

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 3rd December 1979

The escalation of the Iranian situation and the evident spread of anti-American hostility turned the dollar very much for the worse today: the deutschemark reached a new record high level. Sterling was very firm throughout but saw no great level of activity and failed to keep pace with other major currencies. The ERI closed unchanged at 69.9 after 70.0 this morning.

The pound closed easier at 2.1920 in New York on Friday. This morning, with the dollar sharply easier, sterling opened at 2.2087 and touched 2.2145 on the opening exchanges before Swiss professional selling pulled it back to opening levels. Official support for the dollar in Europe then steadied the market and a large commercial seller in London drove the pound back further to 2.2050. However, a reasonable commercial buyer sparked a recovery and, when the dollar weakened further on news of disturbances in Saudi Arabia, sterling crested 2.2150. This afternoon was quieter and the pound traded around 2.2150. The WPI was well received and sterling briefly touched 2.2167 in the aftermath before closing at 2.2131. Eurodollar deposits were firmer in response to a higher Federal Funds rate. Forward margins narrowed, the three months' to  $2\frac{1}{8}\%$  p.a. discount. Sterling continued to command an intrinsic premium of  $\frac{1}{8}\%$ .

Sterling lost  $\frac{3}{8}\%$  to the French franc (8.90),  $\frac{1}{2}\%$  to the deutschemark (3.78 $\frac{1}{2}$ ) and  $1\frac{1}{8}\%$  to the Swiss franc (3.46 $\frac{1}{2}$ ). The Swiss franc led the charge against the dollar and touched 1.5590 before closing at 1.5650. Against the mark it firmed from 0.92 $\frac{1}{2}$  to 0.91 $\frac{1}{8}$ . The Swiss bought \$79 mn. The deutschemark hit a new record 1.7050 before closing at 1.7085 and later traded to 1.7043. On Friday, the Federal Reserve bought \$70 mn. against marks and today the Bundesbank took in \$82 mn. The French franc was 4.0217. The Bank of France bought \$21 mn. but sold deutschemarks equivalent to \$35 mn. The Danish krone (5.2967) and Belgian franc (27.90) continued to top and tail the EMS, which finished slightly less than fully stretched. The Belgians sold \$11 mn.-worth of kroner and \$20 mn.-worth of French francs. The Danes bought \$5 mn. The yen gained little from the dollar's weakness, closing at 248.90 in Tokyo and 248.80 in London. The Japanese sold \$39 mn. in New York on Friday and \$264 mn. in Tokyo this morning.

Gold was again sharply firmer. Fixings were \$428 and \$428.75 but considerable resistance was met at the \$430 trading level.

Operations:	Market	+ \$44 mn.
	India	+ 22
	Iraq	+ 22
	Interest	+ 6
	Sundries	+ 1
		<hr/>
		+ \$95 mn.
		<hr/>

*JGH*  
3rd December 1979.  
JGH