

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 1st October 1979

The dollar drew fresh heart this morning from the outcome of the weekend talks in Hamburg, but the market was not slow to test the authorities resolve and, notwithstanding that the Bundesbank proved true to its word, the dollar retreated in some disarray to finish around Friday's depressed levels. Sterling drew little comfort from this and found sellers predominant. The ERI fell to 68.6. Gold soared again to new, dizzy heights.

The pound closed at 2.1995 in New York on Friday but was sold in the Far East this morning as the dollar gained ground following the statement from Hamburg. The opening price in London was 2.1928 but this did not hold as Swiss banks came in as ready sellers and sterling eased rapidly to 2.1795. With the dollar itself now weakening, sterling steadied but showed no great inclination to recover until late morning when some of the earlier sellers returned to square their books. Having traded down to 2.1785, the pound recovered rapidly and touched 2.1950 early this afternoon. The rest of the day was much quieter and sterling traded around the higher levels before easing, on a firmer dollar, to close at 2.1895. The cost of three months' forward cover was again 1 1/4% p.a. and interest parity prevailed on the usual comparison.

The pound lost 5/8% to each of the Swiss franc (3.39 1/2) and deutschemark (3.81 1/8) and 7/8% to the French franc (8.94 3/8). The Federal Reserve did nothing on Friday but the Bundesbank today took in \$318 mn. The deutschemark closed unchanged at 1.7409 (after 1.7540). The Swiss, too, bought up \$110 mn. and their franc also closed little different at 1.5505 (after 1.5623). The E.M.S. was quite comfortable, finishing at 2 1/8% in width between the Belgian franc (28.15) and Danish krone (5.0927). The Danes bought \$6 mn. The French franc was relatively firm (4.08 1/2 to the dollar and 2.34 5/8 to the mark) and the French creamed \$43 mn. The punt (2.1375) stood at 2 3/8% discount on sterling. The yen continued weak and the Japanese expended \$292 mn. in Tokyo this morning to effect a close of 224.95. In London, despite the dollar's decline, the yen eased further to 225.32.

Gold flirted with, and eventually overcame, the \$400 level this morning, the price being fixed at \$399.50 en route. This afternoon, the price was bid sharply higher, with U.S. futures markets again a leading influence. The fixing set a new record at \$414.75 and the price closed around that level.

Operations:

Market	- \$36 mn.
B.I.S.	+ 18
Sundries	+ 8
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	- \$10 mn.
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Overnight	+ \$11 mn.
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