

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th November 1979

A generally dull day was enlivened by pockets of excitement overseas. Rumours, as yet unsubstantiated, of the imminent abolition of Swiss negative interest requirements, sent the Swiss franc sharply firmer. This - together with the sabotage of oil installations in Iran - made for a weaker dollar. Sterling was relatively firm, buoyed by a couple of sizeable buying orders, and the ERI rose from 69.3 to 69.6.

The pound closed at 2.1765 in New York yesterday and opened at 2.1760 this morning. Having touched 2.1740 on the opening exchanges, it recovered as quickly to 2.18 before settling into a narrow trading range around the opening level for the rest of the morning. There was little business of any substance. Early this afternoon a lumpy order from New York - of Latin American origin - sent sterling higher - and, once Americans were fully returned, some good demand seemed to stem from Continental Europe, the pound topping 2.18 in the process. Later, the dollar turned generally easier and sterling hit 2.1865 before closing comfortably at 2.1841. Eurodollar and sterling deposit rates were both firmer but forward margins narrowed somewhat. Three months' cover cost 2½% p.a. and sterling's intrinsic premium was ½%.

The pound gained over ½% against the deutschemark (3.80) and nearly ¾% against the French franc (8.92½) but fell ½% on the resurgent Swiss franc (3.54). The Swiss sold \$32 mn.-worth of outright forward deutschemarks but their franc later recovered on the rumours of impending measures to 1.6207 (0.93½ to the DM). The deutschemark was 1.74 and the French franc 4.0885, both considerably firmer. The EMS widened again to almost 2%, stretched still between the French franc and Belgian franc (28.37). The Danish krone (5.1897) slipped down the band and the Danes sold \$10 mn. in support. The punt (2.1195) stood at 3% discount on sterling. The Bank of Japan sold \$140 mn. in Tokyo this morning where the yen closed at 249. In London, it firmed to 248.85.

Gold fell sharply in Hong Kong this morning on rumours of a planned US auction. This did not materialise, however, and, with the dollar easier, gold recovered to yesterday's levels. Fixings were \$410.90 and \$411.70.

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| Operations: | Market | + \$95 mn. |
| | Interest | + 26 |
| | IBRD | + 5 |
| | Sundries | + 8 |
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| | | +\$134 mn. (of which \$20 mn. for November) |

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