The Danes sold \$40 mn. and the Irish sold \$5 mn. and sterling worth \$62 mn. The punt (2.0610) finished at 3/8% discount on sterling having briefly re-established parity. The yen closed at 236.50 in Tokyo, where the Japanese sold \$232 mn., and 234.92 in London.

Gold weakened following the US auction, at which 1 1/2 mn. ounces (in coin bars) were sold at an average price of \$372.30. Fixings were \$373 and \$372.80.

Operations:	Market	- \$68 mn.
	Nigeria	- 107
	South Africa	- 10
	Bangladesh	- 7
	Malta	- 5
	Ireland	+ 21
	Sundries	+ 3
		<u><u>- \$173 mn.</u></u>

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