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FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th September 1979

Sterling had another very rough ride to-day. Diversification into deutschemark continued apace as opinions hardened on the likelihood of an imminent revaluation. The generally gloomy industrial news made sterling a front-line candidate for selling and as both the \$2.20 and DM 4.00 levels were approached and forcibly breached, stop-loss orders were added to the imbroglio. Sterling's ERI fell 1.0 to 69.3. Elsewhere the E.M.S. received its most severe test yet.

In New York yesterday the pound continued under pressure falling over a cent to 2.1965 before closing at 2.1987. This morning sterling opened at 2.1985 and traded up to 2.2012 on the opening exchanges. Soon enough, however, the deutschemark was in demand and the \$2.20 and DM 4.00 levels (as well as 70 on the ERI) were quickly tested and left behind. Sterling slumped very quickly by almost two cents to 2.1822 before any serious resistance was found. Having paused for consolidation, however, the decline continued and only at 2.1750 did any semblance of a two-way market emerge. For some long time this level proved a testing-ground with speculators ready to take profits, while others returned to test the authorities' resolve and the rate see-sawed to 2.18 and back. The RPI was well received but was countered by the news that the government was not to sell any of its BNOC interest. Americans returned as buyers of pounds at these levels and the early afternoon was relatively comfortable. Sterling traded up to 2.1850 at one stage. However, two late selling orders from Europe and New York turned the tide again and the pound closed uncertainly at 2.1770. Later the decline continued and when 2.1750 was breached without support, heavy selling was unleashed from New York and Chicago. Sterling shed a further cent in very short order and plumbed 2.1625 before short-covering set in. Forward margins widened sharply, the three months' to 1 15/16% p.a. The covered differential moved out to 3/8% against London.

Sterling lost 1 1/2% to the French franc (9.22) and 1 3/8% to both the Swiss franc (3.55 1/2) and deutschemark (3.94 1/2). The last two of these were barely changed against the dollar at 1.6326 and 1.8122 respectively but the French franc lost a little ground at 4.23 1/2. The snake was under heavy pressure throughout. The Belgians sold marks worth \$158 mn. and the Danes shelled out \$9 mn. and \$166 mn.-worth of marks. The Bundesbank replied by taking in \$108 mn.-worth of Danish kroner but they did not support the dollar. Yesterday the Federal Reserve bought \$257 mn. against marks. The French continued to fight their own war, spending \$52 mn. and \$138 mn.-worth of marks while letting the cross-rate slip to 2.3370 to the mark. The lira (815.65) closed only 3 3/8% above the base of the band. The punt (2.0710) finished at 4 3/8% discount on sterling. The yen weakened sharply to 224 in Tokyo and the Japanese gave \$139 mn. in support. In London, it improved to 223.42.

Gold was bid up strongly in New York yesterday and again in Hong Kong this morning. It opened here over \$10 firmer and went on to set new records at each successive fixing with levels of \$345.75 and \$345.80.

Operations:	Market	- \$159 mn.
	Interest	+ 8
	Sundries	+ 1
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		- \$150 mn.
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