

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th November 1979

The dollar weakened further today, although eurodollar rates, after a further initial decline, reacted upwards from their very low levels. This kept sterling steady but no great demand was evinced. Late in the day, the AUEW decision to support a return to work at British Leyland gave a fillip to sentiment. The ERI fell over the day from 69.1 to 69.0.

The pound closed at 2.1640 yesterday in New York where the dollar was again easier. This morning, sterling opened at 2.1580 but, as the dollar fell sharply away in response to opening eurodollar quotations, sterling improved to find a trading level around 2.1650. The dollar proved the prime factor for much of the day. Two-way commercial business characterised the later morning with sterling gaining further ground to 2.1735 as the dollar weakened again. This afternoon was dull and Americans were again largely absent. The dollar recovered somewhat, aided by the reduction in Chase Manhattan's Prime Rate to 15½%, and sterling touched 2.1600 before closing at 2.1613. After the close, the AUEW decision saw business in pounds at 2.1640. Forward margins widened again, the three months' to 2 15/16% p.a. Sterling's intrinsic discount was reduced to 3/16%.

The pound lost almost ¼% to the French franc (8.85½) and deutschemark (3.77), but rather less to the Swiss franc (3.56). The Swiss sold a further \$57 mn.-worth of outright forward deutschemark as their franc weakened to almost 0.94½ on the cross-rate. Against the dollar it improved to 1.6470. The Bundesbank bought \$13 mn. and the deutschemark firmed to 1.7439 (after 1.7365). The French took in \$59 mn. (and swapped in \$20 mn.); their franc firmed to 4.0982. The EMS again closed a little under 2% wide between the Belgian franc (28.45) and French franc (4.0982). The Danish krone fell substantially within the band and the Danes sold \$5 mn. and \$43 mn.-worth of marks. The punt (2.1140) stood at 2¼% discount on sterling. The yen fluctuated wildly. The Japanese sold \$99 mn. in New York yesterday and \$471 mn. in Tokyo this morning, effecting a close there of 251.50. The subsequent announcement of a package of supportive measures brought a sharp appreciation to 245.25 on the early exchanges in Europe but by the close the yen had receded to 249.22.

Gold was steady and featureless. Fixings were \$393.40 and \$393.75.

| | | |
|-------------|--------------|------------|
| Operations: | British Air | + \$50 mn. |
| | (PSB G'teed) | |
| | Nigeria | + 44 |
| | EEC | - 14 |
| | | <hr/> |
| | | + \$80 mn. |
| | | <hr/> |

27th November 1979.
JGH

B