

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th November 1979

Sterling met some demand this morning with sentiment buoyed by the Times report on the Government's supposed exchange rate policy. Thereafter, the pound remained firm, though largely in reflection of the dollar, which weakened sharply on Iranian developments. Sterling's ERI rose from 69.4 to 69.8.

The pound closed at 2.1650 in New York on Friday and opened at 2.1645 this morning. 2.17 was breached more than once on the opening exchanges but it was some time before any real demand was seen. Strong professional interest from the Continent - possibly on Middle East account, possibly, too, for gilt-edged - then carried sterling towards 2.18 and the movement was furthered as the dollar suddenly sagged elsewhere. Sterling was marked up sharply to 2.1907 at best before settling to trade around 2.1850. Early Americans tended to cover short dollar positions but the incipient recovery was nipped in the bud by an Iranian plea to other OPEC members to cease taking the dollar for oil payments. Sterling rebounded to 2.19 before relapsing again into the earlier range. The rest of the day was quiet and a little profit-taking from Europe saw the pound back to 2.1825 at the close. Forward margins narrowed a little. Three months' cover cost $1\frac{3}{8}\%$ p.a. and sterling commanded an intrinsic premium of $5/16\%$ on the usual comparison.

The pound gained fractionally against the deutschemark ($3.84\frac{1}{2}$) but was $\frac{3}{8}\%$ better against the Swiss franc ($3.57\frac{3}{8}$) and $\frac{1}{2}\%$ up on the French franc ($9.03\frac{1}{2}$). The Bundesbank bought \$30 mn. as the deutschemark firmed to 1.7614 and the French took in \$45 mn. (swapping out \$95 mn.) as their franc hardened to 4.1385. The Swiss franc rose to 1.6375 but the Swiss sold marks equivalent to \$28 mn. (outright forward) defending SF 0.93 on the DM cross-rate. The Dutch, too, sold marks worth \$31 mn. as the guilder slipped almost to the foot of the EMS band. The French franc and Belgian franc (28.56) continued at the top and tail, now $1\frac{1}{8}\%$ apart. The punt (2.0990) stood at $3\frac{7}{8}\%$ discount on sterling. The yen closed at 246.30 in Tokyo without official support and firmed to 244.52 in London.

Gold improved as the dollar weakened but again met strong resistance around \$391. Fixings were \$390 and \$389.85.

Operations:	Market	+ \$36 mn.
	Iran	+ 30
	India	+ 22
	Sundries	+ 12
		<u> </u>
		<u>+\$100 mn.</u>

	Overnight	- \$13 mn.
		<u> </u>

19th November 1979.

JGH

JGH