

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th December 1979

Notwithstanding a large commercial selling order, sterling traded quietly today, most of the fall in effective terms arising from a decline in late dealings on Friday and a precipitate improvement in the yen. The ERI closed at 68.8, 0.6% lower than on Friday, after 68.6 this morning.

A slide in late European trading on Friday continued in New York, where sterling closed at 2.1645. 2.1685 was the first rate quoted this morning, but sterling retreated at first to 2.1650 before scattered buying brought a return to Friday's official closing rate, 2.1755, by mid-morning. A large commercial seller then showed himself and sterling eased back to 2.1665 shortly before noon; but his offering was readily absorbed, and the pound traded between this level and 2.17 or so all afternoon, closing near the upper end of the range at 2.1697. 3 months' euro-dollars edged up to 14 3/16%; the cost of cover closed at 2 13/16%; the covered differential against London widened to 5/16%.

The pound lost some ground on the Continent, closing at 3.80 against the mark and at 8.92 $\frac{1}{2}$ and 3.50 in Paris and Zurich. The dollar, which had hardened a little in New York, fell back today in rather quiet European markets. The mark closed at 1.7511, after 1.7428 this morning. The Danish crown (5.4277) stayed top of the EMS, 1 $\frac{1}{4}$ % above the Belgian franc (28.50); the Belgians sold \$25 mn. and a few French francs, their franc having been over 2% below the crown and close to its divergence threshold this morning. The French franc (4.1132) retained second place. The lira closed comfortably at 817.95, and the Irish pound at 2.1072, a 2 $\frac{1}{4}$ % discount on sterling, of which the central bank sold \$9 mn.-worth. The Swiss franc improved to 1.6130; like the Bundesbank, the SNB confined themselves to buying dollars on the swap to help the domestic money market. The feature of the day was the improvement in the yen. From 240 in London on Friday afternoon, it went to 231 in Tokyo this morning in hectic trading. The gain was not quite held in London, where it closed at 233.10.

Gold was firm, fixing at \$431.35 and \$431.15.

| | | |
|-------------|-----------|------------|
| Operations: | Market | + \$6 mn. |
| | Kenya | + 9 |
| | Interest | + 5 |
| | BIS | + 6 |
| | Sundries | + 12 |
| | | <hr/> |
| | | + \$38 mn. |
| | | <hr/> |
| | Overnight | + \$15 mn. |
| | | <hr/> |

10th December 1979.
PAB