

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st November 1979

Events in Iran and other Islamic centres continued to dominate and depress the dollar today. Sterling saw fairly active two-way business but sellers tended to be in the majority. The ERI closed unchanged at 69.6 after 69.9 this morning.

The pound recovered to 2.1812 in New York yesterday although the dollar was generally little changed. This morning sterling opened at 2.1815 and, with the dollar now sharply weaker, saw business up to 2.1912 on the early exchanges. Before long, however, banks in the Far East were taking profits in dollars and pounds and sterling retreated to opening levels. This stirred potential commercial sellers, who later appeared to depress sterling further to 2.1737. The rest of the day was relatively comfortable, although offerings seemed to come out whenever the pound was much above 2.18. The closing level was 2.1774. Three months' cover cost 1 9/16% p.a. and sterling's intrinsic premium was 1/4%.

The pound lost 1/8% to the Swiss franc (3.57 1/2) and 1/8% to each of the French franc (8.97 1/2) and deutschemark (3.82 1/2). These were all considerably firmer against the dollar at 1.6395, 4.1210 and 1.7557 respectively. The Swiss franc weakened to 0.93 1/2 to the DM and the Swiss made outright forward sales of marks worth \$29 mn. (They also swapped in \$230 mn.). The French franc continued to lead the EMS - still 1 1/2% in width - but the Dutch florin (1.9652) replaced the Belgian franc at the base. The Dutch sold \$6 mn. and marks equivalent to \$34 mn. The punt (2.1080) was at 3 1/2% discount on sterling. The Irish sold \$10 mn. The yen closed at 247 in Tokyo, where the Japanese sold \$47 mn. and 248.17 in London.

Gold was firm on the uncertainty in the Middle East. Fixings were \$396.80 and \$396.15.

Operations:	Market	+ \$19 mn.
	India	+ 22
	South Africa	- 7
	Sundries	+ 2
		<u>+ \$36 mn.</u>

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