

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 13th December 1979

Oil prices dominated the exchanges today. The intention of three Arab producers to raise prices in advance of the OPEC meeting - together with active buying of gold by the Middle East - hit the dollar this morning and, while some ground was later recovered, the currency remained depressed throughout. Sterling conversely was quite firm but demand was patchy and volume not great. The ERI rose to 69.8.

The pound touched 2.2040 in New York yesterday before closing at 2.1970. The dollar was a little better. This morning the dollar opened sharply easier and sterling began at 2.2060, rising to 2.2090 on the opening exchanges amid a modest flurry of demand. Thereafter, the dollar began a gradual recovery and sterling eased back, touching 2.1995 around midday. The pound was generally firmer this afternoon but only when some solid German interest later developed did the rate climb to 2.2060. The closing level was 2.2039. Forward margins narrowed as US interest rates moved higher; outright forward demand for sterling was also seen as a factor. Three months' cover cost 1 9/16% p.a. and the adverse covered differential was 1/8%.

Sterling gained around 1/8% in Germany (3.82 1/2), Switzerland (3.52) and France (8.96 1/2). The dollar finished a little easier against the deutschemark (1.7343) and French franc (4.0660) but barely changed against the Swiss franc (1.5975). The French took in \$30 mn. as their franc overhauled the Danish krone at the head of the EMS. By the close, however, the krone (5.3685) had regained the lead, 2% ahead of the Belgian franc (28.22). The Belgians sold \$33 mn. and \$28 mn.-worth of French francs. The punt (2.1265) was at 3 1/2% discount on sterling and the Irish sold \$31 mn. equivalent of sterling. The yen closed at 238.90 in Tokyo where the Japanese sold \$27 mn. In London, it weakened to 240.10.

Good demand from Middle East and Swiss sources gave gold a firm start but resistance was initially met at \$460. Each fixing set a new record with levels of \$458.75 and \$458.80. Late in the day, American interest took the metal as high as \$464.

Operations:	Market	+ \$13 mn.
	Government	+ 24
	BIS	+ 11
	Sundries	+ 1
		<u>+ \$49 mn.</u>

*Jm*  
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