

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th October 1979

Another fairly quiet day on the exchanges saw both dollar and pound recover from a soft start. Sterling's ERI closed unchanged at 68.8.

The pound finished yesterday at 2.1517 in New York and opened this morning at 2.1512. Having touched 2.1520, sterling met selling in London and, with little other interest in the market, eased back to 2.1465. The rest of the morning was extremely quiet. This afternoon, the pound slipped further to 2.1437 as the dollar strengthened. The money supply was well received and sterling began to advance; the movement gained momentum as a large American began to cut out a sizeable bear position. 2.1522 was paid for sterling shortly before the close at 2.1510. The premium on three months' forward sterling narrowed again to 3/16% p.a. as dollar and sterling deposit rates converged slightly. The adverse covered differential fell to 5/16%.

Sterling scored modest gains in France (9.07 $\frac{1}{2}$), Germany (3.86 $\frac{1}{2}$) and Switzerland (3.53 $\frac{1}{4}$). The deutschemark finished a little firmer on the dollar at 1.7981, but the French franc (4.22) and Swiss franc (1.6445) were little changed. The Danish krone (5.2395) and Belgian franc (28.95) continued to top and tail the E.M.S., which was 2 $\frac{1}{2}$ % in width. The punt (2.0770) stood at 3 $\frac{1}{2}$ % discount on sterling. In Tokyo, the Japanese expended a further \$180mn. in support of the yen which closed somewhat firmer at 232.30; in London it advanced further to 232.11.

Having fallen sharply in London late yesterday, gold recovered this \$10 loss overnight. Opening at \$387, the metal traded without any marked trend over that same \$10 range. The fixings set levels of \$382 and \$380.50.

Operations:	Market	-\$ 9mn.
	Nigeria	- 42
	B.I.S.	+ 5
	Sundries	+ 6
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19 October 1979.

J.G.H.