

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 14th November 1979

The exchanges today were dominated - and to some extent paralysed - by the American decision to block Iranian assets. The dollar was left rather weaker, albeit above the levels plumbed immediately following the earlier Iranian decision to withdraw deposits from US banks. Sterling had weakened this morning on commercial selling but recovered later on the dollar's misfortunes. In the confusion and uncertainty which followed the White House statement, the poor UK trade figures passed almost unnoticed. Sterling's ERI fell from 68.0 to 67.7.

The miners' rejection of the latest pay offer took sterling back to 2.1040 in New York yesterday but it recovered later to close at 2.1095. This morning it opened at 2.1072 with the tone still slightly uneasy. A large commercial seller in Germany then hit the market and sterling went into retreat, the movement extending through much of the morning as the dollar strengthened elsewhere. 2.0880 proved the low point since, at that moment, the Iranian declaration sent the dollar into reverse and sterling recovered very sharply to 2.1107. For a while the market was quite volatile and uncertain: early this afternoon, 2.1130 was paid for sterling. The White House statement now jerked the dollar back into shape and sterling fell very quickly to 2.0972. Trading, however, was quite sparse and uncertainty prevailed. After a long pause for reflection, the dollar turned easier again and sterling had recovered to 2.1065 by the time the trade figures were released. Twenty points were lopped from the rate in the immediate aftermath but, with the dollar's fortunes still dominant, the trade figures had little effect and sterling closed comfortably at 2.1072. Sterling deposits firmed further before tomorrow's MLR announcement but eurodollars, too, hardened, following the Iranian declaration. Sterling's three-month forward discount narrowed to 11/16% p.a. and this gave a small intrinsic premium on the covered comparison.

The pound lost $\frac{1}{2}\%$ in Paris (8.81 $\frac{1}{2}$), $\frac{3}{8}\%$ in Zurich (3.48) and $\frac{1}{2}\%$ in Frankfurt (3.75 $\frac{1}{2}$). The major European Central Banks all gave modest support to the weakening dollar, the French buying \$55 mn., the Germans \$34 mn., and the Swiss \$16 mn. The deutschemerk closed at 1.7820 (after 1.77), the Swiss franc at 1.6515 (after 1.6450) and the French franc at 4.1837 (after 4.1725). The lira (828) and Belgian franc (28.91) continued to bracket the EMS, a little over $1\frac{1}{2}\%$ apart. The punt (2.0760) stood at $1\frac{1}{2}\%$ discount on sterling; the Irish bought \$8 mn. but sold sterling worth \$36 mn. In Tokyo, the Bank of Japan sold \$91 mn. and the yen closed at 246. In London it finished at 243.20 (after 241 $\frac{1}{2}$).

Gold was active and a little firmer on the general uncertainty, although resistance was felt at levels much above \$390. The Iranian announcement came in the middle of the earlier fixing which set a level of \$389.25. This afternoon the price was fixed at \$390.

Operations:	Market	- \$42 mn.
	Interest	+ 14
	Crown Agents	+ 10
	Kenya	+ 5
	Sundries	+ 6
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		- \$7 mn.
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Overnight + \$13 mn.

Jem
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