

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th December 1979

The dollar continued to rally to-day following the weekly money supply statistics which were a little better than expected. Sterling drifted back in response to this but took heart late in the day from the trade figures. The ERI closed unchanged at 69.8.

The pound closed at 2.1975 yesterday in New York, where commercial selling was in evidence. This morning it began at 2.1997 and drifted back to 2.1945 before steadying to complete the morning session around 2.1975. The price indices had little impact. This afternoon the dollar's improvement continued and sterling fell to 2.1910. The trade figures, however, were well received and the pound perked up to close at 2.1977. Forward margins widened as eurodollar deposits came off best levels. Three months' cover cost 1 15/16% p.a. and this left sterling with a small intrinsic premium.

The pound gained  $\frac{1}{8}\%$  against each of the deutschemark (3.82 $\frac{1}{2}$ ) and French franc (8.97 $\frac{1}{2}$ ), but made up  $\frac{1}{8}\%$  on the Swiss franc (3.55 $\frac{1}{8}$ ). These all weakened against the dollar to 1.7420, 4.0842 and 1.6160 respectively. The French franc regained the leadership of the EMS, 2% above the Belgian franc (28.37). The Belgians sold \$7 mn. of French francs. The Danes sold \$5 mn. The punt (2.1182) stood at 3 $\frac{1}{8}\%$  discount on sterling. The Irish sold sterling worth \$15 mn. The yen eased to 243.10 in Tokyo, where the Japanese sold \$10 mn., but recovered in London to 242.45.

Gold had no marked trend and traded slightly below the record levels of late yesterday. The earlier fixing set a new record (for the fix) of \$459.50 but in the afternoon the metal retreated to \$456.80.

Operations:	Market	+ \$15 mn.
	FRB o/a	
	Iraq	+ 18
	Government	+ 7
	Sundries	+ 1
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		+ \$41 mn.
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*JGH* 14th December 1979.

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