

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th November 1979

Sterling was firm and steady for much of today and suffered nothing from the absence of any change in MLR. With no fresh news from Iran, the dollar staged a modest technical recovery this morning. Sterling's ERI rose to 67.3, after 67.5 this morning.

The pound closed at 2.1050 in New York yesterday and opened at 2.1062 this morning. Although this level proved a little ambitious, sterling met good two-way business on the opening exchanges around 2.1050. Eventually, however, sellers from London and Frankfurt held sway and sterling retreated in orderly fashion to 2.10. The recovery in the dollar then brought a further decline to 2.0945 but the pound met no real pressure from this movement and a few buyers sufficed to restore the rate to 2.1005 immediately before the MLR announcement. This was taken quietly; sterling was marked down immediately to 2.0975 and later backed off to 2.0940 as the dollar improved further. The rest of the afternoon was quiet and the pound closed at 2.0945. Later, however, sterling was sold in London and trading took place down to 2.0850. Sterling's three month forward premium was unchanged at $\frac{1}{8}$ p.a. The adverse covered differential was $\frac{1}{8}$ p.a.

Sterling put on $\frac{1}{8}$ against the French franc (8.80 $\frac{1}{2}$) and deutschemark (3.75 $\frac{1}{4}$) and $\frac{1}{8}$ against the Swiss franc (3.44 $\frac{1}{2}$). The dollar gained in all centres to 1.7916 in Germany, 1.6445 in Switzerland and 4.2027 in Paris. The Bundesbank swapped out a further $\frac{1}{2}$ bn. to soak up liquidity. The EMS remained comfortable, 1 $\frac{9}{16}$ % in width between the lira (829.50) and Belgian franc (28.97). The punt (2.0640) slipped to $\frac{1}{8}$ % discount on sterling. The Irish sold \$5 mn. and sterling worth \$15-mn. The yen remained weak. The Japanese sold \$124 mn. in Tokyo, where the close was 241.40. Later the yen traded down to 242.22 before reverting to 241.32.

Gold was steady this morning but eased back this afternoon in response to the better dollar. Fixings were \$392.50 and \$389.50 and the closing level was around \$387.

Operations:	Market	- \$20 mn.
	Interest	+ 12
	India	+ 11
	Post Office	+ 3
	(PSB G'teed)	
	Sundries	+ 1
		<u>+ \$7 mn.</u>
	Overnight	<u>- \$39 mn.</u>

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