

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 7th December 1979

The dollar continued very firm this morning behind some encouraging monetary statistics but gave up part of its gains later in the day. Sterling, which attracted little interest, held up well at first this morning but retreated later and the ERI fell to 69.2.

The pound closed easier at 2.1807 yesterday in New York, where the dollar continued to firm. This morning sterling opened at 2.1835, touched 2.1845, then declined gently as the dollar renewed its upward path. At first, however, the pound held up well against other major European currencies but, once the dollar paused, sterling was sold on commercial account and stabilised only around 2.17. Late in the morning the pound dipped to 2.1672 but this afternoon, as profit-taking began in the dollar, the rate rose to 2.1775 before closing at 2.1755. Forward margins widened on balance as eurodollar and sterling deposit rates diverged. Three months' sterling was 2½% p.a. discount and this made for an adverse covered differential of 1/16%.

The pound closed unchanged against the Swiss franc (3.50½) and fractionally easier against the French franc (8.94½) and deutschemark (3.80½). The deutschemark touched 1.7620 before closing at 1.7482. The Swiss franc was 1.6115 (after 1.6240) and the French franc 4.1125. The EMS was more relaxed with the Belgian franc (28.46) 2% below the Danish krone (5.4112). Early this morning, however, the Belgian franc stood at 86 on the divergence indicator and the Belgians responded by selling \$57 mn., \$21 mn.-worth of French francs and \$6 mn.-worth of Danish kroner. The Danes bought \$5 mn. and the French a handful of Belgian francs. The punt (2.1082) stood at 3½% discount on sterling. The yen continued to recover strongly, closing in Tokyo at 241.60 and in London at 240 (after 238.85).

Having softened in New York yesterday, gold traded uncertainly this morning and was fixed at \$428.90. This afternoon, the metal was firmer as the dollar eased and the fixing set a level of \$430.40. Late in the day, however, New York again took the price lower.

Operations:	Market	+ \$8 mn.
	Crown Agents	+ 10
	Interest	+ 9
	Post Office	+ 8
	(PSB G'teed)	
	Sundries	+ 5
		<u>+\$40 mn.</u>
	Overnight	<u>- \$7 mn.</u>

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