

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th November 1979

Events in Iran and rumours (confirmed late in the day from Washington) that oil supplies to the US had been stopped, dominated activity on the exchanges today. The dollar was generally weaker, the yen markedly so; sterling was in good demand and gained ground on all currencies. The ERI rose from 66.6 to 67.2.

Having closed in London at 2.0746 yesterday, the pound was strongly bid up in the Far East this morning, with business as high as 2.10. Sentiment was buoyed not only by Iranian developments but also by stories that a German oil company was bidding heavily for the BP issue. By the time London opened, profits were being taken; sterling started here at 2.0972 and ran back to 2.0910 before establishing a level. Later, however, more substantial offerings from the Continent drove the pound down to 2.08 but buyers re-emerged there and the rate topped 2.09 again early this afternoon. Americans proved late takers of sterling which advanced to 2.0965 before closing at 2.0943. Later, official US confirmation that Iranian oil supplies had been cut off brought further demand for the pound, which traded up to 2.1075. Sterling's three-month forward premium fell further to $\frac{3}{8}$ p.a. as sterling deposit rates hardened again; a small intrinsic discount prevailed.

The pound closed unchanged against the Swiss franc (3.42%) but gained $\frac{1}{2}$ % on the French franc (8.78%) and almost as much on the deutschemark (3.74%). The dollar was generally weaker but under no marked pressure until the close. The Swiss franc finished at 1.6360 (later 1.6322), the deutschemark at 1.7874 (later 1.7856) and the French franc at 4.1952. The Swiss swapped in \$125 mn. and the Bundesbank swapped out \$1,150 mn. The EMS closed a little less than 1½% in width between the lira (827.95) and Belgian franc (28.87). The punt (2.0730) stood at 1% discount on sterling. The Japanese sold \$404 mn. this morning in Tokyo where the yen closed at 240.20. In London it cheapened by five points.

Gold was again very strong. Fixings were \$392½ and \$395 and the metal later traded up to \$397.

Operations:	Market	+ \$72 mn.
	Post Office+	8
	(PSB G'teed)	
	South Africa-	11
	Sundries	+ 2
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		+ \$71 mn.
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