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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th September 1979

Further feverish escalation in the price of gold infected the dollar today and sterling, which was already on the mend, as some of yesterday's tormentors returned to cover, gained added strength from the dollar's difficulties. The trade figures, too, proved a useful shot in the arm. Sterling's ERI rose to 68.7. Gold topped \$380 at one stage and closed over 5% better on the day.

The pound closed better at 2.1565 yesterday in New York where further selling was countered by a later rally. This morning it opened at 2.1535 and after a very quiet start began a drift back to 2.1467. This proved a natural support point and eventually some modest short-covering set in. Volume was never very great but, as the movement gained momentum over the morning, sterling advanced steadily to 2.1610 before pausing for consolidation. This level provoked some sizeable selling from one or two of the larger operators and the pound retreated very quickly and somewhat nervously to 2.1480. The early afternoon saw some good demand from the United States, the more so as the dollar began to weaken generally. 2.1628 was paid for pounds at one stage and the price was 2.1590 as the trade figures were published. These were very well received and sterling was marked up instantly to 2.1652. This level proved too tasty, however, and professional selling took the rate back to 2.1590 at the close. Forward margins narrowed - the three months' to $1\frac{1}{2}\%$ p.a. discount - as eurodollars hardened in anticipation of a further tightening in US monetary policy. Sterling's intrinsic discount fell $\frac{1}{2}\%$ to 7/16%.

Sterling regained $\frac{1}{4}\%$ against the Swiss franc (3.51 $\frac{1}{4}$) and $\frac{3}{8}\%$ against each of the French franc (9.12 $\frac{1}{2}$) and deutschemark (3.90 $\frac{1}{2}$). The mark firmed to 1.8048 this afternoon before closing at 1.8087. Federal Reserve support for the dollar was suspected. The Swiss took in \$25 mn. as their franc rose to 1.6268 (after 1.6215): the cross-rate against the mark slipped below SF 0.90. Conversely the French sold marks worth \$25 mn. to haul their cross-rate back from 2.33 $\frac{1}{2}$ to 2.33 $\frac{3}{8}$ to the mark. The Belgian franc (29.01) remained at the foot of the snake which closed at 2% in width. The Belgians chose to spend deutschemarks equivalent to \$61 mn. With the continued improvement of their krone, however, the Danes were able to recoup a modest \$7 mn.-worth of marks. The lira (813.30) was 3 $\frac{1}{2}\%$ above the base of the band. The punt (2.0780) closed at 3 $\frac{1}{2}\%$ discount on sterling. The Irish sold \$27 mn. and sterling worth \$34 mn. in defence of their currency. The yen closed in Tokyo at 223.60 after official sales of \$20 mn. In London it finished at 223.48.

The gold market suffered a very difficult day. The Far East left the metal over \$10 higher than yesterday's closing price in London. European dealers were initially reluctant to get involved but the price eventually advanced to a new record \$371.35 in the fixing. Conditions were even more difficult this afternoon and little business could be transacted outside the fixing. A new high \$382 was quoted before the fixing. Surprisingly the later session was quickly completed. Turnover was very large and a new record level of \$375.75 was set. Later the price tended lower.

Operations:	Market	+	\$36 mn.
	FRB o/a		
	India	+	11
	Interest	+	8
			<hr/>
		+	\$55 mn.
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	Overnight	-	\$13 mn.
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