

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th November 1979

Already in good demand this morning, sterling was well wanted throughout the afternoon following the increase in Minimum Lending Rate to 17%. Having weakened in New York, the dollar recovered this morning and was thereafter little moved. Sterling's ERI rose from 67.7 to 68.9.

With the dollar generally easier in New York, the pound closed there yesterday at 2.1155. This morning it opened at 2.1102 but, as the dollar recovered sharply, fell swiftly to 2.1035 before steadying around 2.1050. Strong Swiss professional buying then sparked a rally and this prompted a good deal of commercial interest in sterling both in London and abroad. 2.12 was paid for sterling early this afternoon but the rate stood at 2.1137 when the increase in MLR was announced. After some initial sparring around 2.12, sterling forged ahead. Commercial demand was still very much in evidence and European interest was keen. Americans, however, were muted, taken up, perhaps, with the practical problems of the Iranian blockade. The pound climbed in fits and starts to 2.1470 at best before settling around 2.14 and closing at 2.1420. The Chancellor's statement came late in the day and had little additional impact. Forward margins widened, the three months' to 1 7/16% p.a. discount. Sterling commanded an intrinsic premium of 3/16% on the covered comparison.

The pound gained 1½% against the French franc (8.95), 1¾% against the deutschemark (3.81½) and almost 1¾% against the Swiss franc (3.53½). The Swiss franc eased slightly to 1.6535, the French franc firmed to 4.1787 and the deutschemark was little changed at 1.7826. The French swapped out \$50 mn. The French franc replaced the lira at the head of the EMS, 1½% above the Belgian franc (28.88). The Dutch sold \$11 mn. worth of marks. The punt (2.0835) stood at 2¼% discount on sterling. The Irish bought \$13 mn. and sterling worth \$11 mn. The Japanese sold \$60 mn. this morning in Tokyo where the yen eased to 245.50. In London it weakened further to 246.30.

Gold was generally softer throughout the day. Fixings were \$387.50 and \$386.00.

Operations:	Market	+ \$163 mn.
	Ireland	+ 33
	BIS	+ 10
	EEC	- 45
	Sundries	+ 3
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		+ \$164 mn.

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