

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th November 1979

Industrial unrest and the continuing gloom amongst forecasters of the UK economy combined to maintain a soft undertone for sterling today. Commercial sellers of pounds were again very much in evidence. To some extent this weakness was masked by a further deterioration in the dollar, due in part to Iranian developments and in part to a very marked decline in eurodollar deposit rates. Sterling's ERI fell to 69.1.

The pound closed firmer at 2.1670 on Friday in New York where the dollar was generally easier. This morning sterling opened at 2.1562 and, with the dollar staging a selective recovery, it fell away to 2.1477 in the face of some heavy selling from the European professionals. Soon enough, however, the dollar's fortunes turned, as eurodollar deposits eased, and the pound crested 2.15 again, supported now by profit-taking from the Continent. The latest polemic from the Ayatollah sent the dollar sharply easier this afternoon and sterling touched 2.1619 at one stage before closing at 2.1595. American interest was again scant but commercial offering of pounds in London was evident throughout the session. Dollar deposits were over $\frac{1}{2}\%$ easier by the close. Forward margins widened substantially in consequence - the three months' to 2 $\frac{7}{16}\%$ p.a. discount - but sterling's intrinsic premium rose nonetheless to $\frac{1}{2}\%$.

Sterling was nearly $\frac{1}{2}\%$ easier in Frankfurt (3.77 $\frac{1}{2}$), and $\frac{1}{2}\%$ lower in Paris (8.87 $\frac{1}{2}$). Against the Swiss franc, however, it was little changed at 3.56 $\frac{1}{2}$. The Bundesbank gave \$67 mn. of support to the dollar, the deutschemark closing at 1.7491. The Swiss, however, sold outright forward deutschemarks worth \$57 mn. as their cross-rate eased to 0.94 $\frac{3}{8}$. Against the dollar the franc closed little different at 1.6510. The French franc firmed, however, to 4.1092, stretching the EMS to almost 2%. The Belgian franc (28.53) remained at the bottom of the band. The Dutch sold \$10 mn. and \$43 mn.-worth of marks as the florin eased relative to the mark. The punt (2.1070) improved to 2 $\frac{7}{16}\%$ discount on sterling. The yen was again under pressure. The Bank of Japan sold \$28 mn. in New York on Friday and \$321 mn. this morning in Tokyo, where the close was 249.70. In London, the yen weakened to 251.50 before closing at 250.75.

After a quiet and steady morning, in which the price was fixed at \$393, gold hardened this afternoon as the dollar weakened. The later fixing set a level of \$395.25.

Operations:	Market	+ \$13 mn.
	India	+ 22
	Kenya	+ 22
	Post Office	+ 19
	(PSB G'teed)	
	Sundries	+ 1
		<hr/>
		+ \$77 mn.
		<hr/>

JGH
26th November 1979.
JGH