

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th November 1979

Sterling rose by 0.5 in effective terms to 69.4 in the wake of yesterday's measures. Trading became confused during the afternoon as rumours concerning Iran flew about. They caused the dollar to weaken; it later recovered some of the ground lost.

Sterling maintained its firm tone in New York, where it closed at 2.1487 after 2.1520. It was quickly bid up from an opening 2.1462 in London, and traded for most of the morning between 2.14½ and 2.15½ before easing back to 2.1460 at noon. Good two-way business was seen, with continental and UK commercial buying interest. The price figures had no effect. The market flared up again early in the afternoon, on a report that Iran will cease to take payment for oil in dollars, marks, Swiss and French francs being taken instead. Sterling was not mentioned, but the pound leapt to 2.17 as the dollar weakened across the board. Another report out of Tunis, that various countries including the UK intend to block Iranian assets, added to the confusion. The second rumour was officially denied, but the first was not cleared up and sterling closed near the best level at 2.1640. It subsequently fell a cent on a report that oil companies have not been instructed to pay Iran other than in dollars, but then climbed back to 2.16. The cost of cover was fairly steady at 1½%; with 3-months' interbank sterling up to 17 3/16%, however, intrinsic premium in favour of London edged up to ¼%.

Sterling improved on the Continent, to 3.84½ against the mark and to 3.56½ in Switzerland. The dollar started quite well despite disappointing money figures, but fell apart on the rumour about oil payments before recovering some of the ground later in the afternoon. Citibank's prime rate rose to 15½%. The mark closed ¼ pfennig stronger at 1.7755 (after 1.7720). The Bundesbank sold dollars on the swap to absorb domestic liquidity. The French bought \$52 mn. as their franc strengthened to 4.1530. It stayed top of the snake 1½% above the Belgian franc (28.71). The lira closed at 828½, giving more ground in the EMS. The punt advanced to 2.0915, a discount of 3½% on sterling. Outside the snake, the Swiss franc hardened to 1.6460, the SNB selling \$23 mn.-worth of marks. The Japanese gave another \$114 mn. of support: the yen closed at 247.40 in Tokyo but improved to 245.90 in London.

Gold had a surprisingly quiet day, fixing at \$386½ and \$390.35.

Operations:	Market	+ \$33 mn.
	India	+ 22
	PS borrowing	+ 5
	(Post Office)	
	Nigeria	- 22
	Crown Agents	- 8
	Sundries	- 1
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		+ \$29 mn.
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	Overnight	+ \$7 mn.
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