

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 4th December 1979

Provoked perhaps by the re-emergence yesterday of official support for the dollar, market operators took to covering short positions today and a strong technical recovery ensued. Sterling again met two-way commercial business this morning but otherwise reflected the dollar's fortunes. The ERI slipped to 69.8.

The pound closed at 2.2090 yesterday in New York where the dollar met demand from both commercial and professional sources. This morning sterling opened at 2.2132 but retreated rapidly as the dollar's recovery set in and dipped below 2.20 before settling around that level. Yesterday's commercial protagonists were again on stage and another large selling order was successfully absorbed with sterling falling no lower than 2.1975. The modest buyer bid sterling back above 2.20 but when US markets reopened the dollar surged once more and the pound declined to 2.19. Towards the close the dollar itself turned back from best level and sterling finished comfortably at 2.1995. The cost of three months' forward cover was 2 3/16% p.a. and sterling's intrinsic premium rose to 5/16%.

The pound gained 1/8% against each of the French franc (8.92 1/2) and deutschemerk (3.79 1/2) and recovered 1/8% on the Swiss franc (3.49 1/2). The Swiss franc was depressed by professional selling of francs for marks and it fell to 1.6002 before closing at 1.5890 (0.92 1/2 to the DM). The deutschemerk was 1.7245 (after 1.7330) and the French franc 4.0562. Yesterday, the Federal Reserve sold deutschemarks equivalent to \$137 mn. but today the major Central Banks were inactive. The EMS was fully stretched at times but closed at 2 1/8% in width between the Danish krone (5.3372) and Belgian franc (28.10). The Belgians sold \$6 mn.-worth of kroner and the Danes took in \$19 mn. and \$7 mn.-worth of francs. The punt (2.1440) stood at 2 1/8% discount on sterling. The yen closed at 247.70 in Tokyo and 248.25 in London. The Japanese did not intervene.

Gold traded up to \$442 in Hong Kong this morning but failed to maintain this level in the face of a burgeoning dollar. Nonetheless the metal remained relatively firm throughout and only late in the day did the price fall below yesterday's levels. Fixings were \$435 and \$431.20.

Operations:	Market	+ \$19 mn.
	Kenya	+ 11
	Crown Agents	+ 8
	Iran	+ 5
	Sundries	+ 4
		<u>+ \$47 mn.</u>

	Overnight	<u>- \$4 mn.</u>
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