

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 20th December 1979

Sterling closed another quiet day 0.2 lower in effective terms at 69.5. The dollar turned in a mixed performance. The gold price fluctuated widely.

After drifting back to 2.1995 in New York, sterling opened today at 2.2010 and rose in a quiet market to 2.2040. By mid-morning, however, a large commercial seller was in action, and his business damped down the rate to 2.2002 until a slight reaction brought sterling up to 2.2010 at the close. Money supply figures were no surprise. Interest rates and the cost of cover were little changed, and sterling closed with an intrinsic premium of $\frac{1}{4}\%$ on the usual comparison.

The pound was mixed on the Continent, improving to 3.82 against the mark but easing in Zurich (3.52 $\frac{1}{2}$) and in Paris (8.92 $\frac{1}{2}$). Lack of agreement in OPEC was if anything a source of comfort to the dollar, to which the Fed gave \$26 mn. of support yesterday. The mark fell $\frac{1}{2}\%$ to 1.7355. The French franc remained top of the EMS, at 4.0538, 2 $\frac{1}{16}\%$ above the Belgian franc (28.18 and 72 on the divergence index). The French bought \$20 mn.; the Belgians sold \$22 mn. and an equivalent amount of French francs. The lira and the Irish pound closed steady at 809.60 and 2.1315, the latter at a 3 $\frac{1}{2}\%$ discount on sterling. The Irish sold £10 mn. The Swiss franc improved to 1.6005; the SNB again bought dollars on the swap to help their money market. The yen closed at 239 in Tokyo, and later improved to 236.45 in London.

Stop-loss selling last night in New York wiped some \$30 off the gold price, but it recovered to over \$480 in Far Eastern and early European trading before fixing this morning at \$477 $\frac{1}{2}$. After another brief rise, the price dropped to \$471 $\frac{1}{2}$ at the afternoon session. Turnover was heavy. The market remains very nervous.

Operations:	Market	+ \$2 mn.
	India	+ 22
	Sundries	+ 2
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		+\$26 mn.
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	Overnight	- \$3 mn.
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