

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd November 1979

Markets were generally quieter today for the absence of Americans in Thanksgiving. The latest statement from Iran - that the Shah's departure from the US would prompt the release of the hostages - was taken constructively for the dollar, which rebounded somewhat from its depressed levels. The Treasury forecasts dampened any enthusiasm for sterling and the ERI closed unchanged at 69.6, after 69.4 at midday.

The pound closed at 2.1780 in New York yesterday. After opening at 2.1790 this morning, it tended easier on the early exchanges and quickly reached 2.1700. This owed something to a small technical recovery in the dollar, which did not last. Thereafter, sterling fluctuated between that level and 2.1755 throughout the morning, although the undertone remained rather soft. This afternoon, the dollar was marked up on the first rumours of a more conciliatory line from Iran and, with the Treasury forecast acting as a further depressant, sterling fell to 2.1655 at one stage. The market was very quiet, however, and the pound rallied late in the day to close at 2.1735. Forward margins widened substantially as eurodollars tended softer. Three months' cover cost 2% p.a., but sterling's intrinsic premium remained at $\frac{1}{8}$ %.

Sterling gained over $\frac{1}{8}$ % against the Swiss franc (3.58 $\frac{1}{2}$) and rather less against the deutschemark (3.82 $\frac{1}{2}$); there was little change on the French franc (8.97 $\frac{1}{2}$). These all eased against the dollar to 1.6492, 1.7611 and 4.1297 respectively. The Swiss franc/DM cross-rate neared 0.94 but closed at 0.93 $\frac{1}{2}$ after further official sales of outright forward deutschemarks worth \$85 mn. The Bundesbank swapped out \$1,480 mn. for liquidity reasons. The Belgian franc (28.57) replaced the Dutch florin (1.9670) at the tail of the EMS, while the Danish krone (5.1937) edged out the French franc at the head. The band was 1 $\frac{1}{2}$ % in width. The punt (2.1002) stood at 3 $\frac{1}{2}$ % discount on sterling. The Bank of Japan sold \$65 mn. in New York yesterday and \$33 mn. in Tokyo this morning, effecting a close of 248.35. In London, the yen weakened to 249.10 this afternoon before finishing the day at 248.70.

Gold eased a little on the dollar's recovery. Fixings were \$394.85 and \$393.15.

Operations:	Market	- \$9 mn.
	PSB Guaranteed:	
	Electricity	
	Council	+ 33
	Lothian	
	Regional	
	Council	+ 25 + 58
	India	+ 22
	Interest	+ 9
	Sundries	+ 3
		<u>+\$83 mn.</u>

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