

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th December 1979

Sterling had an easier tone early on, but later improved to close the day only 0.1 down in effective terms at 69.6, after 69.4. The dollar was mixed. Despite Caracas, exchange markets were subdued, but gold conquered fresh peaks.

Having closed in New York at 2.2015, sterling opened lower this morning, at 2.1955, and at first edged down to 2.1935 although the dollar itself was generally weaker. Some selling was seen from the Continent. However, the rate soon returned to 2.20 on no particular business, and the pound traded around this level for the rest of the day, touching 2.2023 around lunchtime before closing at 2.1977. There was a smattering of commercial selling whenever 2.20 was breached. The cost of forward cover was steady at 1 11/16%; the covered differential in favour of London closed at 3/16%.

The pound eased back on the Continent, to 3.81½ against the mark, 3.53½ against the Swiss franc, and 8.95 against the French franc. These currencies all opened stronger against the dollar, but later softened to close at 1.7355, 1.6100 and 4.0725 respectively. Trading was featureless. The Danish crown (5.3620) assumed top position in the EMS, 2% above the Belgian franc (28.19). The Irish pound hardened to 2.1352, a 2½% discount on sterling. The central bank sold £17 mn. The lira improved to 809.60. The Bank of Japan had earlier sold \$10 mn. as the yen eased to 241.30 in Tokyo; in London it improved to 239.40.

Gold was again very strong, setting records at \$473½ and \$477½ at the fixings. It traded as high as \$479½.

Operations: Market	+ \$18 mn.
Government	+ 8
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	+ \$26 mn.
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