

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 5th December 1979

The dollar continued its strong recovery today aided by a conciliatory statement broadcast on Tehran radio. Sterling saw a good deal of commercial selling in the course of the general retreat but at the end of the day had still gained a little ground on the Swiss franc and deutschemark, which naturally met the most pressure. Sterling's ERI fell to 69.4.

The pound closed at 2.1847 in New York yesterday, falling somewhat further than most others in the face of the rebounding dollar. This morning it opened at 2.1870. The opening exchanges were uncertain, sterling falling to 2.1830 and recovering to 2.1920. Eventually, however, bidding for dollars was renewed and the pound began a steady decline, accompanied by a host of eager commercial sellers. The market steadied around 2.18, though one large seller did depress the rate to 2.1780 at one stage. The miners' vote was helpful and occasioned a modest but temporary recovery. In mid-afternoon, however, the dollar surged once again and sterling dipped to 2.1752 before closing at 2.1765. Eurodollar deposits were easier and forward margins widened in consequence. Three months' cover cost 2 9/16% p.a. at the close and sterling's intrinsic premium was reduced to 1/8%.

The pound gained 1/4% on the deutschemark (3.80 1/4), 1/8% on the Swiss franc (3.50) and was barely changed against the French franc (8.92 3/8). Against the dollar these weakened to 1.7470, 1.6080 and 4.1010 respectively. The EMS closed with the Danish krone (5.3982) 2 3/16% from the Belgian franc (28.94). The Belgians sold \$14 mn.-worth of kroner and the Danes took in \$19 mn. and \$8 mn.-worth of Belgian francs. The punt (2.1165) stood at 2 3/4% discount on sterling and the Irish sold \$9 mn. The yen closed at 248.05 in Tokyo but in London it hardened against the trend to 246.07.

Gold remained fairly firm throughout around the lower levels set late yesterday. Fixings were \$427.25 and \$426.40.

Operations:	Market	-	\$39 mn.
	India	+	22
	Iran	+	15
	Sundries	+	2
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Overnight + \$9 mn.

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J.G.H.