

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th November 1979

There were few fireworks on the exchanges today. After a spluttering start, sterling lit up from time to time and brightened the twilight with a brief display of brilliance. The dollar, however, proved a damp squib and, in consequence, sterling's ERI fell to 66.1.

The pound closed at 2.0670 in New York on Friday and opened this morning at 2.0655. Selling pressure was soon renewed and the pound fell in short order to 2.0575 before some stability was restored. A thin market ensued and one or two sizeable buying orders sufficed to rocket sterling back up to 2.0675. With these satisfied, however, the pound retreated to 2.0577 by early afternoon. The Wholesale Price Indices were received without any marked effect and, with Americans reluctant to participate in any depth, sterling traded a little above 2.06 until late in the day when some further buying interest lifted the pound to close at 2.0645. Demand continued after the close and sterling traded up to 2.0715 at one stage. Forward margins continued steady. Sterling's three month forward premium was 11/16% p.a. and the adverse covered differential $\frac{1}{2}\%$.

The pound lost $\frac{1}{8}\%$ to the Swiss franc (3.39), $\frac{1}{8}\%$ to the French franc (8.66) and $\frac{1}{8}\%$ to the deutschemark (3.69 $\frac{1}{2}$). The dollar fell sharply in New York on Friday following the Swiss measures and recovered only part of the ground today. The deutschemark was 1.7898 and the Swiss franc 1.6423. The French took in \$40 mn. as their franc firmed to 4.1950 but the Danes sold \$19 mn. to steady their krone which failed to hold the immediate gains from the wage and price freeze. The lira (828.45) and Belgian franc (28.93) spanned the EMS, 1 9/16% apart. The punt (2.0692) closed at a $\frac{1}{8}\%$ premium on sterling after Irish sales of \$4 mn. and sterling worth \$23 mn. The Japanese spent \$170 mn. this morning in Tokyo where the yen closed at 237.20. In London it improved slightly to 236.77.

Gold was a good deal firmer following developments in Iran. Fixings were \$378.00 and \$381.00.

Operations:	Market	- \$18 mn.
	Ireland	+ 21
	Iraq	+ 10
	Government	+ 7
	Sundries	- 5
		<hr/>
		+ \$15 mn.
		<hr/>

JGH
5th November 1979.
JGH