

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Friday 28th December 1979

\* There were few excitements on the exchanges. The dollar recovered some ground, as end-year operations seemed to have been overdone in some quarters. Sterling failed to maintain yesterday's exalted levels and was subject to bouts of profit-taking throughout the day. The ERI fell to 70.3.

The pound closed at 2.2415 in New York yesterday (after 2.2475) and opened at 2.2370 this morning. The early exchanges were uncertain and sterling touched 2.2415 but the dollar soon established a firmer trend and sterling, which had made such considerable gains yesterday, came off quickly as profits were taken. The pound fell to 2.2285 before some stability was achieved around 2.23. The afternoon was generally quieter. Sterling traded steadily around 2.23 until late in the day when the rate dipped to 2.2277 before closing at 2.2285. Eurodollar deposits eased as the day wore on while sterling deposits were a little firmer. Forward margins widened in consequence, the three months' to 2 1/16% p.a. discount. This gave sterling an intrinsic premium of 1/4%.

The pound lost 3/8% in Paris (8.96 3/8), gained 1/2% in Zurich (3.55) and was little changed in Frankfurt (3.84 1/2). The Swiss franc looked particularly weak, presumably on a surfeit of end-year liquidity, and eased to 1.5930. The deutschemark weakened to 1.7255. Yesterday the Federal Reserve bought \$123 mn. for marks and \$33 mn. for Swiss francs (the latter on behalf of the Swiss National Bank). Today the Bundesbank took in \$15 mn. The EMS again closed fully-stretched between the French franc (4.0225) and Belgian franc (28.02). The Belgians sold \$38 mn. and \$37 mn.-worth of French francs. The French bought \$25 mn. and \$6 mn. of Belgian francs. The Italians took in \$63 mn. but the Scandinavian currencies remained under pressure and the Norwegians spent \$110 mn. The punt (2.1460) recovered to 3 3/4% discount on sterling. The Irish sold £9 mn. The yen closed at 239.50 in Tokyo and 240.12 in London.

Gold set a new record of \$515 at this morning's fix but eased later as the dollar improved. The afternoon fixing set a level of \$512.

Operations:

|            |   |            |
|------------|---|------------|
| Market     | - | \$26 mn.   |
| Australia  | + | 20         |
| Government | + | 20         |
| France     | + | 6          |
| Interest   | + | 5          |
| Bangladesh | - | 11         |
| Sundries   | + | 6          |
|            |   | <hr/>      |
|            |   | + \$20 mn. |
|            |   | <hr/>      |
| Overnight  | - | \$12 mn.   |
|            |   | <hr/>      |

*JGH*  
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