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MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 2nd January 1979

There was good enough demand in Far Eastern markets today to ring the New Year in brightly for sterling. The dollar began darkly under the stormclouds from Iran, which may have encouraged some oil stockpiling. When New York opened, however, Fed Funds began trading in a range of 11½%-12%; Eurodollar rates promptly moved firmer and the earlier shadows over the dollar moved away, at least temporarily, although it closed below pre-weekend levels. The ERI slipped to 63.9.

The Old Year for the pound was rung out quietly in New York where the rate closed at 2.0430. With the benefit of the early demand, the first quotation of 1979 in London was 2.0467 from which level, on more modest buying, it rose further to top out at 2.0522. By mid-afternoon the dollar had begun a general recovery, bringing a decline to a close of 2.0424 (after 2.0405). Forward margins contracted and the cost of three months' cover fell to ⅝% p.a.; with Eurodollars rising to 11⅞% and sterling interbank to 12 9/16%, a covered differential of 1/16% emerged in favour London.

In Europe sterling moved a little lower: to 3.70⅜ in Germany, 3.29⅛ in Switzerland and 8.48⅛ in France. The dollar opened against the deutschemark at 1.8010 and the Germans were quick to intervene. By the close they had bought $110mn. and the rate had risen to 1.8140. The Fed's own intervention on Friday was $89mn., mostly against deutschemarks. The snake widened to 2⅛%, still between the Belgian (28.68) and Danish (5.0405) currencies. The Swiss franc eased during the day to 1.6115 and the lira to 824½: the Italians bought $43mn. The French franc closed at 4.1522. Denials by the Italian and French authorities of the press reports about informal links with the snake passed without effect. Japanese markets were closed: in London the yen finished at 192.92.

Gold moved firmer in steady trading to fix at $227.15 and $226.80.

Operations:	Market	+ $42mn.
	India	+ 10
	Sundries	+ 7
		+ $59mn.
	Overnight	- $12mn.

2nd January 1979.

D.A.H.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 3rd January 1979

Sterling more than held its own against a further general strengthening of the dollar. Markets were reasonably active on the Continent where commercial buying of dollars was a helpful factor. The French appeared today to be harnessing the franc to the deutschemark. The pound was less actively traded; the ERI eased to 63.7.

In New York last night sterling weakened to 2.0277. After opening today at 2.0320 and rising to 2.0367, it encountered a professional operator whose sales caused a decline to 2.0220. When this position was cut out, there was a short rally but sterling soon became caught up in the dollar's advancing tide: it touched 2.0072 before closing at 2.0155. At that time markets were beginning to move very erratically indeed. Forward margins were little changed at 11/16% p.a. for three months; but the adverse covered differential reappeared, at 3/16%.

In Germany, sterling gained some ¾% to 3.73; in Switzerland, 1½% to 3.33⅞; and in France ⅝% to 8.53¾. French intervention - they bought deutschemarks equivalent to $70mn. and also $36mn. - kept the franc within a close range against the deutschemark of 2.2880/2.29: it closed at 2.2892. Against the dollar it closed at 4.23¾. In Germany the deutschemark fell by 2% against the dollar to 1.8505; in Belgium the franc closed at 29.21 and in Denmark the krone at 5.1345; the snake was 2 1/16% wide. The Swiss bought $75mn. although their franc fell 2¼% to 1.6570. The lira ended at 834½, the yen at 196.90 (2% down).

Gold retreated too, fixing at $222.10 and $218.60 in modest trading.

Operations:

Market	+ $ 6mn.
SAMA	+ 101
India	+ 10
Iraq	+ 10
N.Zealand	+ 10
PSB (Gas)	+ 10
Sundries	+ 5
	+ $152mn.

The reserves also increased by an SDR allocation equivalent to $367mn.

3rd January 1979.

D.A.H.B.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS 1979/1

Week ended 3rd January 1979

In a week of mixed fortunes, sterling declined 0.1 to 63.7 in effective terms after 64.0 - the best since March - on the 29th. The dollar was weak at first and required further hefty support, but it recovered strongly on yet higher interest rates to show gains on the week.

From 2.0340 on 27th December, good commercial demand carried sterling ahead of most currencies to 2.0410 at the official London close on the 29th. Substantial amounts were creamed into the reserves. The pound opened the New Year even higher against a generally weak dollar, topping 2.05 briefly on Tuesday morning; but the rate soon retreated from these levels as yet higher interest rates gave the dollar a healthier complexion. By the close on Wednesday, the rate was back to 2.0155 after 2.0072 at one time in the afternoon. The reserves announcement had little apparent effect. The cost of forward cover was unchanged on balance at 11/16%; the covered differential against sterling on the usual 3-months' comparison fell slightly to 3/16%, having moved in sterling's favour at one time.

Although better-than-expected trade figures brought a little comfort on Thursday, and the weekly money supply figures and November leading indicators (down 0.6%) were in no way upsetting, the dollar eased further before the holiday weekend and opened the New Year in a very depressed state. Iran cast a shadow, and some in the market were already anticipating worse trade figures in the next month or two. However, U.S. interest rates were already on the up again - by the year-end most major banks were quoting an 11¼% prime rate - and a sharp rise in the cost of Federal funds, to 12% at times, appeared to spark a recovery in the dollar which in the end brought gains on the week. It remains to be seen where interest rates will settle once turn-of-the-year confusion is past. Official support for the dollar once more exceeded $1bn. in the period and now amounts to $14.3bn. since 1st November. The Fed themselves bought $280mn., mostly against marks. The Germans sold over $200mn.-worth of marks as their currency weakened nearly 3 pfennigs to 1.8505 (after 1.8010 on Tuesday morning) despite further evidence of trade strength. The Swiss ($360mn.) and the Italians ($150mn.) also gave the dollar substantial support. The Swiss franc fell 2¼% to 1.6570. The lira, which lost only ¼% over the week to 834.50, benefited from another set of good trade figures. The French franc fell 6 centimes to 4.2362, but like the lira, it did not seem discomforted by the postponement of EMS - indeed both currencies gained on the mark over the week. The French added $70mn. and a similar amount of marks to their reserves. The snake was sometimes stretched, but more on account of the volatility of rates than underlying pressures: the Danish crown (5.1345) and the Belgian franc (29.21) remained at the extremes, both weakening against the dollar. The Danes bought a handful of dollars. The guilder (2.0040) swam untroubled in mid-snake. With Japan taking an extended New Year holiday, the yen was quiet, easing to 196.90. Apart from the dollar, all major currencies weakened against sterling, the mark, for example, by 2½ pfennigs to 3.73, and the French franc by ½% to 8.53¼. The Canadian dollar was weak again, despite $130mn. of support.

Gold started in fine fettle, but fell abruptly against the strengthening dollar ahead of the IMF auction. On balance, the price fell $2 to $218.60 at the afternoon fix on the 3rd, after $227.15 the previous morning. The IMF subsequently sold 470,000 ozs. at an average price of $219.34.

4th January 1979.

P.A.B.

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RATES, ETC.

10.15 a.m.		10.15 a.m.
28.12.78		4. 1.79
2.0427	£/$	2.0175
63.9	Effective exchange rate index	63.8
5/8% p.a.	Forward 3-months	1/4% p.a.
12 1/16%	Euro-$ 3-months	11 1/4% p.a.
1/8% disc.	I.B.Comparison	1/16% premium
1.8162	$/DM	1.8538
3.71	£/DM	3.74
8.49 3/4	£/FF	8.58 1/16
192.90	$/Yen	196.50
$223.35	Gold	$221.65
1.6220	$/S.Fc.	1.6547
3.31 5/16	£/S.Fc.	3.33 13/16

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th January 1979

The pound lost a little ground today in a quiet if rather volatile market, until further news from Iran weakened the dollar in late trading. The main continental currencies followed a similar pattern. The French (again) and the Dutch were substantial buyers of marks. Sterling's ERI eased a touch, though the published rate closed unchanged on the day at 63.7.

In New York last night sterling closed at 2.0225. It opened at 2.0175 this morning against a generally better dollar, and softened further during the morning on light professional selling to 2.0105 before recovering to 2.0165 at noon. On the whole sterling performed better than the main continental currencies in this period. The pattern was repeated in the afternoon; sterling retreated to 2.01, then recovered to 2.0170 in a quiet market before relapsing to 2.0140 at the official London close. The news that the Iranian army commander is leaving the country hit the dollar and brought sterling briefly to 2.0220, the best level of the day, in late trading. The cost of forward cover was little changed at ¾%; the adverse covered differential narrowed slightly to 1/16%, having shown a premium this morning.

Yesterday the Fed sold $5mn. against yen. Today the dollar improved further in several centres, apparently still on expectations of higher interest rates and perhaps also some announcement from Guadeloupe, though its course was rather uneven. Thus, at the official close, the deutschemark stood ⅛% lower at 1.8517 and the Swiss franc ¼% down at 1.6507 after the SNB bought $34mn. The French were again heavy buyers of marks - $94mn.-worth today - presumably to push their cross-rate with the mark above 2.29. They closed at 4.2410 against the dollar. The Dutch were even heavier buyers of marks, $108mn.-worth; theirs was one currency to improve against the dollar, closing at 1.99⅛, and they too appeared to be anxious to keep in touch with the mark. The Italians added $135mn. to reserves as the lira softened to 836.55. The snake was tight early on, but later relaxed: the Danish crown (5.13½) and the Belgian franc (29.15) remained at the extremes. The yen had another quiet day: from the Tokyo close of 196.80 it improved slightly in London to 196.65. However, like sterling, other currencies gained on the dollar in late trading after the Iranian news broke. On the day, the French franc softened against sterling, to 8.54⅛; but others more than recouped this morning's losses to close rather better; the mark, for example, advancing to 3.72⅞. The Canadian dollar improved following a rise in bank rate; the authorities bought $27mn.

Gold took heart from last night's IMF auction, fixing at $222½ and $223.15 on good turnover. 470,000 ozs. were sold at an average price of $219.34; in addition, 16,400 ozs. were allocated on a non-competitive basis; 1.48mn. ozs. were bid for altogether.

Operations:		
	Market	+ $ 8mn.
	PSB (Gas)	+ 13
	Interest	+ 5
	Sundries	+ 9
		+ $35mn.

4th January 1978.

P.A.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th January 1979

After an initial improvement the dollar extended yesterday's easier tendency but New York reversed most of these losses following indications that Iranian oil workers would return to work. Sterling was steady. The ERI closed unchanged at 63.7.

The pound closed better in New York at 2.0175 yesterday. Opening this morning at 2.0162, it dipped to 2.0117 as the dollar brightened with the dawn then recovered to steady around the opening level. Later, however, the dollar was sold and sterling improved to 2.0215 before settling to trade either side of 2.02 for much of the rest of the session. New York evinced modest two-way business in sterling. Following the news from Iran the dollar improved somewhat and the pound came back to close at 2.0182. A good deal of commercial business left forward sterling weaker. Three months' cover cost 1 3/16% p.a. at the close and, with dollar and sterling deposits each a little easier, sterling's intrinsic discount moved out to ¼%.

Sterling was unchanged against the Swiss franc (3.32⅜) and French franc (8.54½) and a touch better against the deutschemark (3.73½). The French franc was again in demand and firmed to 4.23¼. The Bank of France allowed only a token rise against the mark (to 2.2890) taking in $108mn. to restrain the franc. The Italians, too, garnered $90mn. as the lira rose to 833⅛. Elsewhere, the Bundesbank bought $45mn. and the Swiss National Bank $15mn. (net). The mark (1.8490) and Swiss franc (1.6465) were each a little firmer. The Danish krone (5.12⅜) and Belgian franc (29.09) continued to top and tail a snake of less than 2% in width. As the mark weakened within the band, the Dutch bought $38mn.-worth of marks and the Danes $5mn.-worth. In Tokyo, the yen closed at 196.85 and in London at 196.60.

Gold advanced strongly this morning to fix at $226.70, retreated on the Iranian news, then partially recovered to fix at $225.50 this afternoon.

Operations:	Market	+ $12mn.
	B.I.S.	+ 6
	Government	+ 6
	Sundries	+ 1
		+ $25mn.
	Overnight	+ $ 4mn.

5th January 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 8 January 1979

After an uncertain start, which reflected the deteriorating outlook on the industrial relations front, sterling met good demand, principally from Continental Europe, and finished around the day's best levels. The dollar opened weaker but thereafterexhibited no decided trend. Sterling's ERI rose to 63.8.

The pound closed at 2.0225 in New York on Friday and opened at 2.0252 this morning. The opening exchanges were uneasy with sterling drifting down on little business to 2.02 as dealers reflected on the troubled labour scene in the U.K. Later, however, despite general improvement by the dollar, sterling fell no lower than 2.0185 and demand for pounds mounted early this afternoon. New York emerged as modest takers of sterling but did little thereafter. Nonetheless, European demand for sterling persisted and the pound advanced to 2.0260 before closing at 2.0245. Forward margins widened again on the industrial outlook. The cost of three months' forward cover was 1 5/16% p.a. at the close and the covered differential had risen to 9/16% against London.

Sterling was marginally easier against the Swiss franc (3.32 1/8), French Franc (8.53 7/8) and deutschemark (3.72 3/4). Good two-way business was reported in the deutschemark which left the Bundesbank to buy in only $20 mn. The mark was 1.8412 at the close, a little easier on the day but firmer than on Friday. The Swiss sold $11 mn. against exports of capital. Their franc similarly was 1.6405. The French franc was somewhat less buoyant, closing at 4.2180. The French took in only $6 mn. and $10 mn. of marks. The Italians, however, creamed off a further $95 mn, allowing the Lira to rise to 832.30. The snake narrowed over the day from 2 1/8% to 1 7/8% in width. The Danish krone (5.10 5/8) and Belgian Franc (28.99) are still the outriders. The Belgians took in $21 mn. worth of marks. In Scandinavia the Norwegians bought $21 mn. but the Swedes sold $20 mn. In Tokyo, the yen closed at 195.35 after purchases of $9 mn. by the Bank of Japan. In London, it eased to 195.67.

Gold opened strongly but eased progressively over the day. Fixings were $224.10 and $223.10.

Operations:

Market	+ $25 mn.
Ireland	+ 30
IMF/SDR designation	+ 21
Sundries	+ 5
	+ $81 mn.

Overnight + $6

8 January 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 9th January 1979

There was little significant activity on the exchanges today and rates moved narrowly in consequence. Sterling remained firm. The ERI closed unchanged at 63.8. After the close in London, the IMM appeared as a substantial buyer of dollars and the currency moved sharply higher.

The pound closed firmer at 2.0270 in New York yesterday but opened back at 2.0230 this morning. Trading throughout the session was confined to a low of 2.0208 this morning and a high of 2.0242 this afternoon, after which sterling closed at 2.0239. The Banking statistics were received without comment. After the close, sterling was marked down to 2.0172 as the Chicago money market bid generally for dollars; the pound, however, fared better than most other currencies. Forward sterling was unchanged. Three months' cover cost 1 5/16% p.a. The intrinsic discount was ½%.

Sterling was barely changed against the deutschemark (3.72½) or French franc (8.54) but ⅜% up on the Swiss franc (3.33½) which was particularly soft. The Swiss sold $22mn. (net) in cover of capital exports. Their franc eased to 1.6480 at the close and traded down afterwards to 1.67. The deutschemark was 1.8405 (later 1.8520) and the French franc 4.22 (later 4.2350). Neither the French nor the Germans intervened. The snake widened to over 2% at the close. The Belgians and Dutch bought marks equivalent to $8mn. and $124mn. The Italians took in another $30mn.; the lira was 832.45. The Norwegians bought $30mn. and the Swedes sold $30mn. The yen in Tokyo, was195.60 and 195.70 in London.

Gold was steady, fixing at $224.00 at each session. After the close, however, the dollar's rebound took the price back to $222½.

Operations:	Market	+ $ 4mn.
	Ireland	+ 20
	British Gas (PSB G'teed)	+ 10
	BIS	+ 6
	Interest	+ 6
	Bangladesh	- 10
	Kenya	- 5
	Sundries	+ 1
		+ $32mn.
	Overnight	- $ 8mn.

jgh 9th January 1979.

J.G.H.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS 1979/2

Week ended 10th January 1979

Under the influence of industrial trouble, sterling's ERI fell 0.3 to 63.4 after 63.8 at times on Monday and Tuesday. Mixed news left the dollar rather higher in some centres; official support for it was more than halved.

From 2.0155 at the London close on Wednesday, 3rd January, sterling traded steadily at first, hardening to 2.0182 at the close on Friday against a slightly softer dollar. The pound lost some ground on Monday morning as the market pondered the industrial situation, but soon perked up, apparently on the news that Shell and Esso tanker drivers had settled. Then sterling moved narrowly, mostly in the range 2.02 to 2.02½, until late on Tuesday a rumour that President Carter was calling a press conference caused the dollar to improve sharply and sterling fell back to around 2.01¾. It opened lower the following morning against a yet firmer dollar, and then fell on commercial and some professional selling to a low of 2.0016 before recovering to 2.0054 at the close on Wednesday. The banking and wholesale price statistics had little effect, but industrial troubles now seem to be making their mark and some may have been disturbed by the CGBR in December. In the prevailing uncertainty, the cost of forward cover widened to 1 7/16%, and, although sterling stood at an intrinsic premium at times on the usual 3-months' comparison, it closed at a discount of ⅝%, an increase of 7/16% on the week. Euro-dollar rates fell.

Where changed, the dollar was mostly rather better this week, although intervention at $550 mn. was relatively modest by recent standards. The money supply figures gave a good start, and, although the news from Iran was mixed - and capable of moving the market - it seemed no worse on the whole. The rise in US interest rates which some had anticipated did not materialise, but this was not taken amiss against the monetary statistics and Mr.Miller's promise that policy will remain firm even at the risk of a downturn in the economy. The Fed bought only $26 mn. this week. The Germans sold a net $40 mn. against marks, and other continental central banks bought no fewer than $420 mn.-worth of marks. All this - and the end of the steel strike - left the mark unchanged on the week at 1.8505. The other main European currencies all eased about ¼% against the dollar, the French franc to 4.24½, the lira to 837, and the Swiss franc to 1.6622. The Bank of France bought $110 mn. and $100 mn.-worth of marks; they succeeded in weakening their cross-rate ½ centime to 2.29⅜. The Italians bought $440 mn. Swiss purchases of dollars were much more modest - only $30 mn. - no doubt to the relief of the authorities, who are acutely worried about monetary growth. The snake was often stretched but under no fundamental pressure - indeed the central banks of top (Danish crown; 5.13½) and bottom (Belgian franc; 29.20) currencies each bought a few marks. The guilder gained some ground to 1.9977; the Dutch bought $270 mn. - worth of marks, presumably to keep their cross-rate under control. The yen had another quiet week, closing slightly firmer at 196.80. Where changed the major currencies gained on sterling: thus the mark improved 2 pfennigs to 3.71 and the French franc gained 2½ centimes to 8.51¼. The Canadian dollar benefited from a ½% rise in bank rate to 11¼%, closing better at 84.17 against its neighbour.

Gold took courage from the IMF auction on the 3rd, rising $8 to $226.70 at the fix on Friday morning. It subsequently eased back to $220.70, to show a gain of $2 on the week. Turnover was sometimes heavy.

11th January 1979.

PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
4. 1.79		11. 1.79
2.0175	£/$	1.9990
63.8	Effective exchange rate index	63.2
¼% p.a.	Forward 3-months	1 13/16% p.a.
11¾% p.a.	Euro-$ 3-months	11 7/16%
1/16% premium	I.B.Comparison	15/16% disc.
1.8538	$/DM	1.8485
3.74	£/DM	3.69½
8.58 1/16	£/FF	8.49 1/16
196.50	$/Yen	196.90
$221.65	Gold	$221.15
1.6547	$/S.Fc.	1.6612
3.33 13/16	£/S.Fc.	3.32 1/16

British Gas

G+EE
FE440 07

MR.McMAHON

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th January 1979

An active day for sterling. One sizeable commercial offering provoked further selling from professionals evidently nervous about the industrial situation. The ERI fell from 63.8 yesterday to 63.4.

The dollar extended its gains in New York yesterday and the pound retreated further to close at 2.0095. This morning sterling opened at 2.0125, following some demand in the Far East, and settled down to trade a little below this level amid some good two-way activity. In late morning some outright selling interest appeared, unusually from the Emerald Isle and initially this was well absorbed. Later, however, as the market thinned, this offering took its toll on the rate and, as sterling slipped away, at least one large professional was seen to cut out a long sterling position. The movement snowballed, with traders clearly unwilling to hold a falling pound in the present industrial situation. Despite some vigorous support, sterling fell to 2.0016 early this afternoon before New York came in as modest buyers and the tide turned. Sterling passed the afternoon comfortably in a range around 2.0050, more than once attempting a rally. Any chance of this was killed, however, by a late news report which suggested that ICI would stop exporting if the situation deteriorated any further. Sterling closed at 2.0054. Forward margins naturally widened. The cost of three months' cover was 1 7/16% and the intrinsic discount rose to ⅝%.

Sterling lost ⅜% to both the deutschemark (3.71) and French franc (8.51½) but was only fractionally easier against the Swiss franc (3.33⅜). The dollar retained yesterday's gains until late in the day when New Yorkers took some profit on yesterday's activity and provoked a small decline. The mark was 1.8505, the Swiss franc 1.6622 (after 1.6720) and the French franc 4.2450. Only the Swiss intervened to buy a net $3 mn. The Italians took a further $85 mn., the lira closing at 837. The snake closed a little over 2% in width. The Belgians again bought $8 mn.-worth of marks. The Swedes sold $25 mn. The yen closed at 197.00 in Tokyo and 196.80 in London.

Gold was somewhat more active. Having fixed at $220.40 this morning, the trend this afternoon proved undecided and, after an abortive recovery, the price was fixed at $220.70.

Operations:	Market	- $60 mn.
	Ireland	+ 50
	IDA	+ 12
	British Gas (PSB G'teed)	+ 8
	Sundries	+ 3
		+ $13 mn.

10th January 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 11 January 1979

Sterling continued soft for most of today, though selling was much reduced. A steadier tone followed the news that the transport workers' leader was meeting the Prime Minister and sterling's ERI closed unchanged at 63.4. The dollar gained further strength from the announcement of American plans to raise $1.2bn.-worth of Swiss francs.

The dollar lost ground in New York late yesterday on disappointment at the President's failure to hold the expected press conference. Sterling recovered to close at 2.0095. The pound opened today at 2.0077 but, after business at 2.0080, it soon ran into selling pressure and traded back, despite support, to 2.0021 before a commercial buyer of some substance induced a pause. A second wave of offerings, as much from London as elsewhere, carried sterling back to 1.9980 but profit-taking from the Continent brought a natural reaction and the rate settled just above 2.0000. The prospect of Mr.Evans' confrontation with the Prime Minister lifted the pound to 2.0050 but, as the dollar improved towards the close, it was marked back to finish at 2.0024. Forward discounts widened again, the three months' to 1¾% p.a. The adverse covered differential rose to ⅞%.

Sterling held its ground against the Swiss franc (3.33⅜) and French franc (8.51½) and even improved fractionally on the deutschemark (3.71¼). Dealers were surprised at the size and rapidity of the dollar's improvement on an item which carried little fresh news. The movement continued after the close and the Swiss franc eased to 1.6815 (after 1.6650 at the close). The mark closed at 1.8544 (later 1.8607) and the French franc 4.25¼ (later 4.26½). The Swiss sold $74mn. in cover of capital exports. The Norwegians and Italians each bought $35mn. The lira was little changed at 837⅜. The yen closed at 196.55 in Tokyo and 197½ in London. The snake was almost fully stretched by the close. The Dutch bought a further $20mn. of marks and the Danes took in $13mn. and $3mn. of marks.

After fixing higher at $221.20 this morning, gold retreated in face of the dollar's strength. The price was fixed at $220.65 this afternoon and the closing level was below $219.

Operations:	Market	- $42mn.
	B.I.S.	+ 12
	Government	+ 8
	Sundries	- 3
		- $25mn.
	Overnight	- $ 6mn.

11th January 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 12th January 1979

Sterling inevitably suffered further from yesterday's developments on the industrial front and had fallen two cents from yesterday's close by mid-morning. Careful support, however, ensured a soft landing and the earlier nervousness gave way to some cheap buying and a modest recovery this afternoon. The ERI fell from 63.4 to 63.1 this morning but rebounded to close at 63.3. The dollar was again very firm with the Swiss franc particularly weak.

The pound eased to 1.99⅜ at one stage in New York yesterday before improving to close at 1.9992. This morning, however, it was sold down in the Far East and opened sharply lower in London at 1.9902. The opening exchanges were eerily quiet, with one or two unusual buyers in evidence, but the undertone was distinctly uneasy and, eventually, the familiar pirates returned to plunder. Sterling fell steadily to 1.9820 where the cushioning of the official hand induced a pause and general reappraisal. The dollar then advanced sharply but sterling was surprisingly not affected and indeed, when New York proved modest buyers of pounds, the rate advanced. Others returned to cut out short positions and sterling rose to 1.9945. However, two commercial sellers of some size restrained any further gains and the pound closed comfortably at 1.9930, the earlier nervousness largely dissipated. Forward margins again widened sharply. The cost of three months' cover closed at 2⅛% p.a. and the covered differential was 1 1/16% against London.

Sterling lost ⅛% to the French franc (8.50½) and ¼% to the deutschemark (3.70¼) but gained all of ⅞% on the Swiss franc (3.36⅛). The Swiss bought a net $10 mn., their franc closing at 1.6870 (after 1.7055). With the deutschemark at 1.8580, the Swiss premium fell to around 10% (S.F. 0.90¾). The snake was 2% wide at the close. The Belgians bought $12 mn. of marks and the Danes $19 mn. and $3 mn. of marks The French franc was 4.26¾ and the Lira 841.65. The Italians took in $30 mn. The yen closed at 197.95 in Tokyo and 197.77 in London.

Gold weakened further this morning fixing at $216.60 but steadied somewhat this afternoon to fix a dollar higher and finish little changed on yesterday's closing price.

Operations:	Market	- $61 mn.
	France	- 7
	Ireland	+ 50
	Sundries	+ 3
		- $15 mn.
	Overnight	- $1 mn.

JGH

12th January 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 15th January 1979

After another shaky start, sterling steadied on persistent support from one of Friday's bears, who chose to cover his tracks, perhaps in anticipation of the trade figures. The dollar remained comparatively firm. Sterling's ERI closed unchanged at 63.3.

The pound closed at 1.9982 in New York on Friday, but was sold down in the Middle East over the weekend and again in the Far East this morning. London's opening price was 1.9820 and 1.9812 was seen on the opening exchanges before one or two cheap buyers came in to establish a level around 1.9850. A period of uneasy calm ensued, broken eventually by Scandinavian demand for pounds, sparked, it was said, by a rumour that the transport workers' strike was over. Notwithstanding that the rumour proved false, sterling advanced to 1.99 and later to 1.9960 as one of the buyers returned again. (On Friday, he had been a heavy seller.) New York showed no definite trend and sterling remained steady through the afternoon. The price was 1.9925 as the December trade surplus was released; the rate was marked up to 1.9960 and closed shortly after at 1.9945. Forward margins narrowed, especially following the trade out-turn. Three months' cover cost 1 15/16% p.a. at the close and the intrinsic discount was 13/16%.

Sterling gained a little on the French franc (8.50¾) and deutschemark (3.70¾), but added a further ⅞% against the Swiss franc (3.38⅞). The Swiss sold a net $5 mn. (against exports of capital) and their franc touched 1.7070 before closing at 1.69⅞. The premium on the mark fell below 9½% (S.F 0.91⅜). The mark was 1.8588 and the French franc 4.2655. The snake was 1⅞% in width throughout. The Belgians took in $20 mn. of marks. The Italians bought $70 mn.; the lira firmed slightly to 840¾. The Tokyo market was closed. In London, the yen closed little changed at 197.67.

Gold was slightly softer ahead of tommorow's U.S. auction. Fixings were $216.55 and $216.85.

Operations:	Market	- $7 mn.
	British Gas (PSB G'teed)	+ 9
	Government	+ 8
	Iraq	+ 8
	Sundries	- 2
		+$16 mn.
	Overnight	-$12 mn.

15th January 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th January 1979

Another remarkably resilient performance saw the pound in good general demand this afternoon as the dollar suffered a relapse. The ERI closed unchanged at 63.3 after dipping to 63.2 this morning.

In an otherwise quiet market, sterling met persistent selling in New York yesterday, falling a cent from the London close to finish at 1.9845. This morning, however, there was no such trend and a number of bears rushed for cover in the Far East bringing the pound to open at 1.99 in London. After some modest, two-way exchanges sterling settled to enjoy a quiet morning around 1.9925. In Germany, however, the dollar met substantial commercial selling and, once New York opened, it began to slip away on a broad front. Sterling participated and met healthy demand, both from professional short-covering and latterly from commercial interests with stop-loss orders at or below $2. The pound touched 2.0015 before closing at 2.0002. Eurodollar deposits hardened in response to an upturn in the Federal funds rate and forward margins narrowed as a result. The cost of three months' cover fell to 1 13/16% p.a. with sterling's intrinsic discount unchanged at 13/16%.

There was little apparent reason for the dollar's weakness - save, perhaps, for the Shah's flight - and little official support save in Switzerland (a net $41 mn.) and Italy ($90 mn.). The Swiss franc naturally rebounded strongly to 1.6822, the deutschemark to 1.8496 - the Bundesbank buying $9 mn. Sterling lost ⅞% to the Swiss franc (3.36½) ¼% to the deutschemark (3.70) and ⅛% to the French franc (8.50⅜). The latter firmed to 4.2495 against the dollar. The lira was 838.65 and the yen 197.32, after 198.00 at the close in Tokyo. The snake widened to 2% at the close. The Belgians bought deutschemarks equivalent to $14 mn. and the Danes took in $6 mn.

Gold firmed progressively over the day, sparked by some hasty short-covering ahead of the US Treasury auction and further buoyed by the dollar's weakness. Fixings were $219 and $220.65.

Operations:	Market	+ $49 mn.
	British Gas (PSB G'teed)	+ 6
	New Zealand	- 20
	Sundries	+ 3
		+ $38 mn.
	Overnight	+ $13 mn.

16th January 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th January 1979

The dollar remained the focus of attention to-day with a further sharp fall early this morning arrested and in part reversed by Gleske's gloss on Poehl's intervention of yesterday. Sterling met fresh demand this morning and the ERI improved to 63.4. Gold was very well bid.

The pound closed slightly firmer at 2.0032 in New York yesterday. This morning it began at 2.0052 and, as the dollar crashed, met solid professional demand from Europe and the Middle East, running swiftly up to 2.0147 at best. Gleske's reaffirmation of the Bundesbank's will to intervene in support of the dollar turned the tide, however, and sterling came back to settle around 2.01 into the early afternoon. The later session was better balanced and, as further profit-taking took place, the dollar regained a little more territory. Sterling eased to 2.0055 before closing at 2.0069. Forward margins widened, probably in response to some outright selling of pounds. Three months' cover cost 1 15/16% p.a. at the close and the covered differential was 7/8% against London.

Sterling was unchanged on the deutschemark (3.70) and French franc (8.50) but lost a further ¼% to the Swiss franc (3.35⅞). The Swiss were content to sell $18 mn. (net) in cover of capital exports and their franc closed firmer at 1.6740 (after 1.6532). The Germans, however, substantiated Gleske's promises with purchases of $51 mn. The deutschemark was 1.8435. The French franc advanced to 4.2350 staying locked to the mark (2.29⅞) throughout the day. The snake closed at 1⅝% in width. The Belgians took in $15 mn. of marks and the Dutch bought $30 mn. The lira was 834⅛ and the yen 196.92 (after 196.80 at the close in Tokyo).

Following the US Treasury auction (an average price of $219.71 for 1 mn. ounces of good delivery bars) gold opened sharply higher and fixed at $225. This afternoon, New York continued to bid for the metal and, after fixing at $227½, the price rose to $229½ before closing at $228½.

Operations:	Market	+ $36 mn.
	National Coal Board (PSB G'teed)	+ 50
	Iraq	+ 10
	British Gas (PSB G'teed)	+ 6
	Sundries	+ 4
		+ $106 mn.

17th January 1979.
JGH

1979/3

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ended 17 January 1979

Sterling came out of a difficult week unscathed, closing unchanged at 63.4 in effective terms after 63.0 on Monday morning. The dollar was mixed, weakening in most centres after earlier gains; support was relatively modest by recent standards.

From 2.0054 at the close on 10 January, sterling eased at first more than most currencies against a generally firmer dollar. The industrial situation was unrelievedly depressing: although tanker drivers had settled, their wage increase was well above 5% without any pretence at higher productivity; the lorry drivers' strike was made official; and there was the prospect of a rail strike. Moreover, both the retail price index and the index of price increases notified to the Price Commission showed a rise in the underlying rate of inflation. In the circumstances, it was perhaps surprising how little pressure there was and how easily it was blotted up. By the close on Friday, the rate was down only to 1.9930. Sterling showed the familar morning sickness on Monday, when the rate fell to 1.9812 at one point; but a big professional operator who had earlier sold pounds turned this position; others, perhaps encouraged by a false rumour that the drivers' strike was over, jumped on the bandwaggon; and, by the time the story was denied, the favourable trade figures were out. Altogether, sterling made good gains on Monday, which were improved on the following two days. The rate closed at 2.0069 on Wednesday, after 2.0147 earlier in the day. Reflecting the general uncertainty, the cost of forward cover increased by ½% to 1 15/16%; however the covered differential against sterling on the usual three months' comparison rose from ⅝% to only ⅞%.

The dollar had a mixed week, for once apparently unmoved by events in Iran. There was disappointment at first that the President did not hold a press conference on inflation. But the announcement on Thursday that the USA would be issuing Swiss franc bonds worth $1.2 bn. and the unexpectedly good money supply figures later that day helped the dollar, which re-opened firmly after the weekend. Some inferred yet higher interest rates from the Fed's tactics in the money market, and euro-dollar rates firmed. On Tuesday afternoon, however, the dollar came under pressure again; some remarks by Herr Poehl, drawing attention to the size of intervention last year, were taken as indicating a weaker resolve to support the dollar because of the monetary consequences in Germany. Despite a reassurance from Herr Gleske, the dollar remained weak on Wednesday though it closed above the worst. Official support amounted to $410 mn. in the week. The Fed themselves bought $145 mn. against marks. The main support came from the Italians, who bought $230 mn. in the week; the lira improved ⅜% to 834.13. The French hardly intervened at all, as the franc rose only 1 centime to 4.23½ on weaker trade figures. The Swiss intervened both ways, on balance selling $50 mn.; their franc was the softest of the major currencies against the dollar ahead of the Swiss franc issue of Carter bonds; it closed at 1.6740. The yen enjoyed another quiet week, easing fractionally to 196.92; the authorities announced a cut in reserve requirements on foreigners' yen deposits with Japanese banks. The mark was firmer than most currencies early on when the dollar was strong; altogether it improved ⅜% to 1.8435. The Bundesbank bought $60mn. The Danish crown (5.12½) and the Belgian franc (29.10) remained top and bottom of the snake, which relaxed to 1⅞%; the Danes bought $40mn. and some marks,

the Belgians $60 mn. - worth of marks, and the Dutch, still comfortable despite concern about their balance of payments, took in $30 mn. and $20 mn. worth of marks. The guilder improved to 1.9942. Like the Italians, the Belgians eased monetary policy. The Canadian dollar eased to 84.12 despite modest support. The mark and the French franc hardened against sterling, to 3.70 and 8.50; the Swiss franc and the yen eased back.

Gold was firm ahead of the US Treasury auction on Tuesday, at which 1½ mn. ounces were sold. The gold in good delivery form fetched $219.71 per ounce on average. The price went higher subsequently to $227¼ at the afternoon fix on Wednesday, up $6½ on the week.

17th January 1979.

PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
11 January		18 January
1.9990	£/$	1.9997
63.2	Effective exchange rate index	63.2
1 13/16% p.a.	Forward 3-months	2 3/16% p.a.
11 7/16%	Euro-$ 3-months	11 5/16%
15/16% disc.	I.B.Comparison	1 1/16% disc.
1.8485	$/DM	1.8438
3.69½	£/DM	3.68 11/16
8.49 1/16	£/FF	8.46 13/16
196.90	$/Yen	197.30
$221.15	Gold	$227.45
1.6612	$/S.Fc.	1.6778
3.32 1/16	£/S.Fc.	8.46 13/16

the day's lows, perhaps on federal Reserve support. The German measures

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th January 1979

The dollar met renewed selling pressure this afternoon following the modest tightening in monetary policy by the Bundesbank. Sterling remained active and soon shed some early uncertainty. The ERI improved to 63.3, after falling to 63.2 this morning.

Having finished in New York at 2.0028 yesterday, the pound opened today at 2.0000 and traded in a narrow range around that level for much of the morning. Although 1.9980 was tested in early dealings, sterling soon recovered and thereafter seemed reluctant to trade down through 2.0000. Given the presence of a few professional sellers, this suggested further commercial buying interest at this trigger-point. Later, the pound advanced suddenly to 2.0048, spurred by expectations of a rise in MLR. The better levels were held into the afternoon and sterling advanced further as the dollar sold off. Most New Yorkers were buyers of pounds though one large seller persisted in defying the general trend. The money figures were received with little immediate comment and sterling touched 2.0115 before closing at 2.0085. Forward margins continued to widen, partly in response to a widening in the uncovered interest-rate differential. Three months' cover cost 2⅛% p.a.; the intrinsic discount rose slightly to 15/16%.

Sterling lagged the major continental currencies by some way, falling ⅜% against both the deutschemark (3.68½) and French franc (8.46½) and ½% on the Swiss franc (3.34). The dollar closed a little off the the day's lows, perhaps on Federal Reserve support. The German measures (½% on Lombard rate - to 4% - and 5% on reserve requirements), though modest, had a damaging effect and were taken to support Poehl's recent views. The Bundesbank did not intervene on the exchanges. The deutschemark closed at 1.8345. The Swiss franc, as often, firmed further to 1.6630, the Swiss selling $62 mn. (net) in cover of capital exports. The French franc was 4.2145 and the Bank of France sold $14 mn. of marks to keep the cross-rate around 2.2975. The snake contracted on the weaker dollar to 1¼% in width at the close. The Belgians took in $19 mn. of marks and the Dutch $22 mn. The Italians bought $89 mn. The lira was 834. The yen closed at 196.80 in Tokyo and only five points dearer in London.

Gold was a hectic market, especially this afternoon when massive demand was generated at the fixing. Eventually, the price was fixed at $231.75. Earlier it had been set at $227.80.

Operations:	Market	+ $24 mn.
	IDA	+ 5
	Sundries	+ 1
		+ $30 mn.

jgh

18th January 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th January 1979

A very subdued end to the week. Sterling firmed slightly this morning. The dollar recovered as the day progressed, spurred by the continuing benign behaviour of the US monetary aggregates. The ERI was marginally higher at 63.4.

The pound closed at 2.0105 in New York yesterday, opened at 2.0090 this morning and traded quietly around this level for the first hour. Despite some modest firming in the dollar, sterling then advanced to 2.0110 and held its gain, at least against the Europeans. As the dollar, however, advanced further, the rate receded on little business and, when a couple of commercial sellers called on a typically empty market late in the day, sterling touched 2.0022 before closing at 2.0033. Three months' cover cost 2 3/16% p.a. but, with sterling deposits firmer, the adverse covered differential fell to ¼%.

Sterling recovered ¼% on each of the Swiss franc (3.35), French franc (8.48⅜) and deutschemark (3.69¼). The Swiss sold $11 mn. (net) in cover of capital exports. Their franc eased to 1.6722. The French franc was 4.2342, the deutschemark 1.8430 and the cross-rate a familiar 2.2975. Neither the Bundesbank nor the Bank of France intervened. The Federal Reserve, despite impressions to the contrary, did nothing yesterday either. The Italians sold out $27 mn. with the lira only slightly easier at 834⅝. The snake widened to 2⅛%, the Belgians taking up a further $13 mn.-worth of marks. The yen closed at 197.65 in Tokyo and 198.32 in London.

Gold had a much steadier and less frenetic day. Fixings of $230.70 and $230.55 sandwiched a brief period when the price ran up to $233.

Operations:	Market	- $14 mn.
	British Gas (PSB G'teed)	+ 4
	Sundries	+ 2
		- $ 8 mn.
	Overnight	+ $5 mn.

19th January 1979.

JGH

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd January 1979

After a flurry this morning, sterling firmed up to close only 0.2 down at 63.2. The dollar, also weak early on, later benefitted from President Carter's budget proposals.

The pound closed higher at 2.0070 in New York on Friday, and opened only a little lower, at 2.0042, in London this morning. However, this proved to be near the best level of the day, and professional selling quickly pushed the rate to 1.9955 although the dollar itself was soft. Some support was given; one or two of the earlier sellers took their profits; and, as often after early pressure, the market quietened. By noon the rate had recovered to 1.9981, and the pound traded quietly in the afternoon before closing at 1.9980. Three months' cover cost slightly more, 2⅜%, but with sterling deposits again firmer the covered differential against sterling stayed at ⅜%.

Sterling lost ground early on to the main continental currencies; despite some later recovery, it closed over ½% down against the French franc (8.45¾) and ¼ pfennig lower against the mark (3.68½). After a soft start, the dollar took heart from President Carter's budget plans, gaining on the Swiss franc (1.6770) and the mark (1.8446). The French franc (4.2330) was little changed on balance - the central bank sold $40 mn.-worth of marks; and the lira (834.30) and the yen (197.72, after a Tokyo close of 198.05) both improved. The Bank of Italy bought $44 mn. The Dutch bought $30 mn. The snake narrowed to 1 15/16%, the Danish crown and the Belgian franc remaining at the extremes.

Gold remained very firm, fixing at $234.40 and $235 in moderate trading.

Operations:	Market	- $40 mn.
	Government	- 5
	Iraq	+ 10
	PSB:	
	British Nuclear Fuels	+ 6
	British Gas	+ 2
	Sundries	+ 1
		- $26 mn.
	Overnight:	+ $3 mn.

22nd January 1979.

PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 23rd January 1979

With activity in London, at least, dampened by the weather and the difficulties in travel, business in sterling was largely confined to some not insubstantial commercial interest. The pound remained steady and the ERI was unchanged at 63.2 throughout. The dollar tended a little better following President Carter's budget statement.

Sterling closed higher at 2.0025 in New York yesterday after a rumour that the lorry drivers' dispute was about to be settled. This morning it began at 1.9987 and moved uncertainly through the opening exchanges, touching 1.9955 and 2.0000 before settling around the opening level. The only feature of the morning was some sizeable two-way commercial business - with first a seller depressing the pound to 1.9937 and then as big a buying order bringing a recovery to 1.9986. New York's return brought a better dollar and sterling retreated in an orderly fashion to close at 1.9956. Forward discounts rose slightly, the three months' to 2 7/16% p.a. With the uncovered interest-rate differential, however, widening still further in London's favour, the adverse covered differential fell to ⅝%.

Sterling was again unchanged on the Swiss franc (3.35) but gained ⅛% on the French franc (8.46⅞) and ¼% on the deutschemark (3.69½). Only the Dutch, who bought $64 mn., supported the dollar in any size. The mark eased to 1.85 and the French franc to 4.24⅜ while the Swiss franc was little changed at 1.6792. The snake was around 2⅛% in width and the Belgians took up a further $16 mn.-worth of marks. The lira closed at 835¼ and the yen at 197.90 (after 197.55 in Tokyo).

Gold retreated nervously following Blumenthal's remarks yesterday which indicated that the US were likely to continue selling for the moment. Fixings were $230.80 and $230.00.

Operations:	Market	+ $6 mn.
	Sundries	- 1
		+ $5 mn.

23rd January 1979.
JGH

SECRET 1979/4

FOREIGN EXCHANGE AND GOLD MARKETS

Week ended 24th January 1979

Although the ERI fell 0.2 to 63.2, sterling was rarely under pressure despite industrial troubles. The dollar improved slightly against most currencies; it received no official support on balance.

From 2.0069 at the London close on 17th January, sterling advanced to 2.0115 at one time the following day on a rumour that M.L.R. would increase. The money supply figures occasioned no comment. Sterling then eased back against a generally stronger dollar, closing on Friday at 2.0033 after a late commercial order moved the rate in an empty market. The pound soon came under pressure after the weekend, falling to 1.9955 on moderate professional selling in early dealings on Monday; but a modest amount of support turned the market, and sterling advanced as some of the earlier sellers took their profit. The rail strike and bad weather combined to reduce London trading on Tuesday, when the business in sterling was mostly commercial; and the pound remained quietly firm on Wednesday, closing at 1.9987. Again, rumours of a higher M.L.R. were heard, perhaps encouraged by the Governor's recent speeches and by the mood of government leaders. The industrial situation has still done very little damage to the pound. Reflecting the general uncertainty, the cost of forward cover increased to 2 9/16%; but interest rate movements brought the covered differential against sterling down 5/8% to 1/4%.

The dollar started under a cloud, as German monetary measures announced on Thursday appeared to make the Bundesbank's intentions plainer. However, good U.S. money figures - only a little tarnished by a substantial upward revision to the previous week's - once more came to the rescue, and President Carter's 'lean and tight' Budget submission was well received. It was not until the Swiss announced the easing of inflow restrictions on Wednesday that the dollar came under pressure again. Over the week, the dollar gained a touch against most major currencies, and, for the first time since the U.S. package on 1st November, was (just) sold on balance in official operations. The Fed themselves sold just $5 mn. against yen. As if to underline the primacy given to domestic monetary policy - they increased Lombard rate by 1/2% and soaked up DM.3 bn. of bank reserves - the Bundesbank sold $560 mn, the mark easing slightly to 1.8444. The Swiss, whose monetary problems are just as acute, bought $220 mn. net, more than the whole amount after relaxation of their inflow controls; their franc fell a similar amount to 1.6770. The cross-rate against the mark remained around 90 7/8. The yen fell rather more, by 0.3% to 197.55, despite an easing of restrictions on inflows. The Italians were good buyers of dollars, as they have been all month - they took in $170 mn. as the lira softened to 834.60. The Bank of France sold $50 mn. worth of marks to keep their cross-rate around 2.29 1/2; they ended 1/4 centime stronger against the dollar at 4.2320. The snake was mostly well-stretched, though not under fundamental pressure, with the Danish crown (5.11 1/8) and the Belgian franc (29.09) still at the extremes. The Belgians bought $68 mn. worth of marks. The Dutch bought $180 mn. - their guilder improved to 1.9917. The main continental currencies gained on sterling, the French franc, for example, by 4 centimes to 8.46 and the mark by 1 1/4 pfennigs to 3.68 3/4.

Gold rose nearly $9, fixing at $236.10 on Wednesday afternoon. Trading was lively; and an indication from Mr.Blumenthal that the U.S. Treasury will continue to auction gold at the present rate did little to dampen the price.

24th January 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
18 January		25 January
1.9997	£/$	1.9967
63.2	Effective exchange rate index	63.3
2 3/16% p.a.	Forward 3-months	2 9/16% p.a.
11 5/16%	Euro-$ 3-months	10 15/16%
1 1/16% disc.	I.B.Comparison	5/8% disc.
1.8438	$/DM	1.8536
3.68 11/16	£/DM	3.70⅛
8.46 13/16	£/FF	8.48¼
197.30	$/Yen	198.92
$227.45	Gold	$235.00
1.6778	$/S.Fc.	1.6885
8.46 13/16	£/S.Fc.	3.37⅛

1.6770. Sterling ... and deutschemark ...

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 24th January 1979

Another quiet and uneventful day, with pound and dollar trading steadily at yesterday's levels, was rudely disrupted by the Swiss decision to abolish the restriction on non-resident purchases of securities The dollar went into a tail-spin. The Swiss gave heavy support to the dollar. Sterling's ERI was unchanged throughout at 63.2.

Having closed quietly in New York yesterday at 1.9970, the pound opened as quietly this morning at 1.9968. Despite the apparent inactivity, one large commercial seller of sterling had little difficulty in finding takers and the rate fell no lower than 1.9954 this morning. New York came in as buyers of dollars and sterling slipped to 1.9950. Almost immediately, however, the Swiss announced the lifting of the ban on non-resident buying of securities and, as the dollar was marked down, sterling rose on little business to touch 2.0002 before closing at 1.9987. Forward margins widened again as sterling deposits continued firmer in anticipation of a sizeable increase in M.L.R. The cost of three months' cover was 2 9/16% p.a. at the close but sterling's intrinsic discount fell to 1/4%.

The Swiss responded vigorously to protect the dollar from any adverse effects following the announcement from Zurich. The National Bank bought $283 mn.(net); the Swiss franc closed little changed at 1.6770. Sterling gained fractionally on the Swiss franc but lost 1/8% to both the French franc (8.46) and deutschemark (3.68 3/4). The latter duo firmed respectively to 4.2320 and 1.8444 to the dollar. The snake remained around 2 1/8% in width. The Belgians took in another $8 mn. of marks. The Dutch bought $50 mn. The Italians, too, absorbed $62 mn. as the Lira strengthened modestly to 834.60. The yen closed at 198.10 in Tokyo and 197.55 in London.

Gold made considerable progress in New York overnight and fixed this morning at $234.50, advancing to $236.10 this afternoon as the dollar weakened.

Operations: Sundries + $1 mn.

24th January 1979.

J.G.H.

FILE

MR McMAHON

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
Thursday 25 January 1979

The dollar gained strength today from Chairman Miller's optimistic forecasts for the U.S. economy and finished around 3/4% better against most European currencies. Sterling was little troubled and performed better than many. The ERI improved to 63.3.

Tne pound closed at 1.9992 in New York yesterday, with Miller's congressional testimony coming too late to affect the market. This morning the dollar opened generally firmer. Sterling began at 1.9972, touched 2.0000 and settled comfortably around the opening level or better, notwithstanding that the dollar was already building a fair head of steam. The unchanged M.L.R. eventually provoked some scattered professional selling and the pound retreated a little nervously to 1.9894. With this over, however, the afternoon passed comfortably and, in the face of further gains by the dollar, sterling fluctuated narrowly around 1.99 before closing at 1.9918. Forward margins closed little changed. The cost of three months' cover was 2 5/8% p.a. and the adverse covered differential 5/16%.

Sterling gained 3/8% on both the French franc (8.48 5/8) and deutschemark (3.70) and 1/2% on the Swiss franc (3.36 3/4). The French bought $5mn.-worth of marks to contain their franc at one stage. It closed 4.2605 to the dollar and 2.2931 to the mark. The Bundesbank sold $21mn. in cover of capital exports, the mark easing to 1.8580. The Swiss sold $28mn. against capital exports and a further $48mn. in support of the franc which weakened to 1.6902. The snake relaxed to only 1 3/4% in width at the close. The Dutch took in $25mn. and the Belgians bought marks equivalent to $12mn. The Italians, however, sold $80mn. as the lira fell to 837.70. The yen closed at 198.05 in Tokyo and touched 200 in London before closing at 199.32.

Gold opened uncertainly and nervously. After business at $238 in the Far East, the price was fixed this morning at $235.10. After giving further ground to the dollar this afternoon, the later fixing was set at $233.85 but by the close, gold had recovered to $236.

Operations:	Market	+ $5mn.
	British Gas (PSB G'teed)	+ 11
	Australia	+ 8
	E.E.C.	- 8
	Sundries	- 1
		+ 15mn.

25 January 1979
J.G.H.

G2ndFE 44007

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th January 1979

A dull end to the week left the dollar fractionally easier with sterling very steady. The ERI closed unchanged at 63.3.

Sterling closed firmer at 1.9960 in New York yesterday. This morning it began at 1.9940 and traded all day between 1.9917 and 1.9953. Momentary nervousness accompanied an early commercial sale which took the pound to the lower end of the range. However, a later sizeable seller was quickly and readily absorbed. The railmen brought a brighter outlook to the afternoon but activity was subdued. Sterling closed at 1.9938. Forward discounts were lower, the three months' at 2½% p.a. The covered differential against London fell to only 3/16%.

Sterling lost ¼% to the Swiss franc (3.35¾) but was little changed against either the French franc (8.48⅛) or the deutschemark (3.69¼). The mark tended better following a modest increase in the German trade surplus in December but by the close was only a little firmer at 1.8540. The Swiss franc advanced slightly faster to 1.6840, the National Bank selling a net $21 mn. against capital exports. The snake was a little over 2% in width. The Danes took in $10 mn., the Belgians $13 mn.-worth of marks and the Dutch $149 mn., largely in cover of a loan conversion. The French franc was 4.25⅜ and the lira 837½. The Italians bought $53 mn. The yen closed at 199.15 in Tokyo and eased against the general trend in London to 199.53.

Gold was also a more subdued market and traded somewhat aimlessly. Fixings were $234.35 and $235.25.

Operations:	British Gas (PSB G'teed)	+ $8 mn.
	Interest	+ 6
	Sundries	- 5
		+ $9 mn.
	Overnight	- $2 mn.

26th January 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 29th January 1979

The improvement in the industrial outlook brought a firmer tone to sterling to-day. The dollar made further gains this morning but receded this afternoon once New York returned. Sterling's ERI closed higher at 63.4, after 63.5 at noon to-day.

Sterling closed lower at 1.9900 on Friday in New York, where one or two small sellers had a disproportionate influence on a thin market. This morning the pound opened at 1.9927 and met good, early two-way business. Despite a markedly firmer dollar, sterling fell no lower than 1.9890 and later, when a couple of large Europeans - perhaps with customer orders - came in to buy pounds, the rate firmed strongly to 1.9950. Sentiment was no doubt buoyed by the improved industrial picture but the inspired press comment on the forthcoming January reserves announcement was probably also a bull factor. This afternoon sterling met modest two-way trading from New York and remained quite firm touching 1.9957 at best before some late European selling brought a close of 1.9947. Forward margins widened slightly in response to harder sterling deposit rates. Three months' cover cost 2 9/16% p.a. at the close and the intrinsic discount was 3/16%.

Sterling gained ¼% on the Swiss franc (3.36½), ⅜% on the deutschemark (3.71⅛) and ½% on the French franc (8.52). All these closing levels were some way below sterling's best of the day. The mark eased to 1.8607 (after 1.8665) but the Swiss franc closed little changed at 1.6865 (after 1.6957). The Swiss sold $22 mn. in support of the franc and a further $5 mn. against capital exports. The French took in $40 mn.-worth of marks, their franc closing 4.27⅛ to the dollar and 2.29½ to the mark. The snake closed with a width of 2%. The Belgians at the base bought $11 mn. of marks, the Danes at the top took in $12 mn., while the Dutch in the middle mopped up $80 mn. The Italians, too, took in $83 mn., the lira easing to 841¼. The Japanese sold $24 mn. in Tokyo where the yen closed at 199.80. In London it eased to 200.05.

Gold held up reasonably well in the face of a firmer dollar. Fixings were $234.05 and $235.20.

Operations:-	Market	+ $13 mn.
	Interest	+ 23
	Sundries	- 7
		+ $29 mn.

29th January 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 30th January 1979

Sterling remained quite firm today, although the trading range, as also for most other currencies, was again very narrow. The U.S. trade figures, which showed a slight deterioration, proved mildly disappointing. Sterling's ERI rose to 63.5.

The pound closed at 1.9960 in New York yesterday. Today it opened at 1.9972 and traded throughout between 1.9945 and 1.9979, closing at 1.9958. Some sizeable selling was comfortably absorbed this morning. New York showed only modest interest this afternoon. Forward margins again widened slightly, but this time in response to some slackening in euro-dollar deposit rates. The cost of three months' forward cover was 2⅝% p.a. and the intrinsic discount fell again to ⅛%.

Sterling was a touch firmer against the deutschemark (3.71⅝), Swiss franc (3.37) and French franc (8.52⅜). The Swiss sold $118 mn. against capital exports. Their franc closed little changed at 1.6882. The French bought $28 mn. worth of marks as their franc firmed to 2.29⅜ to the mark. Against the dollar it was unchanged. The mark itself was 1.8620. The Bundesbank did not stir. The snake again finished at 2% in width. The Dutch took in a further $63 mn. The Italians, however, sold $35 mn. and the lira firmed slightly to 840¼. The yen closed at 200.30 in Tokyo and 200.43 in London.

Gold was steady for much of the day, with fixings set at $233.65 and $233.50, but succumbed to selling pressure late in the day and closed at $231¼.

Operations:	I.M.F. o/a Mauritius	+$10 mn.
	Government	+ 6
	New Zealand	- 20
	Sundries.	+ 9
		+$ 5 mn.

30 January 1979

JGH

1979/5

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ended 31st January 1979

Sterling was very firm amid the industrial troubles, gaining 0.3 to 63.5 in effective terms mainly after the weekend. The dollar once more improved without official support.

From 1.9987 at the London close on 24th January, sterling firmed at first on expectations of a rise in MLR, touching 2.000 briefly on Thursday morning. However, there was little disappointment when this hope went unfulfilled, and sterling closed on Friday at 1.9938, helped perhaps by the withdrawal of strike action on the railways. The new week opened well - the 1.9890 recorded early on Monday morning reflecting the dollar's strength rather than sterling's weakness - and the pound held up better than most currencies against a generally firm dollar to close the period at 1.9920, the market seeming to pay more attention to probable settlement of the lorry drivers' strike than to the terms and the threat of further disruption elsewhere. On balance, Mr.Rodgers' suggestion of a wage freeze, the Prime Minister's partial denial, and the Chancellor's picture of the consequences of 15% settlements appeared to have little effect. The cost of forward cover edged up to 2⅞%; however the covered differential against sterling fell slightly to 3/16% as euro-dollar and interbank sterling rates diverged.

The dollar had a good week again, improving against other major currencies despite official sales of $480 mn. The President's budget proposals were still having a beneficial effect; various remarks by administration leaders and Mr.Miller were taken well; and the increase in money supply announced late on Thursday was much as expected. The trade deficit, though up in December, and the first cut in a major bank's prime rate for over two years, caused no upset. A fall in leading indicators and the prospect of curbs on oil use if Iranian production fails to recover gave a fillip on Wednesday. The Fed. bought $180 mn.-worth of marks, yen and Swiss francs in the market. It was the yen which weakened most among the major currencies, falling 2⅛% to 201.97 amid further signs that the trade position is at last weakening. The Bank of Japan sold $70 mn. The German trade position looks as strong as ever, but the mark still fell 2¾ pfennigs to 1.8710 although the Bundesbank sold $250 mn. to cover capital exports. The Swiss franc behaved much the same, falling to 1.6982 after $340 mn. of support. The cross-rate against the mark hardened slightly to 90¾. Another set of favourable price statistics did not stop the French franc easing 1% against the dollar (to 4.2795), but the central bank gave no support; indeed they bought $140 mn.-worth of marks as their cross-rate improved to 2.28¾. The lira lost less than 1%, to 842½, despite another political crisis; the central bank bought $140 mn. In the snake, the Danish crown (5.16¼) and the Belgian franc (29.36 after a cut in administered interest rates) stayed at the extremes. There was little real pressure: the Danes bought $40 mn. and the Belgians $50 mn.-worth of marks. The Dutch (whose guilder closed at 2.0167) bought $390 mn. in the market, some of it apparently to cover a conversion of borrowing proceeds. Disappointing trade figures pushed the Canadian dollar (83.51 after 83.47) to a post-war low. The main European currencies weakened against sterling, the mark by 4 pfennigs to 3.72¾, the French franc by ⅜ to 8.52½, and the Swiss franc to 3.38¼.

Gold fell unevenly by $2.40 to $233.70 in moderate turnover.

31st January 1979.
PAB

RATES, ETC.

10.15 a.m. 25 January		10.15 a.m. 1 February
1.9967	£/$	1.9842
63.3	Effective exchange rate index	63.4
2 9/16% p.a.	Forward 3-months	3% p.a.
10 15/16%	Euro-$ 3-months	10⅝%
⅝% disc.	I.B.Comparison	5/16% disc.
1.8536	$/DM	1.8760
3.70⅛	£/DM	3.72¼
8.48¼	£/FF	8.53¾
198.92	$/Yen	202.65
$235.00	Gold	$232.45
1.6885	$/S.Fc.	1.7040
3.37⅛	£/S.Fc.	3.38⅛

Against the dollar, it eased to 4.2795. The Swiss franc, too

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 31st January 1979

Another balanced day's trading on the exchanges saw the pound again quiet and steady with the dollar softer this morning on interest rate considerations but buoyed later by Schlesinger's threat of oil conservation measures in the US. Sterling's ERI rose to 63.6 this morning but eased to close unchanged at 63.5.

The pound finished at 1.9963 in New York yesterday, opened this morning at 1.9965 and, after touching 1.9940 in the early exchanges, traded narrowly around the opening level through to the early afternoon. Some modest professional demand offset an outright commercial seller. This afternoon, despite some buying interest from New York, sterling eased back in orderly fashion as the dollar strengthened behind Schlesinger's statement. The pound closed at the day's low of 1.9920 and was later sold down by the Chicago IMM to 1.9870. Forward sterling saw brisk two-way business. Margins again tended wider in response to the reduction in Chase Manhattan's prime rate with the three months' at 2⅞% p.a. discount. The covered differential, however, was little changed at 3/16% against London.

Sterling gained ⅛% on the Swiss franc (3.38¼) and ¼% on the deutschemark (3.72¾) but was barely changed against a very firm French franc (8.52½). The Bank of France purchased $71 mn.-worth of marks as their franc rose to close at 2.28¾ to the mark - the first time for nearly a month that it has broken out of the 2.29-2.30 range. Against the dollar, it eased to 4.2795. The Swiss franc, too, weakened to 1.6982 and the National Bank sold a net $95 mn. in cover of capital exports. The snake again closed at 2% in width. The Danes bought $22 mn. and the Belgians $11 mn. of marks. The Dutch bought a further $70 mn. The Bundesbank did nothing in the market. The deutschemark closed at 1.8710. The lira eased to 842½ with the Banca d'Italia taking in $110 mn. to bring this about. In Tokyo this morning the yen weakened to 201.40. The Bank of Japan sold $10 mn. having yesterday shared sales of $47 mn. against yen with the Federal Reserve. In London to-day the yen closed easier still at 201.97.

Gold remained uncertain after Bergsten's speech yesterday offered no clues to the future of US gold sales. Fixings were $233.05 and $233.70. After more than one abortive attempt to break into a higher range, the metal again traded lower towards the close.

Operations:	Market	+ $ 6 mn.
	British Gas (PSB G'teed)	+ 12
	Mauritius	- 10
	Sundries	+ 4
		+ $12 mn.
	Overnight	- $6 mn.

The result for January is a reserve increase of $564 mn. after net public sector borrowing of $122 mn. and an SDR allocation of $367 mn. The overbought forward position was increased by $290 mn. to $862 mn.

JGH

31st January 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st February 1979

After an uneasy start - prompted perhaps by the size of the UK's potential lost exports to Iran - sterling escaped relatively unscathed this afternoon when the Chicago IMM bid heavily for dollars on a broad front. The ERI fell to 63.4.

The dollar continued to firm in New York yesterday and sterling closed there at 1.9865. This morning it opened at 1.9860 and eased back in the first hour as the dollar strengthened on Blumenthal's overnight statement. The pound, in concert with the French franc, was noticeably softer than most other currencies, following the focus on the impact of reduced Iranian imports. By noon, however, sterling had steadied on modest two-way commercial interest. In mid-afternoon the dollar was striding ahead but sterling was little affected. The rate was marked back to 1.9799 and closed at 1.9800. Forward margins again widened, the three months' now to 3% p.a. discount. Eurodollar deposits, however, were firmer and, as a result, sterling's intrinsic discount rose to ⅛%.

Official intervention was unusually heavy and was, for the most part, in support of the currencies. The Federal Reserve yesterday bought $70 mn.-worth of deutschemarks, $20 mn.-worth of Swiss francs and $55 mn.-worth of yen and the Bank of Japan matched this by selling $55 mn. in New York. This morning in Tokyo the yen eased to 202.30 and the Japanese sold a further $52 mn. Despite the softness of the French franc the Bank of France persisted in buying marks - $129 mn.-worth in all - and eased the cross-rate back up to 2.29⅜. Against the dollar it eased to 4.32⅛; $55 mn. were swapped out. The deutschemark weakened to 1.8840 and fell almost to the bottom of the snake despite sales of $175 mn. by the Bundesbank. This caused the snake to extend to its full width and the regent Danes took in $22 mn. and $9 mn. of Belgian francs. At the tail the Belgians sold a mere $1 mn. of kroner, while buying $11 mn. of marks. The florin continued relatively firm and the Dutch bought a further $20 mn. Elsewhere, the Swiss sold $154 mn. in support of the franc and a further $9 mn. against capital exports. The franc eased to 1.7090. The Italians bought only $16 mn. The lira was 846¼.

Gold retained its recent poise this morning with a fixing at $232.40 but fell away before the dollar's renewed strength this afternoon and could fix no higher than $229.35.

Operations:		
	Market	- $2 mn.
	New Zealand	- 10
	British Gas (PSB G'teed)	+ 8
	Sundries	- 4
		- $8 mn.

JGH

1st February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 2nd February 1979

Sterling caused no great excitement on the exchanges today, the effect of the January reserves announcement having already been dissipated by Monday's press reports. The dollar continued to advance but buyers seemed restrained this afternoon by the apparent over-eagerness of Central Bank sellers. Sterling's ERI was unchanged throughout at 63.4.

The pound closed a little better at 1.9830 in New York yesterday. This morning it opened at 1.9802 and traded all day between 1.9778 and 1.9803, closing at 1.9794. Modest two-way activity was the order of the day. Forward margins continued wider as sterling deposit rates moved firmer. The cost of three months' forward cover was 3 5/16% p.a. and the intrinsic discount was 7/16%.

Sterling was marginally better than each of the Swiss franc (3.38¼), French franc (8.56¼) and deutschemark (3.73¼). Only the deutschemark - which closed at 1.8856 - was supported in size, the Bundesbank selling $250 mn. to follow Federal Reserve sales of $30 mn. for deutschemark yesterday. The US authorities sold $39 mn. against yen, too, as did the Bank of Japan. In Tokyo this morning, however, the Japanese were idle and the yen firmed to 202.30 advancing further to 201.52 in London. The snake was well-stretched at times, though closing at less than 2% in width. The Danes bought $49 mn. and the Belgians sold $9 mn. of kroner. Elsewhere, the Swiss franc was 1.71⅛ and the French franc 4.3255. The French bought $68 mn.-worth of marks. The lira eased slightly to 847.45: the Italians took in $12 mn.

Gold was soft for much of the day, fixing at $229.90 and $230.30, but firming slightly towards the close.

Operations:	Ireland	+ $109 mn.
	British Gas (PSB G'teed)	+ 12
	Sundries	- 1
		+ $120 mn.

2nd February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th February 1979

A very active day in gold and foreign exchange markets. The dollar's correction, which was begun on Friday and was by no means unexpected, was hastened and accentuated by a massive upward movement in the price of gold. Sterling met good demand early this morning but lagged well behind the other major currencies this afternoon and the ERI closed lower at 63.3.

The pound closed little changed at 1.9790 in New York on Friday although the dollar was already showing a somewhat softer tone. This morning, the dollar was well offered in the Far East, especially against the yen, and moved generally lower the moment European markets got under way. Sterling began at 1.98 and advanced steadily on good general demand, largely from the professional operators, to a peak of 1.9890. This afternoon, though the dollar's fortunes continued to deteriorate, sterling was subdued. The Wholesale Price Index had little noticeable impact and, when the dollar was sold down again towards the close, sterling rose to 1.9892 before finishing the day at 1.9883. Forward margins were little changed. Despite substantially higher sterling deposit rates, eurosterling was well offered. Three months' forward cover cost 3⅜% p.a. at the close and the intrinsic discount came back to ¼%.

Sterling lost ⅝% to each of the deutschemark (3.71) and French franc (8.51¼) and ¾% to the Swiss franc (3.36¼). Substantial support for the dollar was given only in Italy where the authorities bought $127 mn. as the lira firmed to 842¾. The French bought $21 mn. and swapped out $10 mn. Their franc was 4.2815. The Swiss sold $27 mn. (net) against exports of capital, their franc firming to 1.6915. The deutschemark was 1.8654 and at times this morning sat at the bottom of the snake. The band was stretched at times and the Belgians sold a few kroner while the Danes bought $14 mn. The closing width was 2⅛% with the Belgian franc and Danish krone again the outriders. The yen closed at 201.75 in Tokyo and 199.85 in London.

Gold began a spectacular advance in New York on Friday which was furthered in the Far East this morning. Events in Iran, Saudi plans to reduce oil production and rumours of an oil for gold agreement between Saudi Arabia and South Africa lit the fuse on a market which was technically oversold. The bullish tone in other metal markets and the approach of another IMF auction were other factors which made for a steady rise in the price throughout the day, a movement which both contributed towards the dollar's demise and itself fed off it. Fixings were $238.80 and $243.10 and the price closed at $246½, an increase of over $16 on Friday afternoon's fixing.

Operations:	Market	+ $7 mn.
	New Zealand	+ 11
	Sundries	+ 4
		+$22 mn.

5th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th February 1979

Hefty support by the Federal Reserve yesterday and prompt, though modest intervention by the Bundesbank this morning made for calmer exchanges today and the dollar closed only modestly easier. Sterling met good demand again this morning and, with the banking statistics causing hardly a ripple, the ERI closed firmer at 63.4. Gold set a new record fixing price.

The pound closed in New York at 1.9931 yesterday and opened this morning at 1.99. Despite several attempts, the market seemed reluctant to sell the dollar down on the opening exchanges and sterling did not advance very far. Eventually, strong interest in pounds developed from several Continental centres and sterling advanced to 1.9965. This afternoon the dollar gained generally as New York took profits on yesterday's sales. Sterling, however, fell no lower than 1.9922 and, despite the banking statistics, advanced from there to close at 1.9938. Forward margins narrowed slightly, the three months' to 3¼% p.a. discount. A covered differential of 5/16% showed against London.

Sterling was unchanged on the Swiss franc (3.36¼) and gained ⅛% on the deutschemark (3.71⅛) and ⅛% on the French franc (8.52⅞). The Swiss, however, sold $105 mn. (net) in cover of capital exports to bring their franc to 1.6870. The Germans bought $30 mn., the deutschemark also firming a touch to 1.8627. The Bank of France, however, bought $66 mn.-worth of marks to keep the cross-rate around the closing 2.29⅝. The franc was 4.2772 to the dollar. The snake closed at 2% in width though the Belgians and Danes respectively sold and bought each others' currencies in a very modest way. The Dutch, too, bought $15 mn. The Italians sold $28 mn., although the lira firmed to 839.30. The yen closed at 198.95 in Tokyo and 199.37 in London.

Gold eased back this morning to fix at $242.55. This afternoon, at an active session which lacked any decisive trend, the price was fixed at a record $244.50.

Operations:	Market	+ $17 mn.
	Interest	+ 6
	British Gas (PSB G'teed)	+ 2
	Brunei	- 10
	Sundries	+ 2
		+ $17 mn.

6th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th February 1979

The dollar suffered further agonies this morning as the Iranian situation, both in fact and rumour, continued to unsettle markets. This afternoon, albeit at lower levels, the dollar seemed to have stabilised but, after the close in London, Schlesinger's publicised view - given to the Senate Energy Committee - that events in Iran may prove more serious than the 1973 oil embargo, sent the dollar spinning again. Sterling once more met very strong demand, partly, it was clear, on interest rate expectations but partly now from commercial sources too. The ERI advanced to 63.5. Gold hit new highs.

The pound closed in New York at 1.9992 where the dollar was generally lower despite further sizeable intervention by the Federal Reserve. This morning sterling began at 2.0015 and was soon bid up strongly by commercial and professional interests as the dollar continued to sag world-wide. Only after a one-cent rise did the market pause for breath as the combined weight of official intervention began to tell. This afternoon, the pound traded quietly around 2.01. A single push from New York took the dollar yet lower and sterling touched 2.0126 before closing at 2.0121. After the close in reaction to Schlesinger's statement, sterling traded up to 2.01¼. Three months' cover cost 3 3/16% p.a. at the close and, with sterling deposits still firmer, the intrinsic discount fell to 3/16%.

Sterling lost ⅛% to both the French franc (8.51½) and deutschemark (3.70¾) and ½% to the Swiss franc (3.34⅜). Yesterday the Federal Reserve bought $126 mn., largely against deutschemarks. Today the Bundesbank bought $90 mn. and the Swiss $44 mn. (net). The franc was 1.6617 and the mark 1.8425. The French did nothing and their franc, somewhat soft this morning, closed at 4.2330. The snake widened to 2 3/16% at the close. The Danes bought $26 mn. and the Dutch $10 mn. The Italians took in $127 mn. with the lira at 834.05. The yen closed at 197.60 in Tokyo, the Bank of Japan buying a token $1 mn. In London the yen firmed to 196.22.

Gold reflected the dollar's changing fortunes, with today's IMF auction a further bull factor. Each fixing set a new record, at $249 and $251.60, and the closing level was $252½.

Operations:	Market	+ $120 mn.
	British Gas (PSB G'teed)	+ 4
	Sundries	+ 5
		+ $129 mn.

7th February 1979.
JGH

SECRET

1979/6

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 7th February 1979

Sterling once more shrugged off gloomy industrial news, closing unchanged at 63.5 after 63.3 at times. The dollar was in good form before the weekend, but then came under pressure and needed substantial support again.

From 1.9920 at the London close on 31st January, sterling eased at first against a stronger dollar. The pound then moved narrowly in a quiet market on Friday, closing at 1.9794. The reserves announcement came as no surprise following earlier press reports. After the weekend, sterling advanced steadily as the dollar retreated, passing through 2.00 in New York on Tuesday and topping 2.01 in London trading on Wednesday as good professional and commercial demand carried the rate to a best level of 2.0126: the market seemed undismayed by industrial strife, the level of settlements, and the Government's discomfiture; and neither wholesale prices nor the banking statistics caused any but the mildest upset. A substantial amount was taken into the reserves. The pound closed the period at 2.0121. The cost of forward cover increased, from 2⅞% to 3 3/16%; however, interbank sterling rates outstripped euro-dollars to leave the covered differential against sterling unchanged at 3/16%.

The dollar started the period with further gains against most major currencies. Money supply showed a large and unexpected fall; the President's budget proposals were still having a favourable effect; and some remarks by Mr.Blumenthal about the dollar and inflation seemed to impress the market. Leading indicators fell, and the difficulty Iranian banks are having in making disbursements apparently compelled commercial buying of dollars to cover earlier forward sales. After the weekend, however, the mood changed. Political developments in Iran became more disturbing; a lot of cancelled defence orders were with American suppliers; and the market seemed to dislike the revelation that the Bundesbank have been selling dollars. The dollar quickly fell in most centres, despite hefty support. After $700 mn. of sales on Thursday and Friday, central banks bought $1,260 mn. after the weekend. On balance, the Fed themselves bought $560 mn., as usual mostly against marks - indeed they sold dollars against yen before the weekend. Transactions by other central banks cancelled out. The Bank of Japan bought yen, to the extent of $100 mn.-worth; and the yen appreciated most among the major currencies, by 2.9% to 196.22, having earlier weakened most. Curbs on inflows were further eased. The Swiss also bought a substantial amount of their own currency ($210 mn.-worth), as it appreciated 2⅛% to 1.6617. The mark lagged slightly, gaining 2¾ pfennigs to 1.8425; the Bundesbank bought over $300 mn.-worth. The French were also heavy buyers of marks ($260 mn.-worth), and they bought $20 mn. too. Their franc gained just over 1% to 4.2330. The Italians added $260 mn. to their swelling reserves; the lira improved 1% to 834.05. The snake was mostly well-stretched, the Danish crown (5.10⅛) and the Belgian franc (29.06) remaining at the extremes though the mark briefly occupied bottom place. The Dutch bought $45 mn. Apart from the purchases of marks already mentioned, intervention in snake currencies was negligible. Even the beleaguered Canadian dollar improved against its neighbour, though only after touching a new post-war low of 83.17 on Thursday. The main European currencies improved against sterling this week, the mark, for example, by 2 pfennigs to 3.70¾ and the French franc to 8.51¼.

Gold had an eventful week, gaining nearly $18 in a volatile market between the afternoon fixes on 31st January and 7th February when $251.60 set a record. Talk of an oil-for-gold deal between Saudi Arabia and South Africa (later denied) and rises in other metals were bull points. Turnover was often heavy. The IMF auctioned 470,000 ounces on 7th February at an average price of $252.53; another 59,200 ounces were sold non-competitively.

7th February 1979.
PAB 7th February 1979.

RATES, ETC.

10.15 a.m.		10.15 a.m.
1 February		8 February
1.9842	£/$	2.0130
63.4	Effective exchange rate index	63.6
3% p.a.	Forward 3-months	3¼% p.a.
10⅝%	Euro-$ 3-months	11⅛%
5/16% disc.	I.B.Comparison	⅜% disc.
1.8760	$/DM	1.8427
3.72¼	£/DM	3.70 15/16
8.53¾	£/FF	8.52 1/16
202.65	$/Yen	197.10
$232.45	Gold	$252⅜
1.7040	$/S.Fc.	1.6595
3.38⅛	£/S.Fc.	3.34 1/16

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Mr.Sangster

Ian 10/2

Foreign exchange and gold markets
29th January - 8th February

I attach a note for the Deputy Governor's return.

8th February 1979.

PAB

Foreign Exchange and Gold Markets
29th January - 8th February

Sterling remained unscathed by strikes and expensive settlements. The other domestic news - January reserves (2nd February, foreshadowed by press reports earlier in the week), wholesale prices (5th February), even the banking statistics for mid-January (6th February) caused no stir. Over the period, sterling's ERI rose 0.1 to 63.4. The dollar rate improved from 1.9938 to 2.0015, with a low of 1.9780 on 2nd February and a high of 2.0177 on 7th February. The pound gained ground on the main European currencies: thus the mark softened 1 pfennig to 3.70¾ and the French franc by 0.4% to 8.51⅛. The cost of forward cover rose to 3 5/16%, but the covered margin against sterling rose only to ⅜% as domestic sterling rates outstripped eurodollars.

In the first week, the dollar continued to improve in most centres. The President's budget proposals were still helping; some remarks by Mr.Blumenthal about the dollar and inflation were well received; and the mess in Iran helped for once, apparently because the inability of Iranian banks to make payments compelled foreign exporters to buy dollars to meet forward contracts. Central banks sold $1,190 mns. in this period. The mood changed abruptly after the weekend. The market dwelt on lost US exports to Iran; the revelation that the Bundesbank had sold dollars and the US reversed some swaps with them caused upset; and a feeling that the dollar's recovery had been overdone took root. Central banks resumed their buying of dollars, roughly offsetting the earlier sales. The dollar recovered somewhat today.

The Canadian dollar's new post-war low (83.17 on 8th February - now back to 83.70) is perhaps the only other feature of note. Governor Bouey expressed optimism (and opposition to exchange control) in evidence to a parliamentary committee.

Gold has shot up in a volatile and sometimes feverish market. Talk of an oil-for-gold deal between Saudi Arabia and South Africa was a particular bull-point; Iran, the boom in other metals, and the dollar all contributed. The record fix was $254 on 8th February. This afternoon, however, the price subsided to $250½.

The first table shows a few main exchange rates; the second sets down dollar intervention; and the third summarises our own result for January and transactions for February so far.

8th February 1979.
PAB

SECRET

Table 1

Exchange rates Against the dollar	Friday 26th January	Friday 2nd February	Thursday 8th February
£	1.9938	1.9794	2·0015
DM	1.8540	1.8856	1·8525
SF	1.6840	1.7112	1·6695
FF	4.2537	4.3255	4·2525
Yen	199.47	201.52	198·02
Against sterling			
DM	3.69¾	3.73¼	3·70 3/4
SF	3.35¾	3.38¾	3·34 1/8
FF	8.48⅛	8.56⅛	8·51 1/8
Yen	397¾	398⅞	396 3/8

Table 2

$ mns.
(+) means purchase of dollars

Dollar intervention (net)

Total	+ 47
of which:	
USA	+ 390 (7th February)
Germany	− 500
Japan	− 193
Switzerland	− 459
Italy	+ 378
UK	+ 142

Table 3 $ mns.

EEA transactions

(i) January reserves

spot	+ 564	(to 16258)
fwd	+ 290	(to 862 overbought)
	+ 854	
of which:		
market	+ 164	
customers	+ 392	(Saudi Arabia + 101, Ireland + 150)
govt., interest, etc. (net)	- 200	
PSB (net)	+ 122	
SDR allocation	+ 367	

(ii) February so far

total	-30	
of which:		
market	+127	
govt., interest, etc.	-250	
PSB	+ 36	
customers	+ 57	(Ireland + 109)

end-month projection (c.o.b. today)

spot reserves	forward book	total
+ 99	+ 733	- 30

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th February 1979

Following yesterday's heavy Central Bank intervention, the dollar enjoyed a comfortable morning and then, once New York opened, staged a remarkable technical recovery, spurred by Blumenthal's promise of unrelenting official support for the dollar. Sterling did not react to the increase in MLR but fell sharply in response to the better dollar. The ERI, which had risen to 63.6 by midday, closed at 63.4.

The pound closed at 2.0152 in New York yesterday and opened at 2.0110 this morning. The opening exchanges were quiet and the dollar steady. Later, sterling ran into further professional demand, ahead of the MLR announcement, and rose to 2.0147. Following the announcement itself, the pound advanced from 2.0135 to 2.0155 but reverted as quickly to its original level. Shortly after, the dollar's revival began and sterling retreated steadily over the rest of the afternoon. Volume was light and only late in the day did Americans actively offer the pound around the 2.00 level. The rate touched 1.9987 before closing at 2.0015. Forward margins closed slightly wider, the three months' at 3 5/16% p.a. discount. The adverse covered differential rose to 7/16%.

Sterling was little changed against either the Swiss franc (3.34¼) or deutschemark (3.70⅜) but was a touch easier against the French franc (8.51⅛). Yesterday the Federal Reserve bought $220 mn. against deutschemarks, shared purchases of $86 mn. against Swiss francs with the National Bank and took in $50 mn. against the yen, while the Bank of Japan were buying $30 mn. This morning, the Japanese took in a further $20 mn. and the yen closed in Tokyo at 196.70. Thereafter, official intervention was negligible. The Italians sold $45 mn. as the lira fell to 834½. The Swiss franc was 1.6695 and the French franc 4.25⅛. The mark closed at 1.85⅛ and the snake was 2% wide at the end of the day.

Gold was a thoroughly bemused and uncertain market. Following the IMF auction price of $252.53, this morning's fix set a new record level of $254. This afternoon, however, after a long and difficult session the price was set at $250.50.

Operations:	Market	- $13 mn.
	Guyana	- 5
	National Water Council (PSB G'teed)	+ 37
	British Gas (PSB G'teed)	+ 4
	Sundries	+ 2
		+$25 mn.

8th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 9th February 1979

The dollar again showed a degree of resilience today, retaining most of yesterday's gains despite a number of potential setbacks. Sterling rode up and down in response to the dollar's movements. The ERI was unchanged at 63.4 throughout.

The pound closed at 2.0005 in New York overnight and opened somewhat uncertainly this morning at 2.0022, falling to 1.9995, as the dollar tried to move ahead again, but soon reverting quietly to the opening level. Eventually some modest professional demand for sterling decided the dollar's initial direction. The pound rose to 2.0050 but was restored to opening levels by midday. The anticipated large increase in the US Producer Price Index hit the dollar again and sterling once more saw 2.0050, if only briefly. Some ill-chosen comments by Kahn depressed the dollar once again and sterling now hit 2.0053. However, in a thin and typically week-end market, the dollar staged a final and impressive recovery and sterling fell to 2.0008 before closing 2.0021. Both deposits and forward margins were unchanged, three months' cover costing 3 5/16% p.a.

Sterling lost ⅛% to the French franc (8.50½), ¼% to the deutschemark (3.69⅞) and ⅜% to the Swiss franc (3.33⅛). The Swiss bought $46 mn. (net) and the Italians took in $40 mn. but there was no other significant intervention. The Swiss franc was 1.6640, the French franc 4.24⅝ and the deutschemark 1.8475 - all slightly firmer. The snake closed fully stretched. The lira finished easier at 836 and the yen at 198⅜ (after 197.85 in Tokyo).

Gold was a nervous and chaotic market. Having fallen $10 in New York late yesterday, the metal recovered half this loss in the Far East this morning, only to sell off again when London opened. The morning fixing was set at $243.90. New York took the price lower again but the US Producer Price Index brought a better afternoon fixing level of $246.75. By the close, however, the price had slumped again to $241.

Operations:	Market	- $7 mn.
	Ireland	+ 60
	India	+ 6
		+ $59 mn.
	Overnight	+ $4 mn.

9th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th February 1979

The dollar again refused to lie down today. After a savage marking-down this morning on account of developments in Iran, it rebounded strongly with little support and despite the absence on holiday of the Federal Reserve. Sterling was a happy exception to the general trend. The ERI rose to 63.5, after 63.6 at noon.

The pound closed quietly at 2.0017 in New York on Friday. This morning it began at 2.0115 as the dollar was generally marked down. However, while cheap buying of dollars soon developed, sterling itself advanced on some reasonable professional interest and touched 2.0133 before settling around the opening level. This afternoon, although most US markets were closed for Lincoln's Birthday, the dollar strengthened further. Some of this morning's buyers cut their losses in pounds and sterling sank to 2.0007. By the close, however, it had recovered to 2.0030. Forward margins finished little changed, the three months' at 3 5/16% p.a. discount. The adverse covered differential was ⅛%.

Sterling gained ¼% on each of the Swiss franc (3.33¾) and French franc (8.51⅞) and ⅜% on the deutschemark (3.71⅜) which suffered both from commercial selling and from bearing the brunt of what little support the dollar was given. The Bundesbank bought $25 mn. and the mark closed at 1.8540. The Swiss sold $15 mn. against capital exports and $7 mn. in direct support of their franc which closed only slightly easier at 1.66⅝. The French franc was 4.2532 and it, too, gained on the mark to 2.2940. The Italians sold $25 mn. as the lira eased to 835¼. The snake contracted, as the dollar strengthened, to under 2% in width at the finish. With Tokyo also closed, the yen weakened in London to 199.47.

Gold was again a chaotic market. Having once more topped $250 in response to developments in the Middle East it fixed at $249.60 at the morning session. This afternoon, with the New York Comex open, further selling developed and the price was fixed at $244.25.

Operations:	Market	+ $15 mn.
	Interest	+ 7
	Iraq	+ 6
	BIS	+ 5
	Government	- 12
	Sundries	+ 8
		+ $29 mn.

12th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 13th February 1979

Rapid recognition of the Khomeini regime in London and elsewhere cast the dollar in a different light today and further fuelled its recovery. However, rumours that the Federal Reserve were restricting its advance and a later repetition by Schlesinger of his erstwhile fears for U.S. oil supplies brought a reversal. Sterling performed as well as most others and the ERI closed unchanged at 63.5.

The pound opened at 2.0020 this morning and, after comfortably absorbing some early Swiss selling, was bid up to 2.0050 on good professional demand. This movement took the dollar generally easier, but by late morning, it was on the mend as the market turned to focus on the impact of the Iranian situation on German investments there. Sterling was additionally depressed by an untimely commercial seller. This afternoon, with New York returned from a long weekend, the dollar advanced rapidly and sterling fell swiftly to 1.9903. Rumours of Federal Reserve intervention - though probably untrue - were sufficient to spark a fundamental turn and the pound recovered to close at 1.9968. Later, in a thin market, Schlesinger's intervention took the dollar sharply lower and sterling saw business at 2.0055. Forward margins narrowed substantially when the rise in clearing bank base rates proved less than expected. The cost of three months' cover fell over ½% to 2¾% p.a and, despite considerably softer sterling deposit rates, the covered differential against London was only ⅛%.

Sterling gained a further ¼% on the Swiss franc (3.34⅜) and French franc (8.53½), but was unchanged on the deutschemark (3.71⅜). The Swiss saw $61 mn. (net) in cover of capital exports as their franc eased to 1.6747 (later 1.66½), but the Bundesbank were idle. The deutschemark was 1.8597 and the French franc 4.2745. The snake widened to 2⅛% in width; the Danes took in $10 mn. The Italians, however, sold $62 mn. as the lira eased to 839.55. The yen closed in Tokyo at 199.15 and in London at 199.80.

Gold was again very volatile. In a relatively steady morning session, the price was fixed at $244.00. This afternoon, however, the New York Comex was again bearish and the fixing in London was $240.60.

Operations:	Market	+ $ 2mn.
	Interest	+ 14
		+ $ 16mn.
	Overnight	+ $ 2mn.

13 February 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 14th February 1979

The dollar's recent suitors turned fickle to-day and, after some further initial flirtation, it was eventually left rejected. Sterling, however, continued to attract a following, although the market generally lacked heart. The ERI rose to 63.7.

Following Schlesinger's statement yesterday, sterling touched 2.0082 in New York before soothing words from Chairman Miller brought a better balanced close at 2.0007. This morning, with the announcement of a further issue of Carter bonds in Germany providing further support for the dollar, sterling began at 1.9962 and traded down to 1.9952 on the opening exchanges. Selling of dollars in Germany in mid-morning spurred a revival and sterling advanced steadily throughout the day. The trade figures and earnings statistics had no immediate impact but late in the day, as the dollar sagged again, sterling was bid up sharply in a thin market to close at 2.0055. Forward margins narrowed further in line with a further easing in inter-bank sterling deposits. Three months cover cost 2 9/16% p.a at the close.

Sterling advanced by 1/4% on the deutschemark (3.72 1/4), 3/8% on the French franc (8.56 7/8) and 5/8% on the Swiss franc (3.36 3/8). Intervention was minimal, the Germans buying $23 mn and the Italians $101 mn. This morning in Tokyo the Bank of Japan sold $29 mn as the yen fell to 200 3/4 following a large Japanese trade deficit in January, in London it recovered partly to 200.22. The mark was 1.8545 and the Swiss franc 1.6770. The French franc was 4.27 1/4 and fell to 2.30 1/8 to the mark. The snake closed at a little over 2% in width.

Gold recovered somewhat as the dollar turned easier. Fixings were $237.60 and $240.65.

Operations:	Market	+ $ 40mn.
	Botswana	+ 5
	Sundries	+ 4
		+ $ 49mn.
	Overnight	+ $ 22mn.

14 February 1979

JGH

SECRET

1979/7

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 14 February 1979

Sterling put up another good performance, improving 0.2 in effective terms to 63.7 after 63.4 at times. The dollar, though volatile, gained in most centres with very little official support.

Expectations of a rise in MLR brought sterling into early demand which carried the rate to 2.0155 shortly after the announcement. The gain was not sustained, however, and sterling fell sharply against a stronger dollar on Thursday afternoon although the announcement about revaluing the reserves appeared to give brief support. The pound regained some ground on Friday as the dollar turned for the worse, but then eased to close that afternoon at 2.0021. Sterling opened nearly a cent higher after the weekend, again reflecting a weak dollar, and its subsequent course was dominated by the dollar's vicissitudes, 1.9903 being seen briefly on Tuesday afternoon before the close of 2.0055 on Wednesday. The increase in bank interest rates was expected after MLR; other U.K. economic news - the CGBR, wages and earnings, retail sales and production, the confused trade figures, the pact between the TUC and the Government - had little or no effect. The labour scene appeared more settled. The cost of forward cover shrank to 2 9/16%; the covered differential against sterling closed unchanged at 3/16%.

The dollar suffered considerable changes of fortune. Economic news was mixed - producer prices up sharply, but money supply reduced again - leaving the field to numerous statements by Administration leaders. Thus the dollar rallied when Mr.Blumenthal promised unrelenting support, weakened when Mr.Schlesinger stressed the seriousness of developments in Iran and Mr.Kahn dramatised the rise in consumer prices, but improved when Mr.Miller echoed Mr.Blumenthal's words and promised continued monetary restraint. Against this background, with Iran in turmoil and the threat of another OPEC meeting to raise oil prices, the dollar managed to show gains on balance against other major currencies, without much official support. The yen was the softest, losing 2% to 200.22 despite a small amount of support from the Bank of Japan and the Fed. Trade weakened in January. The chief continental currencies all eased ¼-1%. The mark closed ½% ~~pfennigs~~ down at 1.8565: the January increase in wholesale prices was unusually large, and doubts were expressed for the safety of German investments in Iran; Dr.Emminger reaffirmed the primacy of monetary control. A further issue of Carter bonds in marks was announced. The Swiss franc lost 0.9% to 1.6770. Mr.Leutwiler expressed satisfaction with the present level; the SNB bought $60 mn. Italian intervention balanced out this week; the lira fell ¾% to 840.20. The French franc moved in similar fashion, closing at 4.27¼ (slightly weaker at 2.30⅜ against the mark) without intervention. The Danish crown (5.14½) and the Belgian franc (29.26) stayed at the extremes of the snake. The guilder, still comfortable in mid-snake, closed at 2.0080. Intervention in member currencies was negligible. The main European currencies eased against sterling, the mark, for example, closing 0.4% lower at 3.72¼ and the French franc over ½% down at 8.56⅞.

Gold was nervous and volatile. A record of $254 per oz. was set at the morning fix on Thursday, but gold then reacted to $237.60 on Wednesday morning before recovering to $240.65 to show a fall of $11 on the week.

14 February 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
8 February		15 February
2.0130	£/$	2.0057
63.6	Effective exchange rate index	63.6
3¼% p.a.	Forward 3-months	2⅜% p.a.
11⅛%	Euro-$ 3-months	10 15/16%
⅜% disc.	I.B.Comparison	3/16% disc.
1.8427	$/DM	1.8502
3.70 15/16	£/DM	3.71 1/8
8.52 1/16	£/FF	8.53 9/16
197.10	$/Yen	200.00
$252⅜	Gold	$245½
1.6595	$/S.Fc.	1.6670
3.34 1/16	£/S.Fc.	3.34⅜

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 15th February 1979

There were few movements of any great significance on the exchanges today. The dollar recovered the best part of the ground lost in New York overnight, but still seemed rather less confident than of late. Sterling was sold from the Continent this morning, as dealers focussed on the prospect of an early election; the ERI thus finished lower at 63.6.

The pound closed at 2.0093 yesterday in New York where the dollar was generally softer. This morning with the dollar a little better, sterling began at 2.0052, but saw 2.0085 in early dealings when the dollar sagged on news of O.P.E.C. price increases. Later the pound was sold from both Switzerland and France on what seemed to be a typical bout of pre-election jitters. Sterling eased to around 2.0050 and was back to 2.0024 by midday as the dollar picked up a little. New York returned to buy back the dollar in a modest way and sterling touched 1.9992, closing comfortably, however, at 2.0037. Neither the temporary release of special deposits nor the monetary aggregates had any marked impact. Forward margins widened a little, the three months to 2 11/16 pa discount, the adverse covered differential rose accordingly to 5/16%.

Sterling lost ⅛% to the French franc (8.56), ¼% to the deutschemark (3.71¼) and ½% to the Swiss franc (3.34½). The Swiss franc firmed to 1.6690 while the deutschemark advanced only to 1.8527, the Bundesbank buying $8 mn. Not for the first time recently the cross-rate closed not far from Sw.Fcs.0.90. Conversely, the French franc - little changed on the dollar at 4.2715 - was again markedly weaker in Germany with the cross-rate beyond 2.30½ for the first time this year. Neither the French nor the Swiss intervened. The snake eased to 1⅞% in width and the Belgians took the chance to store away $11 mn. of marks. The lira was 839.45 and the yen 200.22, after 200.30 in Tokyo.

Gold recovered some of its lately lost lustre, principally on short-covering from New York. Fixings were $245.00 and $247.75.

Operations:	Government	-$42mn.
	B.I.S. o/a Nigeria	-20
	India	+ 6
	Sundries	+ 4
		-$52mn.

15 February 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th February 1979

Another inconsequential day on the exchanges with little movement in rates. The increase in US monetary aggregates did little to dent the dollar and, similarly, the discouraging UK Retail Price Index caused few repercussions for the pound.. The ERI was unchanged at 63.6.

The pound closed at 2.0030 in New York yesterday, opened at 2.0042 this morning and traded all day between 2.0012 and 2.0044, closing at 2.0034. Modest, two-way professional business characterised the early exchanges. The rest of the day witnessed three substantial commercial orders, the impact of which was largely cushioned by the official hand. Any selling was comfortably absorbed in the market. The cost of three months' forward cover was unchanged at 2 11/16% p.a.

Sterling was barely changed against the Swiss franc (3.34⅝), the French franc (8.56⅜) or the deutschemark (3.71⅛). The snake expanded to more than 2⅛% in width by the close, the leading Danes buying $19 mn., but the Belgians nonetheless took in a further $8 mn.-worth of marks. The Swiss franc (1.67) and the deutschemark (1.8534) moved in line, with the Swiss selling $13 mn. (net) against exports of capital. The French, however, showed some concern for the franc by releasing $11 mn.-worth of their accumulated deutschemarks to keep the cross-rate within sight of 2.30½. The franc closed at 4.2735 to the dollar. The lira eased slightly to 840.17 but the Italians bought $45 mn. The yen closed at 200.45 in Tokyo and 200.32 in London.

Gold had a much better-balanced day, finishing little changed overall. Fixings were $245.95 and $247.05.

Operations:	Market	+ $136 mn.
	British Gas (PSB G'teed)	+ 2
	Electricity Council (PSB repayment)	- 44
	EEC	- 14
	Sundries	+ 3
		+ $83 mn.

JGH

16th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th February 1979

A very quiet day indeed with US markets closed in honour of Washington's birthday. The dollar began the day somewhat uneasily following developments in Vietnam but soon recovered its poise. Sterling's ERI rose to 63.7.

The pound closed quietly at 2.0055 in New York on Friday and opened at 2.0062 this morning, touching 2.0085 on the early exchanges as the dollar eased. Opening levels were soon re-established, however, and sterling traded peacefully in a narrow range around 2.0050 until late in the day when a single commercial seller in London depressed the rate to 2.0023 just before the close was struck at 2.0024. Forward margins eased in line with sterling deposits. Three months' cover cost 2½% p.a. at the close and sterling's intrinsic discount was 5/16%.

The pound finished around ⅛% better against the Swiss franc (3.34⅞), French franc (8.57) and deutschemark (3.71¾). The French franc was the only feature in a dull market. With the mark cross-rate having slipped beyond 2.31, the Bank of France came in to sell $19 mn. and $27 mn. of deutschemarks and restore the franc to 2.30½ by the close. Against the dollar it was 4.28. The snake was 2⅛% in width, the Belgians and Danes each buying a little exchange. The mark was 1.8565 and the Swiss franc 1.6727. The Italians bought $56 mn. and kept the lira little changed at 840.20. In Tokyo the yen closed at 200.40 and in London at 200.63.

Gold opened strongly with the price above $250 but eased steadily back over the day and was fixed at $249.60 and $248.10 - an improvement nonetheless on Friday's closing level.

Operations:	Market	+	$3 mn.
	Electricity Council (PSB G'teed)	+	186
	BIS o/a Nigeria	-	20
	Sundries	+	7
		+	$176 mn.

JGH

19th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 20th February 1979

Another quiet day on the exchanges with the weather in North America doing much to dampen proceedings. The dollar eased a little - for the most part due to reports of an impending tightening in Swiss monetary policy. Sterling improved and the ERI rose to 63.7.

The pound opened a touch easier at 2.0012 and dipped to 2.0005 before steadying around 2.0030 for the morning session. This afternoon the dollar eased when the rumours on Swiss monetary policy coincided with publication of a further fall in German reserves; sterling advanced immediately to 2.0050 and went on to touch 2.0067 before closing at 2.0047. Forward margins narrowed again as sterling deposit rates continued to fall. Three months' cover cost 2⅛% at the finish and the intrinsic discount was down to ⅛%.

Sterling was a touch easier against the Swiss franc (3.34¾) but was unchanged against the deutschemark (3.71¾) and gained ⅛% on the French franc (8.57⅜). The mark (1.8546), Swiss franc (1.6697) and French franc (4.2795) all gained modestly on the dollar. The French sold a further $8 mn. of marks as the cross-rate eased back to 2.30¾. In the snake, the Belgians took in a further $11 mn. of marks. The Italians bought $47 mn., although the lira eased to 841.50. In Tokyo, the Bank of Japan sold $70 mn. as the yen fell sharply to 201.20; in London it closed at 200.85.

Gold was again a volatile and uncertain market. Bid up again beyond $250 in the Far East this morning following postponement (on account of the weather) of the US Treasury auction, it fell again in London following rumours of a Chinese withdrawal from Vietnam. Fixings were $248.00 and $247.00.

Operations:	Market	+	$4 mn.
	BIS	+	5
	New Zealand	-	11
	Bangladesh	-	10
	Sundries	+	3
		-	$9 mn.

20th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st February 1979

Sterling rallied this morning on strong professional demand, associated, it was thought, with the new tap stocks. Most other markets were dull. The ERI advanced to 63.9.

The pound closed at 2.0040 in New York yesterday and opened today at 2.0045. After a quiet and featureless start, sterling suddenly sprang to life and was bid up strongly to 2.0092 from Continental European centres. While demand seemed to emanate from one particular Scandinavian source, it was widely assumed that the buying had been on gilt-edged account. The interest petered out as suddenly and sterling traded for the rest of the day around 2.0075, comfortably absorbing some commercial offerings and a little profit-taking from the morning's buyer. New York, still weather-bound, showed no decided trend and the pound closed at 2.0079. Forward margins widened fractionally, the three-months' to 2 5/16% p.a. discount, but, with inter-bank sterling deposits a touch firmer, interest parity was achieved.

Sterling gained ¼% on each of the deutschemark (3.72¾) and French franc (8.59⅞) and ⅜% on the Swiss franc (3.35⅞). Each of these closed marginally down on the dollar at 1.8568, 4.2817 and 1.6727. The Swiss National Bank bought $80 mn. (net) and seemed to be defending the DM 1.1100 (SF 0.90⅛) level - at which the currencies closed. The Bank of France sold a further $17 mn. of marks, ostensibly protecting yesterday's closing 2.30¾ against the mark; tonight's close was 2.30⅝. In the snake, the Danes took in $11 mn. and the Belgians $12 mn.-worth of marks. Elsewhere, however, the Swedes sold $40 mn. and the Japanese $39 mn. The yen closed at 201.70 in Tokyo and 201.75 in London. The lira was little changed at 841.65.

Gold was better again, partly on a sharply higher silver price. Fixings were $249.25 and $250.75.

Operations:	Market	+ $60 mn.
	Interest	+ 12
	Sundries	+ 4
		+ $76 mn.

21st February 1979.
JGH

SECRET 1979/8

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 21st February 1979

Perhaps helped by overseas demand for gilts, sterling again put on a good performance, improving 0.2 in effective terms to 63.9. The dollar was mixed; it received modest official support.

From 2.0055 at the close on 14th February, sterling eased at first to a low of 1.9995, apparently on fears of an early election. The money figures published on Thursday afternoon had been discounted, and the temporary release of Special Deposits had no effect. Bad price figures - the Price Commission's index and retail prices both well up - caused no stir, and sterling closed for the weekend at 2.0034. With New York on holiday, Monday was a quiet day; but sterling remained in good form, easily absorbing commercial sales and benefitting from some demand to buy gilt edged. The rate closed the period at 2.0079 after a best level of 2.0092 earlier on Wednesday. The cost of forward cover eased to 2 5/16%, so, although sterling interest rates fell back, the adverse covered differential was eliminated.

The dollar was fairly steady in the market, mostly gaining a little where changed. US money supply rose sharply, after several weeks of falls or subdued growth, but Mr.Miller announced tighter targets a few days later and the news caused no damage. The economy seems to be slowing down. Developments in Iran and the Far East were still unsettling but produced no net effect either way. The only upsets came from the threat of tighter monetary policy in Switzerland, from a further fall in German external reserves, and from the announcement that Abu Dhabi and Qatar will charge more for oil. Fed intervention was negligible. Apart from sterling, the Swiss franc was the only major currency to rise against the dollar, by about ¼% to 1.6727. The SNB bought $80 mn., no doubt with an eye on their cross-rate against the mark, which closed slightly harder at 90⅛. The mark itself was virtually unchanged at 1.8568. The Bundesbank sold $70 mn., again helping domestic monetary control. Transactions in marks by other central banks roughly cancelled out, but this balance included sales of $60 mn.-worth (on top of $20 mn.) by the Bank of France, who may have been concerned to keep their mark cross-rate in touch with 2.30. Pressure on rates within the EEC was whispered for the first time in a while. The franc eased ¼% against the dollar to 4.2817. The lira fell ¼% to 841.65, but the Bank of Italy bought another $170 mn. The yen was again the softest of the major currencies, falling ¾% to 201¾ despite $120 mn. of official support. Japanese trade seems to be weakening, and oil shortages and higher prices may hit Japan harder than most. The snake remained well-stretched but under no real pressure, the Danes (top) buying $30 mn. and a handful of marks and the Belgians (bottom) taking in $50 mn.-worth of marks. Their currencies closed at 5.1472 and 29.26, and the guilder at 2.0031. The Canadian dollar suffered less pressure than of late. Except for the Swiss franc, the main continental currencies fell against sterling, the mark closing ⅛% down at 3.72¾ and the French franc ⅜% lower at 8.59⅞.

Gold rose over $10 to $250¾ at the afternoon fix on 21st February. Unsettled conditions in Iran and the Far East were factors.

.2

22nd February 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
15 February		22 February
2.0057	£/$	2.0084
63.6	Effective exchange rate index	63.9
2¾% p.a.	Forward 3-months	2 5/16% p.a.
10 15/16%	Euro-$ 3-months	10 13/16%
3/16% disc.	I.B.Comparison	1/16% disc.
1.8502	$/DM	1.8560
3.71⅛	£/DM	3.72¾
8.53 9/16	£/FF	8.59⅝
200.00	$/Yen	201.22
$245½	Gold	$250.55
1.6670	$/S.Fc.	1.6742
3.34⅛	£/S.Fc.	3.36¼

morning. The yen improved to 201.20 at the close in Tokyo and 201.30

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd February 1979

Following yesterday's momentary excitement, today was relatively dull, although sterling saw some reasonable two-way interest at times. The dollar eased this afternoon, as the general gloom which is again beginning to permeate New York, cast its pall on the exchanges. Sterling's ERI fell slightly to 63.8.

Having closed at 2.0082 in New York yesterday, the pound began the day at 2.0095 and traded around 2.01 on the opening exchanges touching 2.0112 at one stage. Later, however, it eased to 2.0075, despite the dollar's slightly softer tone. This afternoon, as New York took the dollar down, sterling recovered to 2.0111 before closing at 2.0094. Forward margins were little changed. Three months' cover cost 2¼% p.a. and interest parity again prevailed.

Sterling lost ⅛% to both the deutschemark (3.72⅛) and French franc (8.58⅜) but was little changed on the Swiss franc (3.36). The Swiss bought $27 mn. (net) and their franc closed at 1.6717, but the French and Germans did nothing and the French franc (4.2717) closed only marginally easier against the deutschemark (1.8517). The snake contracted to under 2% in width; the Belgians bought a further $16 mn. of marks. Elsewhere, the Norwegians took in $18 mn. and the Swedes sold $44 mn. The Italians scooped up $81 mn. with the lira slightly firmer at 841.37. The Bank of Japan sold a further $49 mn. late yesterday (making $88 mn. in all) and went on to sell $113 mn. in Tokyo this morning. The yen improved to 201.20 at the close in Tokyo and 201.30 in London.

Gold met heavy buying interest ahead of the US Treasury auction. Fixings were $251.15 and $252.35 and business took place at $254.25 immediately before the auction.

Operations:	Market	+ $31 mn.
	BIS	+ 10
	Iraq	+ 10
	British Gas (PSB G'teed)	+ 8
	Interest	+ 6
	Ireland	- 40
	New Zealand	- 11
	Government	- 6
	Sundries	- 2
		+ $6 mn.

22nd February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd February 1979

Markets were featureless, steady and - for the most part - inactive. As a result there was little change in currency relationships. Sterling was aroused by successive, contrary commercial orders of similar size this morning but then relapsed into pre-weekend torpor.

In New York last night the pound had closed at 2.0103. It opened in London today at 2.0107, eased to 2.0080 on the commercial selling order, recovered on the buying order and closed at 2.0105 (after 2.0108). Forward margins responded to an easing of interbank sterling rates but Eurodollars were inclined bid. On a reduced cost of three months' cover of 2 1/16% p.a. an adverse differential of 1/16% re-emerged for the pound.

Sterling crept up marginally in other European centres where there was little need for any intervention - the snake was only 1 13/16% wide at the close, between the Belgian (29.20) and Danish (5.14½) currencies. The deutschemark scarcely moved all day, ending at 1.85½, the French franc (4.2722) remaining comfortably yoked to it around 2.3070. The Swiss franc closed at 1.6710, the lira 840.95 and the yen 201½. (The Swiss reported a revised figure for yesterday: they sold a net $267 mn. for capital exports.)

Gold traded only modestly in the aftermath of the latest US auction when 1 mn. ounces of normal quality gold were sold at an average price of $252.35. Today's fixings were at $252.10 and $251.

Operations:	Market	+ $30 mn.
	Brunei	- 24
	Government	- 14
	Sundries	+ 5
		- $3 mn.
	Overnight	+ $4 mn.

23rd February 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th February 1979

Sterling performed very strongly today with broad-based demand from all quarters. No special factors were cited. The dollar was again a little softer as a reported increase in Venezuela's oil prices combined with continuing uncertainty in Indo-China to depress the currency. Sterling's ERI rose from 63.9 to 64.2.

The pound closed at 2.0144 in New York where the dollar weakened following a rumour that the Chinese had shelled Soviet ships in Haiphong. This morning the dollar began again with a soft undertone: sterling opened at 2.0134, touched 2.0125 and excited no more than modest demand, principally from Scandinavia, on the opening exchanges rising to 2.0146 as a result. Later, however, another keener burst of professional activity from similar sources took the pound on to 2.0163. The rest of the morning was quiet but early this afternoon commercial interest was engendered, for the most part in London and sterling advance to 2.0190. New York returned to sell the dollar - with Venezuelan oil prices making headline news in their press - and sterling proved an obvious target. Strong, general demand from both sides of the Atlantic persisted throughout the afternoon and the pound rose to 2.0215 before closing at 2.0212. Such was sterling's strength that forward dates out to three months commanded a small intrinsic premium throughout the day - doubtless on immediate interest rate expectations. Three months' cover cost 1¼% p.a. at the close.

Only the Swiss franc (3.35⅞) kept pace with sterling. Elsewhere gains of around ¼% were made against both the French franc (8.61⅛) and deutschemark (3.73). The French franc again looked weak and closed just inside 2.31 to the mark after sales of $42 mn.-worth of marks by the Bank of France. Against the dollar, the franc was 4.2620 the mark 1.8452 and the Swiss franc 1.6617. The Swiss sold a net $11 mn against capital exports. The snake widened to almost 2⅛%; the Belgians took in $9 mn. of marks. The Italians bought $27 mn. with the lira closing at 840.05. The yen finished at 202.05 in Tokyo and 201.85 in London.

After a steady morning session with a fixing at $250.30, gold sold off this afternoon despite the easier dollar. The later fixing was $248.60.

Operations:	Market	+ $194 mn.
	Interest	+ 23
	Brunei	- 15
	Sundries	+ 5
		+ $207 mn.
	Overnight	+ $12 mn.

26th February 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th February 1979

With inappropriate impenitence buyers bid keenly for pounds again during the first two hours of trading today but the chance of quick profits was some temptation to others and the rising tendency was battered down from mid-morning onwards. This afternoon the dollar improved on profit-taking but the pound held on to its gain in Europe and the ERI rose to 64.3.

There was little activity in New York last night and the pound closed there at 2.0216. It opened firmly today at 2.0237 and rose rapidly to 2.0273, in spite of intervention, with buying interest widespread (including some commercial names). The reversal began gently at first but accelerated when New York opened. The closing rate was 2.0220, after a low of 2.0215. Forward margins edged a touch higher, at 1⅛% for 3 months, and a covered differential against London emerged again - at ⅛% - as sterling interbank rates shaded easier.

Sterling was firm in Europe, rising to 3.74¼ in Germany, 3.37⅛ in Switzerland and 8.63⅜ in France. The dollar eased this morning but by the close had recovered close to pre-weekend levels. There was no tension in the snake which finished about 1 13/16% wide, between the Belgian franc (29.23) and Danish krone (5.15½); the deutschemark ended at 1.8513, having firmed to 1.8420 shortly after the opening. Although the French franc improved against the deutschemark to about 2.3066, the Bank of France sold deutschemarks equivalent to $5 mn. Against the dollar the franc stood at 4.2702. The lira was quiet, closing at 8.40½; the Swiss franc easier, at 1.6680; and the yen steady at 202.

Gold was tossed up and down in a wayward market but fixed at $247.80 and $247.90.

Operations:	Market	+ $72 mn.
	Interest	+ 11
	Iraq	+ 10
	Ireland	- 51
	Brunei	- 16
	Sundries	- 2
		+ $24 mn. of which -54 for February

27th February 1979.
DAHB

D.A.H.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th February 1979

Sterling began strongly again this morning, with the miners' settlement adding further to the healthy tone. By mid-morning, however, after another sizeable inflow, the market had relapsed into end-month torpor and the rest of the session was quiet. Sterling's ERI touched 64.4 this morning but closed unchanged at 64.3.

The pound closed at 2.0225 yesterday in New York where the dollar closed generally a little easier. This morning, the dollar opened lower still and sterling was marked up to 2.0260. Sizeable, broad-based interest in pounds again characterised the early exchanges and business took place up to 2.0280. At that point, however, the pace slackened and profit-taking set in, partly as the dollar began to recover and partly, it seemed, as operators perceived the strength of the official hand. The pound retreated in orderly fashion and settled to trade around 2.0225 for the rest of the day, touching 2.0223 this afternoon before closing at 2.0232. As inter-bank sterling deposits opened much softer, forward margins narrowed and, while deposits had firmed somewhat by the close, finished around the day's lowest levels. Three months' cover cost 1⅝% p.a. and the intrinsic discount was 1/16%.

The pound finished with small gains on each of the Swiss franc (3.37⅜), French franc (8.64⅛) and deutschemark (3.74½). The French supported their franc as it eased this morning but reversed their operations later when the market turned for the better. The franc closed at 4.27⅛ and was barely changed against the mark. The Swiss sold $27 mn. (net) against capital exports: their franc closed at 1.6672, gaining a fraction on the mark (1.8514). The Danish krone weakened dramatically on the threat of widespread strikes and closed at 5.1910 after official sales of $52 mn. by the Danish National Bank. As a result, the snake contracted to only 1⅛%, with the Belgian franc at 29.24. The Belgians bought $16 mn.-worth of marks. The Italians took in $35 mn. as the lira firmed slightly to 839.85. The yen closed at 202.35, both in Tokyo and London.

Gold opened firmer and made several attempts to improve further over the day. Fixings were $250.90 and $251.30 and the market traded higher while remaining nervous at the better levels.

Operations:	Market	+ $74 mn.	
	Ireland	- 50	(for February)
	Interest	+ 5	
	Sundries	+ 4	
		+ $33 mn.	

The result for February is a reserve increase of $359 mn. after net public sector borrowing of $186 mn. The overbought forward position was increased by $186 mn. to $1,048 mn.

28th February 1979.
JGH

SECRET 1979/9

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 28th February 1979

After a quiet start, sterling met good demand after the weekend and gained 0.4 in effective terms to 64.3. The 64.4 recorded on Wednesday morning was the best since last March. The dollar eased a touch in most centres.

From 2.0079 at the London close on 21st February, sterling drifted up at first in a quiet market to 2.0105 on Friday evening. Despite the strength of the gilt-edged market, the pound attracted little special interest and indeed lost some ground to most other currencies. By Monday afternoon, however, sterling was in strong demand, which lasted, with bouts of profit-taking, for the rest of the period. The market was seemingly impressed with gilt sales and the implication for monetary control, and saw higher oil prices as a bull-point for the pound; cash limits, talk of budget cuts, and the relatively painless agreement with the miners' union, may have helped. The rate touched 2.0280 on Wednesday before easing to close at 2.0232. A substantial amount was creamed into the reserves. With the cost of forward cover well down, at 1⅝%, the covered margin against sterling increased only slightly to 1/16% despite a marked fall in sterling interest rates; indeed at times sterling stood at a small intrinsic premium.

Concern about Iran, Indo-China and oil prices combined to weaken the dollar in most centres, though the pressure was not great and domestic developments in the USA were if anything helpful. Mr.Miller hinted that interest rates will stay high for a while; money figures showed a modest increase overall; and the rise in consumer prices, though high, was better than most expected. However, the US economy still seems to have plenty of steam left, although bad weather is distorting (and delaying) key statistics. The Fed intervened very little, and other central banks sold dollars on balance. Chief among them was the Swiss National Bank, which sold $280 mn. Their franc hardened over ¼% to 1.6672, influenced by rumours that they are poised to tighten monetary policy. The mark moved in line, without Bundesbank intervention or special features: it closed at 1.8514. The French franc kept pace, improving to 4.2712. Concerned about their cross-rate (around 2.30½), the Bank of France sold $50 mn.-worth of marks. The Italians continued to add to reserves - $160 mn. in the period - though their lira gained less than the other main continental currencies, closing at 839.85. The yen stayed rather soft, easing back to 202.35. The Japanese removed their remaining restrictions on foreign purchases of bonds and sold $180 mn. The snake relaxed to 1⅛% as the Danish crown in top place came under selling pressure; it closed ⅜% lower against the dollar at 5.1910, with the Belgian franc still in bottom place at 29.24. The Danes gave some support, selling $50 mn.; the Belgians bought $60 mn.-worth of marks. The Swedish and Canadian authorities supported their currencies. The major currencies eased against sterling, the mark, for example, by ½% to 3.74½ and the French franc by a similar amount to 8.64⅛.

Events in the Middle and Far East continued to influence gold, which rose $½ on balance to $251.30. The US Treasury auctioned $1½ million ounces; the gold in good delivery form fetched $252.35 per ounce on average.

1st March 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
22 February		1st March
2.0084	£/$	2.0211
63.9	Effective exchange rate index	64.3
2 5/16% p.a.	Forward 3-months	1 11/16% p.a.
10 13/16%	Euro-$ 3-months	10⅞%
1/16% disc.	I.B.Comparison	⅛% disc.
1.8560	$/DM	1.8556
3.72⅜	£/DM	3.75
8.59 5/8	£/FF	8.65 9/16
201.22	$/Yen	203
$250.55	Gold	$249.80
1.6742	$/S.Fc.	1.6765
3.36½	£/S.Fc.	3.38⅜

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st March 1979

After a shaky start the dollar recovered ground when dealers realised that the vast, apparent deterioration in the US trade account in January was not to be taken at face value. Sterling saw modest two-way business and fared rather better than most Continental currencies. The reduction in MLR was largely anticipated and was well-taken. Sterling's ERI rose to 64.4.

The pound closed much higher at 2.0283 in New York yesterday, with the dollar generally weaker following the publication of the trade figures. This morning sterling opened at 2.0260 but fell sharply on the opening exchanges as the dollar recovered quickly. Selling from Switzerland pushed the pound down to 2.0188 but it steadied around this level and rallied to trade either side of 2.0225 for the rest of the day, closing quite firmly at 2.0230. The MLR announcement caused no more than the mildest flutter. Three months' forward cover was little changed at 1 11/16% p.a.

Sterling extended its gain on the deutschemark (3.75¼) and French franc (8.65⅝) by about ¼% and made up ⅜% on the Swiss franc (3.38¾). The Bundesbank sold $80 mn. in support of the mark which, while easing to 1.8548, looked a deal more solid than the Swiss franc (1.6749) and French franc (4.2785). The French themselves sold $20 mn. but the Swiss gave up only $4 mn. (net) against capital exports. This morning, in Tokyo, the Bank of Japan sold $76 mn. to produce a close of 202.60 for the yen: in London it eased sharply to 203.59. Elsewhere, the Italians bought $65 mn., with the lira falling to 841.15, and the Norwegians took in $21 mn. In the snake, the Danish krone steadied and the band widened to a still comfortable 1⅛%. The Belgians acquired $9 mn.-worth of marks.

Gold was softer from the outset with the dollar's better tone the only factor. Fixings were $249.30 and $248.80.

Operations:	Market	+ $23 mn.
	Interest	+ 6
	Sundries	+ 1
		+ $30 mn.
	Overnight	+ $4 mn.

1st March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 2nd March 1979

A generally quiet end to the week with a sickening yen giving some comfort to the dollar. Sterling remained firm in a dull market, buoyed by one or two bulky bidders. The ERI inched ahead at the close to 64.5.

Having closed at 2.0240 in New York overnight, the pound opened at 2.0225 this morning with the dollar looking a little fitter following reductions in the monetary aggregates and a decision by Venezuela to postpone her increase in the price of oil. Sterling traded all day within sight of the opening level, never dipping below 2.0207, despite the better dollar. An early professional seller was more than matched by a substantial buying order from the Continent (switching out of Germany). Modest early interest from New York soon petered out, however, and the pound closed quietly and firmly at 2.0218. With comparative deposit rates diverging slightly, forward margins tended a little wider. Three months' cover was worth 1 13/16% p.a.

Sterling was unchanged against the Swiss franc (3.38½) and fractionally firmer versus the deutschemark (3.75½) and French franc (8.66⅛). The first two of these, however, received solid official support, the Bundesbank selling $50 mn. as the mark eased to 1.8576 and the National Bank selling $60 with the Swiss franc falling to 1.67⅞. The yen was the day's major feature: in New York yesterday, the Japanese and American central banks sold $48 mn. against yen and in Tokyo this morning the Japanese shelled out a further $60 mn. pushing the yen back up to 203.45. In London, however, it collapsed again to 205⅜ before closing at 205½. Elsewhere, the Italians took in $44 mn. and the Norwegians $16 mn. The lira eased slightly to 841.70. The snake expanded a little to 1¼%: the Belgian franc (29.41) and the Danish krone (5.1897) continued at the outer edges. The Belgians bought $8 mn. of marks.

Gold was much steadier, easing gently in the face of the advancing dollar. Fixings were $248.70 and $248.00.

Operations:	Market	+ $75 mn.
	Ireland	- 40
	Sundries	+ 17
		+ $52 mn.

2nd March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th March 1979

The dollar continued very firm today but failed to hold this morning's best levels following support by the major Central Banks for their currencies. Sterling saw little business but obstinately refused to give ground, the ERI closing unchanged at 64.5.

The pound closed at 2.0190 in New York on Friday and opened still lower at 2.0174 this morning. With the dollar very firm on the opening exchanges, sterling dipped to 2.0160 and traded on around the opening level for some time. Eventually, however, the dollar succumbed to profit-taking and the pound advanced - first to around 2.02 and then, on a modest show of pre-prandial appetite from the Continent - to 2.0225. The afternoon session was passed in the higher reaches - though New York displayed no decided inclination - and sterling touched 2.0228 before closing at 2.0219. Forward margins widened a little despite some easing in inter-bank sterling rates. The cost of three months' forward cover was 1 15/16% p.a. and the intrinsic discount 5/16%.

Sterling gained 1/8% on both the French franc (8.67⅛) and deutschemark (3.76) and ⅛% on the Swiss franc (3.39½). The Swiss sold $71 mn. in support and $71 mn. in cover of capital exports. Their franc eased to 1.6785 (after 1.6827). The Bundesbank sold $50 mn., half of which was reportedly for Federal Reserve account. The mark closed at 1.8597 (after 1.8630). The French franc kept pace without support and closed at 4.2895. The yen again suffered. The Bank of Japan shelled out $17 mn. in New York on Friday and $161 mn. this morning in Tokyo, where it closed at 205.20. Later, after easing to 205.57 it recovered in London to 204.60. The snake closed a little over 1½% in width - still very relaxed - with the Danish krone (5.1960) and Belgian franc (29.40) at top and tail. The Belgians bought $10 mn. of marks. Elsewhere the Norwegians took in $26 mn. and the Italians $20 mn. The lira eased to 842.30.

Gold was very weak and retreated throughout the day. Having opened nearly $4 lower, it was fixed at $242.80 and $238.15 (having touched $236½ at one stage) before recovering a little towards the close.

Operations:	Market	+ $19 mn.
	Interest	+ 9
	British Gas (PSB G'teed)	+ 3
	Sundries	+ 3
		+ $34 mn.

5th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th March 1979

Sterling continued in modest but persistent demand today while the dollar eased a touch from yesterday's levels. The ERI was unchanged at 64.5.

The pound closed at 2.0229 in New York yesterday, opened at 2.0221 and quickly established a level some ¼ cent higher as the dollar weakened on the opening exchanges. A few small buyers of pounds in Paris proved the only feature. The morning session was quiet, although further demand for outright forward sterling from the Continent was in evidence, albeit without impacting on the rate. New York again seemed reluctant to take sides but in mid-afternoon solid demand for sterling emerged from several Continental European centres. Business was seen up to 2.0263 before the market relapsed to close quietly with sterling at 2.0252. Forward margins were little changed. Three months' cover cost 1⅞% p.a. at the finish and sterling's intrinsic discount was ¼%.

Sterling was unchanged on the Swiss franc (3.39½), was a touch firmer against the deutschemark (3.76⅛) and gained ⅛% on the French franc (8.68¼). Only the Swiss supported their currency, selling $24 mn in the market and a further $454 mn. in cover of capital exports (reflecting the conversion of a borrowing by a major Commonwealth country); their franc closed at 1.6760. The Bundesbank bought $6 mn., countering some commercial offering of dollars in Germany. The deutschemark was 1.8574. The French franc was 4.2870 but weakened to 2.3080 against the mark, perhaps on indications that the Agricultural Ministers had found a solution to the impasse on EMS. The Danish krone was again soft and closed at 5.1997 causing the snake to contract to 1⅜% in width. The Belgians took in $13 mn.-worth of marks, their franc winding up at 29.37. Elsewhere the lira was 841.27 and the yen 204.32. The Bank of Japan sold $8 mn. in Tokyo.

Gold was somewhat steadier and staged a modest recovery (after selling off again in New York yesterday). Fixings were $239.30 and $239.75 but the market seemed reluctant to trade much above $240.

Operations:	Market	+ $39 mn.
	France	+ 20
	Interest	+ 7
	British Gas (PSB G'teed)	+ 5
		+ $71 mn.

6th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th March 1979

Sterling's recent budding strength burst into full bloom today as buyers poured in from every quarter of the globe to stake a claim in the bonanza. American influence seemed particularly strong. The dollar was steady for much of the day - at levels a little below those of yesterday - but eventually succumbed this afternoon to sterling's strength and finished easier across the board. Sterling's ERI rose to 64.7 - its highest level for a year.

The pound closed at 2.0242 in New York yesterday. This morning it was swept up on a wave of demand from the Far East and opened in London at 2.0285 with London and Continental banks following up to take positions for themselves on the opening exchanges. The rest of the morning was relatively quiet: some professional selling of pounds came out of Switzerland and a commercial seller in London was eventually met by a buyer in Paris. Sterling retreated to 2.0265 and traded either side of 2.0270 through the morning. Around midday demand was resumed, with Middle Eastern and Continental names joining Londoners and early Americans; the pound advanced slowly towards 2.03. With New York open, buyers flooded in and sterling remained in heavy demand throughout the afternoon, touching 2.0337 before closing at 2.0334. The Balance of Payments figures were well received but were probably not a major influence. Similarly, the prospect of the EMS was not thought to be responsible. Middle East demand was clearly on investment account which, given some early speculation on another fall in MLR, probably accounted for much of the interest. Finally, there was evidently a measure of stop-loss buying from those who had earlier seen the pound much weaker this year against the deutschemark and Swiss franc. Forward margins narrowed, indicating both outright demand for pounds and ready lenders of eurosterling. Three months' cover cost 1⅝% p.a. and, after some further easing in sterling deposits, the intrinsic discount fell to ⅛%.

Sterling gained around ⅛% on both the deutschemark (3.76½) and French franc (8.69⅜) but lost ⅛% to the Swiss franc (3.39¼) which received hefty support from National Bank sales of $74 mn. in the market and $68 mn. in cover of capital exports. Against the dollar the Swiss franc closed at 1.6685, the French franc 4.2767 and the deutschemark 1.8511. The French franc eased to 2.31 to the deutschemark but received no support. The snake was around 1½% in width: the Belgian franc (29.35) and Danish krone (5.1880) remained at head and tail, the Belgians taking in $11 mn. of marks. Elsewhere, the Italians took in $92 mn. (the lira closing at 839.95) but the Bank of Japan sold $48 mn. as the yen eased to 204.65 in Tokyo. Later in London it recovered to 203.87.

Gold was steady and somewhat firmer ahead of the IMF auction. Fixings were $242.00 and $242.25.

Operations:	Market	+ $234 mn.
	Iraq	+ 20
	British Gas (PSB G'teed)	+ 9
	Sundries	+ 10
		+ $273 mn.

7th March 1979.
JGH

Overnight + $47 mn.

SECRET 1979/10

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 7th March 1979

After a quiet start, sterling came into heavy demand, gaining 0.4 in effective terms to 64.7, the best level for a year. Where changed, the dollar improved against other major currencies, despite substantial official sales.

First reactions to the US trade figures caused the dollar to be marked down across the board, and sterling rose from the 2.0232 at the close on 28th February but then eased back, like most currencies, to 2.0218 on Friday evening. The 1% cut in MLR caused only a flutter. As often happens, the market quietened down before the weekend, though one or two lumpy orders to buy pounds were around. Sterling opened lower against a firm dollar on Monday and touched 2.0160; but it soon advanced, coming into strong demand especially on Wednesday to close the period near the best level at 2.0334. Postponement of the Special Deposit recall and the wholesale price figures had no effect, and the by-election and referendum results were not unsettling. The fourth quarter balance of payments figures were well received. The cost of forward cover was unchanged at 1⅝%, but a fall in sterling interest rates left the adverse covered differential rather wider at ⅛%.

The January trade figures, obfuscated by a change in the method of seasonal adjustment, gave the dollar a bad start, but the market soon resolved to put a favourable construction on them and the dollar recovered. Good money supply figures, Venezuela's decision to postpone increasing the oil price, and perhaps the third successive fall in the index of leading indicators helped the tone, and the dollar firmed against most currencies. It remained on the higher ground after the weekend, despite substantial sales of dollars by some central banks, until sterling's strength took some of its shine away on Wednesday. Altogether, official sales amounted to some $900 mn. The Fed themselves sold a modest $20 mn. against yen. The Swiss National Bank alone sold $890 mn., much of it to non-residents, who had borrowed and then surrendered Swiss francs. The franc eased a touch to 1.6685. The Bundesbank were also sizeable sellers of dollars ($320 mn.); the mark held steady at 1.8511. German prices rose unusually fast for the second month running. The yen was again the weakest of the major currencies, falling ¼% to 203.87. The trade position seems to be worsening and Japan is more vulnerable than most to higher oil prices and shortages. The Bank of Japan sold $420 mn. The French franc fell ⅛% to 4.2767, with very little intervention. The cross rate against the mark edged over 2.31. The Italians, on the other hand, took in dollars yet again - $240 mn. Despite this and political problems, the lira closed virtually unchanged at 839.95. Revived prospects of EMS have left the French franc and the lira untouched so far. Although it retained top place, the Danish crown stayed rather weak, ending at 5.1880, on fears of widespread strikes which in the event have been postponed. The snake was consequently slack, leaving the Belgian franc (29.35) comfortable enough at the bottom for the central bank to reduce some administered interest rates. The guilder (1.9991) was relaxed despite gloom about the current account balance of payments. The Canadian trade figures evoked a mixed response - favourable at first, then less so - but the central bank gave no support on balance. The main continental currencies weakened against sterling, the mark by ½% to 3.76½ and the French franc by ⅝% to 8.69⅝.

Gold was again very volatile. The Chinese withdrawal from Vietnam brought a sharp fall on Monday. Despite a partial reversal, the price fell $9 over the week, to $242¼ at the afternoon fix on 7th March. Turnover was sometimes heavy. The IMF auctioned 470,000 ounces at an average of $241.68.

8th March 1979.
PAB

RATES, ETC.

10.15 a.m. 1st March		10.15 a.m. 8th March
2.0211	£/$	2.0386
64.3	Effective exchange rate index	64.8
1 11/16% p.a.	Forward 3-months	1 9/16% p.a.
10⅞%	Euro-$ 3-months	10⅝%
⅛% disc.	I.B.Comparison	⅛% disc.
1.8556	$/DM	1.8504
3.75	£/DM	3.77¼
8.65 9/16	£/FF	8.70 13/16
203	$/Yen	203.92
$249.80	Gold	$239.15
1.6765	$/S.Fc.	1.67
3.38⅞	£/S.Fc.	3.40 7/16

... London, it eased slightly to 204.75.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 9th March 1979

Sterling fell sharply in New York yesterday as operators tried to take profits in a grossly overbought market. Today saw some modest recovery but the movement sufficed to take most of the steam out of the recent rally. The ERI came back to 64.9.

The pound lost all but a cent in New York yesterday, closing at 2.0355. This morning it opened at that same level and, in subdued trading, ran up to 2.0402 before settling a little below that level for the morning. The afternoon saw business up to 2.0412 on modest demand following New York's return but, in a late flurry, sterling was sold back - possibly out of Chicago - to 2.0366 before closing at 2.0374. Forward margins were steady, with the cost of three months' cover at 1½%. However, with inter-bank sterling deposits markedly easier, the adverse covered differential widened to ⅝%.

Sterling shed ¼% against the deutschemark (3.77⅛) and French franc (8.71⅝) and lost ⅛% to the Swiss franc (3.40⅛). The Swiss bought $14 mn., although their franc closed a little easier at 1.6697. The deutschemark was 1.8514 and the French franc 4.2780; the French sold $100 mn. of deutschemarks but their franc closed at 2.3107 to the mark. The Italians, too, lost $64 mn., the lira easing to 841.85. Meanwhile, the snake contracted to only 1⅛% in width as the Danish krone weakened to 5.2030. The Belgian franc was a steady 29.35. In Tokyo, the Bank of Japan sold $47 mn. and the yen closed at 204.65. In London, it eased slightly to 204.75.

Gold was slightly firmer but featureless. Fixings were $240.50 and $241.00.

Operations:	Market	+ $13 mn.
	British Airways (PSB G'teed)	+ 50
	India	+ 10
	British Airways	- 35
	Bangladesh	- 10
	Sundries	+ 5
		+ $33 mn.

9th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th March 1979

Another tidal wave of demand engulfed sterling today. Conditions were similar to yesterday with interest stemming primarily from the Middle East and London itself and, overwhelmingly so, from the United States this afternoon. The dollar showed great resilience this morning but was swept down again by sterling's strength this afternoon. Sterling's ERI advanced to 65.0.

The pound met continued strong demand again in New York yesterday and closed at 2.0392. This morning the Far East was quieter. Sterling opened at 2.0380 in London and soon met resumed buying interest, principally from local names, which took it up to 2.0408. The familiar mid-morning lull ensued and the dollar took over centre-stage for a while, sterling retreating to 2.0370 in sympathy. This afternoon, however, saw the flood-gates open again as buyers poured in from the United States. The pound traded up to 2.0450 before closing at 2.0445. There was little hard news to influence sentiment, though the EMS appeared to loom that much larger. However, the Middle East interest - and that of London banks, too, - strongly suggested that purchases of gilt-edged were at the root of the demand. Forward margins narrowed further - the three months' to 1⅛% discount. With sterling deposits easier, the adverse covered differential widened to 5/16%.

Sterling put on ⅜% against both the deutschemark (3.78) and French franc (8.73⅜) and all of ½% against the Swiss franc (3.40¼). The French intervened from the outset and their franc rose to 2.30¾ against the mark, only to relapse by the close to 2.31, despite sales of $98 mn.-worth of marks. Against the dollar it was 4.2717, the Swiss franc was 1.6665 and the deutschemark 1.8492. The snake continued to fluctuate around 1⅛% in width between the Danish krone (5.18⅜) and Belgian franc (29.33). The lira was little changed at 839.85: the Italians took in $30 mn. In Tokyo, the yen closed at 203.60 - after official sales of $8 mn. - but in London it eased to 203.95.

Gold eased following yesterday's IMF auction and thereafter traded uncertainly. Fixings were $238.75 and $239.20, which followed an average price at the auction of $241.68.

Operations:	Market	+ $255 mn.
	Iraq	+ 20
	British Gas (PSB G'teed)	+ 8
	Sundries	+ 6
		+ $289 mn.

8th March 1979.
JGH

RE 440.07

TELECOMMUNICATION

Please despatch in { TELEX | CABLE / CLEAR | CODE } AT DISCRETION

ROTATION No.

ORDER No.

DESPATCHED

DATE 9th March 1979

TO 117 Mr.Heyvaert, National Bank of Belgium, Brussels 7406

183 Mr.Bascoul, Bank for International Settlements, Basle 7407

Addendum to Brief Report on Developments in the Foreign Exchange Markets for February 1979

March began quietly, after some confusion about the U.S. trade figures, obfuscated by a new system of seasonal adjustment. After initially marking the dollar down, the market took a favourable view of the deficit and good money supply figures. Later, the dollar showed little change on balance against most currencies but it lost ground in effective terms, chiefly reflecting the appreciation of the pound sterling. Demand for sterling became heavy, particularly on the 7th and 8th when the Bank of England took in $530 million and some marks. The yen was the weakest of the major currencies, falling by just over 1% against its end-February level; the Bank of Japan intervened in its support. The Canadian dollar strengthened markedly, with very little intervention, to stand above 84 1/2. On the other hand, the Danish krone weakened, and the snake slackened to 1 1/4%. Belgium cut some administered interest rates.

OFFICE Gold & Foreign Exchange Office

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Page 2

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DATE 9th March 1979

TO Mr.Heyvaert, National Bank of Belgium, Brussels

Mr.Bascoul, Bank for International Settlements, Basle

Continued.....

Although other currencies were little changed, intervention was substantial in some cases. The Swiss made heavy sales of dollars, largely to cover capital exports, and the Bundesbank and Federal Reserve were also net sellers, the latter in order to repay swaps. On the other hand, the Bank of Italy added further to dollar reserves, as did the Norwegian authorities. The Bank of France sold marks, their cross-rate easing to around 2.31.

OFFICE Gold & Foreign Exchange Office,

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SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th March 1979

Another fairly inconsequential day ended with sterling under some downward pressure from American commercial interests. The ERI was again 65.0 throughout the day, although the selling came largely after the close.

The pound closed at 2.0384 in New York yesterday and began today at 2.0367. Modest Continental buying interest saw business up to 2.0375 and the morning session traded lightly around the opening level thereafter until a sudden improvement in the dollar took sterling back to around 2.0350 before midday. The RPI provided no impetus in either direction. Trading this afternoon continued around this same lower level and sterling touched 2.0344 at worst, closing at 2.0349. After the close, however, several New Yorkers unloaded pounds on commercial account and sterling traded down to 2.0300. Forward margins widened slightly in line with inter-bank sterling deposits: three months' cover cost 1 7/16% p.a. discount.

By the formal close, sterling had gained ⅜% on each of the Swiss franc (3.42¼), French franc (8.73⅝) and deutschemark (3.79¼). These were all somewhat easier against the dollar at 1.6815, 4.2935 and 1.8640 respectively; only the Swiss intervened to sell $121 mn. (net) against capital exports. The snake slimmed to somewhat less than 2% at the close, the Danish krone (5.1840) and the Belgian franc (29.44) continuing to contain the arrangement. The Italians bought $14 mn. and the Danes took in a tiny ragbag of exchange. The punt remained a whisker ahead of the deutschemark, some ⅝% above the Belgian franc. On the divergence indicator, both punt and pound improved to 6 and 2 respectively. The yen continued to receive support. The Bank of Japan sold $49 mn. in New York yesterday and $90 mn. in Tokyo this morning. The Tokyo close was 207.05 and in London the yen finished at 207.65. After the close, however, coincident with sterling's fall, the yen improved sharply to 207.20.

Gold was bid up in New York yesterday and maintained its gain of some $3-4. Fixings were $243.35 and $244.00.

Operations:	Market	- $50 mn.
	British Air (PSB G'teed)	+ 25
	British Gas (PSB G'teed)	+ 2
	Sundries	+ 10
		- $13 mn.
	Overnight	- $10 mn.

16th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th March 1979

Sterling resumed its recent firmness today and met good demand in the face of a reviving dollar. Elsewhere, the French franc felt in full the birth pangs of the EMS and was subjected to a most painful parturition. The yen, too, laboured under the mountainous weight of bond conversions, maturing forward purchases which required financing and another impressive import figure for February. Sterling's ERI improved to 65.0, after 65.1 at noon.

The pound closed at 2.0380 on Friday in New York and opened at that level in London this morning. Despite a firmer dollar - based partly on the yen's weakness and partly on the suspicion of higher US interest rates - sterling again ran into strong home-based demand this morning, running up to 2.0427 at best. This afternoon was much quieter and the pound traded a little over 2.04 throughout the session before closing at 2.0406. Forward margins narrowed - probably on anticipation of further convergence in transatlantic rates - and the three months' stood at a discount of 1 5/16% p.a., producing an intrinsic discount of ½%.

Sterling gained a further ¼% on each of the deutschemark (3.78½) and French franc (8.73⅜) and ⅜% on the Swiss franc (3.41½). The Swiss sold $74 mn. in support of their franc which closed at 1.6736. The French were in action from the outset, baling out deutschemarks to keep their boat afloat, with the familiar 2.31 (to the DM) horizon in sight. The franc closed at 2.30⅞ to the mark and 4.2797 to the dollar. The exercise cost $373 mn.-worth of deutschemarks and $250 mn. were swapped in - presumably to finance the marks. The Italians found a calmer sea and prospered to the tune of $53 mn. Meanwhile, the Danish krone weakened to the point where the guilder took over the leadership of the snake. However, after sales of $36 mn. and $4 mn. of marks the krone resumed hegemony (at 5.2080) and the snake expanded by the close to 1 5/16% (after 1⅛%). Elsewhere in Europe, the Swedes sold $20 mn. and the Norwegians bought $20 mn. In Tokyo, the Bank of Japan sold $229 mn. as the yen weakened to 205.60; in London it closed at 2.0570.

Gold again traded without conviction. After a firm start and a fixing price of $241.10, its advance was arrested and, having fixed this afternoon at $240, it traded lower by the close.

Operations:	Market	+ $87 mn.
	Iraq	+ 10
	India	+ 10
	Sundries	+ 1
		+$108 mn.

12th March 1979.
JGH

TO RECIPIENTS OF THE DAILY FOREIGN EXCHANGE AND GOLD MARKETS REPORT

The European exchange rate system starts tomorrow. There are two parts to it: first, a grid of bilateral exchange rates, like the present snake but with the addition of the French franc and punt, and also the lira which is utilising a 6% band instead of 2¼%; secondly, an index to show how much each currency diverges from its parity against the ECU.

As for the grid, we propose to report which of the 2¼% currencies are top and bottom, very much as we report the snake now; and to note the position of the punt, wherever it stands, and of the lira, if it stands outside the 2¼% band.

Central rates in the bilateral grid were used this afternoon to calculate a central rate for each currency against the ECU. A limit is set to the degree any currency can move from its ECU central rate. In percentage terms, this limit varies inversely with the weight of the currency in the ECU basket, except that, weight-for-weight, the lira has more freedom than the others. The limit is expressed as plus or minus 100. When a currency reaches plus or minus 75 on this scale, consultations are called. We propose to report where the pound would stand on this scale, if it were in the system as a 2¼% currency; where the punt stands (not the same, even while the two pounds trade one-for-one, because sterling has a much heavier weight in the ECU); and to note any other currency with an index of 65 or more.

12th March 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 13th March 1979

A symphony of rich and varied texture was woven on the exchanges today. The newly-orchestrated EMS was of course the pièce de resistance but sterling was still the strong and dominant theme. The dollar, too, continued its recent gradual crescendo while the French franc struck a much more harmonious chord than of late. The one discordant note was sounded by the Japanese yen which was apparently overpowered by sterling's strident strain. The ERI advanced to 65.3.

The pound closed at 2.0382 in New York but began today at 2.0416 despite a firmer dollar. Having touched 2.04, sterling was receiving overtures from an early stage with keen interest emanating from a single Swiss source, almost certainly on Middle East investment account. The pound advanced over the morning in several movements - with the official conductor carefully regulating the tempo - and reached 2.0475 before the solo taker paused for breath. The early afternoon brought a brief recapitulation as a Scandinavian professional took up the strain and the pound hit 2.0477. However, New York, as often, ushered in a minor key and, as the dollar took up the baton, sterling faded away to 2.0415 before a quiet finale at 2.0422. Forward sterling improved as inter-bank deposits eased. Three months' cover cost 1 3/16% p.a. and the covered differential dropped to 5/16% against London.

Sterling gained ⅝% on the Swiss franc (3.43¾), ½% on the deutschemark (3.80½) and only ⅛% on the French franc (8.74⅜). These closed respectively at 1.6827, 1.8613 and 4.28⅛ to the dollar. The French franc improved rapidly once its new central rate was known and the French recouped $51 mn.-worth of marks, the cross-rate closing at 2.30. The Swiss franc and deutschemark moved in concert; the Swiss, however, sold $50 mn. in support and $122 mn. in cover of capital exports (following a reserve loss of $293 mn. yesterday for exports of capital). The larger snake enjoyed an untroubled launching. The Danish krone (5.1992) was a familiar leader and the Belgian franc (29.47) continued at the lower extreme; the band expanded from around 1½% to 1¾% in width and the punt closed just over ½% below the krone. On the divergence indicator (which ranges from a depreciation of +100 to an appreciation of -100) the punt was -10 and sterling -16. Outside France, only the Italians intervened to sell $8 mn. Elsewhere, the yen remained under acute pressure following a report that a major oil company was to stop shipments to non-affiliated organisations (which included, inter alia, Japanese firms). Having sold a further $50 mn. in New York yesterday, the Bank of Japan expended $128 mn. in Tokyo this morning to effect a close of 206.00. In London, however, the price collapsed to 209.85 before profit-taking brought a closing level of 208.42.

Gold softened as the dollar improved. Fixings were $239.40 and $239.10.

Operations:		
	Market	+ $214 mn.
	Ireland	+ 41
	Iraq	+ 21
	IDA	+ 19
	Government	+ 16
	Sundries	+ 2
		+ $313 mn.

13th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 14th March 1979

Following yesterday's sizeable movements, sterling met a natural counter-reaction on today's exchanges. The dollar scaled fresh peaks this morning following President Carter's success in the Middle East but it, too, boiled over before the day was out. The French franc continued to prosper in the EMS. The yen, however, received gigantic support. Sterling's ERI fell to 65.1 after a year-high 65.4 this morning.

The pound closed at 2.0403 yesterday in New York after trading down to 2.0370. This morning it opened strongly at 2.0444 and touched 2.0447 on the early exchanges despite a burgeoning dollar. Suddenly, however, these trends were reversed as yesterday's large buyer of pounds - who had sold the yen as a counterpart - returned to take some profit and sterling and dollar fell together. Sterling dropped to 2.0382 at one stage but steadied to trade quietly around 2.04 for the rest of the day, closing at 2.0393. The earnings statistics were given little heed. Forward margins narrowed further, the three months' to a discount of 1 1/16% p.a. Sterling's intrinsic discount fell to ¼%.

After yesterday's sharp fall in European hours the Japanese yen received persistent support both in New York yesterday, where the Federal Reserve sold $39 mn. against yen and the Bank of Japan sold $259 mn., and again this morning in Tokyo, where the Japanese unleashed a massive $754 mn. but could not prevent a substantial easing to 209.15. In London, the yen recovered on profit-taking to 207.33. The new snake widened further to 1⅞%, the Danish krone (5.1785) and Belgian franc (29.40) remaining at top and tail. The punt closed about ⅞% below the krone. On the divergence indicator, sterling was 1 and the punt 5. The Danes took in $31 mn. and the French recouped another $136 mn.-worth of marks. The French franc was 4.2777 and the deutschemark 1.8579 (the franc weakened on the cross-rate to 2.30½). The Swiss franc closed at 1.6785 after the Swiss sold $22 mn. in support and $74 mn. in cover of capital exports. Sterling lost ¼% to the French franc (8.72⅛) and ⅜% to both the Swiss franc (3.42¼) and deutschemark (3.78⅞).

Gold again traded aimlessly with fixing levels little changed at $239.90 and $239.50.

Operations:	Market	+ $11 mn.
	British Gas (PSB G'teed)	+ 2
	Northern Ireland (PSB G'teed)	+ 26
	Sundries	+ 10
		+ $49 mn.

JGH

14th March 1979.
JGH

SECRET 1979/11

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 14th March 1979

Sterling was in strong demand, rising in effective terms to 65.1 after 65.4 on Wednesday morning. However, sterling's strength was only one feature of an eventful week, which saw the start of the new European monetary arrangements - the French franc coming under pressure beforehand - and a weak yen despite massive support. The dollar gained in most centres.

After a firm close of 2.0334 in London on 7th March, sterling soon came into strong demand again and rose during Thursday. Profit-taking brought a sharp fall in the rate in New York, but the pound then drifted up to close on Friday at 2.0374. The tone was good again after the weekend, and on Tuesday another wave of buying carried the rate to 2.0475 despite a further heavy take for the reserves. Much of the interest seemed to come from Middle East investors. Thereafter the market took breath (and some profits) and sterling closed on Wednesday at 2.0393. The week's economic news - wages and earnings, the banking statistics - was brushed aside. The cost of forward cover shrank to 1 1/16%, but another fall in sterling interest rates caused the adverse covered differential to widen to ¼%.

The need to cover short positions taken up around mid-December may have helped the dollar, although it was knocked back on Thursday when sterling was strongly bid. Money supply fell yet again, and it seemed at one time that the Fed were tightening. Producer prices rose slightly less than expected in February. Hopes of peace between Egypt and Israel revived The dollar accordingly improved in most centres, in spite of massive official sales. The Fed themselves intervened very little. The pressure was on the yen, which fell 1⅝% to 207.33 (having approached 210) under the weight of heavy loan conversions, inflation worries, pointers to a big increase in imports, and alarm about oil supplies. The Bank of Japan gave $1,640 mn. of support. Otherwise - apart from sterling - the new European exchange rate arrangement, which started on Tuesday, drew most attention, much of that directed at the French franc. The Bank of France sold $580 mn.-worth of marks before the new system began, apparently to defend a cross-rate of 2.31; later they were able to claw back $190 mn.-worth as the franc improved to 2.30⅛ (4.2777 against the dollar). The lira fell ¼% to 842½ without support. The members of the old snake slotted into the new groove without fuss, the Danish crown (5.1785) and the Belgian franc (29.40) continuing as top and bottom markers. The mark eased ⅛% against the dollar to 1.8579, after another unaccustomed rise in wholesale prices. None of the participants in the exchange rate arrangement approached the limit of permitted movement against the ECU. Outside the snake, the Swiss franc fell ⅛% to 1.6785, perhaps affected by rising prices. The SNB sold $670 mn. of which $550 mn. was in exchange for the proceeds of foreign borrowing. The Swedes also supported their currency. The Canadian dollar, on the other hand, strengthened to 85.23, enabling the central bank to buy in $100 mn. Sterling improved against the main continental currencies, by about ⅛% (to 3.78⅞ and 3.42⅛ respectively) against the mark and the Swiss franc and by ¼% to 8.72⅛ against the French franc.

Gold drifted down $2¾ to $239.50 at the afternoon fix on 14th March, reflecting the firmer dollar and the slightly less disturbed state of the world.

15th March 1979.
PAB

RATES, ETC.

10.15 a.m. 8th March		10.15 a.m. 15th March
2.0386	£/$	2.0367
64.8	Effective exchange rate index	65.0
1 9/16% p.a.	Forward 3-months	1⅛% disc.
10⅝%	Euro-$ 3-months	10¼%
⅛% disc.	I.B.Comparison	½% disc.
1.8504	$/DM	1.8590
3.77¼	£/DM	3.78⅝
8.70 13/16	£/FF	8.71¾
203.92	$/Yen	207.25
$239.15	Gold	$240.15
1.67	$/S.Fc.	1.6795
3.40 7/16	£/S.Fc.	3.42 1/16

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 15 March 1979

Most markets were dull today. Sterling's undertone was a shade softer, reportedly on indications of rising inflation but perhaps also on the Chancellor's latest budget signals. The ERI came back to 65.0.

The pound closed at 2.0392 in New York overnight and opened this morning at 2.0373. The morning session was spent in a narrow band around the opening level. The unchanged MLR gave a brief fillip to 2.0397 but sterling retreated again and touched 2.0360 before closing at 2.0368. The Industrial Production Index was greeted with little other than disbelief. Forward margins widened, the three months' to 15/16% p.a. discount. Sterling and dollar deposits both hardened and the adverse covered differential rose to 7/16%.

The Bank of Japan sold a further $100 mn. in New York yesterday and $163 mn. in Tokyo this morning pushing the yen back up to close at 207.20 in Tokyo and 207.02 in London. The snake widened again to 2 1/8% with the Belgian franc (29.43) and Danish krone (5.1735) continuing at the extremes. The Danes bought $13 mn and $3 mn of marks and the Italians, unusually, took in deutschemarks equivalent to $28 mn. The French franc (4.2822) and the deutschemark (1.8597) closed unchanged in relation to each other, though weaker against the dollar. Sterling was fractionally softer against both currencies (8.72 1/8 and 3.78 3/4 respectively) and also against the Swiss franc (3.42) which was 1.6792 against the dollar. The punt was about 5/8% only above the Belgian franc while on the divergence indicator, sterling was 10 and the punt 12.

Gold was again steady but featureless. Fixings were $239.80 and $240.10.

Operations:

Market	+ $13 mn.
B.I.S.	+ 6
E.E.C.	- 7
Sundries	+ 1
	+ $13 mn.

J.G.H.
15 March 1979.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th March 1979

Another fairly inconsequential day ended with sterling under some downward pressure from American commercial interests. The ERI was again 65.0 throughout the day, although the selling came largely after the close.

The pound closed at 2.0384 in New York yesterday and began today at 2.0367. Modest Continental buying interest saw business up to 2.0375 and the morning session traded lightly around the opening level thereafter until a sudden improvement in the dollar took sterling back to around 2.0350 before midday. The RPI provided no impetus in either direction. Trading this afternoon continued around this same lower level and sterling touched 2.0344 at worst, closing at 2.0349. After the close, however, several New Yorkers unloaded pounds on commercial account and sterling traded down to 2.0300. Forward margins widened slightly in line with inter-bank sterling deposits: three months' cover cost 1 7/16% p.a. discount.

By the formal close, sterling had gained ⅛% on each of the Swiss franc (3.42¼), French franc (8.73⅝) and deutschemark (3.79¼). These were all somewhat easier against the dollar at 1.6815, 4.2935 and 1.8640 respectively; only the Swiss intervened to sell $121 mn. (net) against capital exports. The snake slimmed to somewhat less than 2% at the close, the Danish krone (5.1840) and the Belgian franc (29.44) continuing to contain the arrangement. The Italians bought $14 mn. and the Danes took in a tiny ragbag of exchange. The punt remained a whisker ahead of the deutschemark, some ⅝% above the Belgian franc. On the divergence indicator, both punt and pound improved to 6 and 2 respectively. The yen continued to receive support. The Bank of Japan sold $49 mn. in New York yesterday and $90 mn. in Tokyo this morning. The Tokyo close was 207.05 and in London the yen finished at 207.65. After the close, however, coincident with sterling's fall, the yen improved sharply to 207.20.

Gold was bid up in New York yesterday and maintained its gain of some $3-4. Fixings were $243.35 and $244.00.

Operations:	Market	- $50 mn.
	British Air (PSB G'teed)	+ 25
	British Gas (PSB G'teed)	+ 2
	Sundries	+ 10
		- $13 mn.
	Overnight	- $10 mn.

16th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th March 1979

Sterling was tested today by some sizeable commercial sellers in an otherwise thin and still very much overbought market. The dollar remained firm. Sterling's ERI fell to 64.6.

The pound continued offered on Friday in New York and closed at 2.0290. This morning the undertone was again soft but, having opened at 2.0275, the pound traded quietly between 2.0260 and 2.0285 through the morning. At least two large commercial offerings came onto the market and only one modest buyer was seen to offset these but there was little visible impact on sterling as a result. Early this afternoon, however, a Swiss brigand made a lightning bear raid and found conditions ripe for plunder. Sterling fell to 2.0205 at worst before the effects of official cushioning began to tell. At that moment, with American markets re-opening (later than usual in the London day) and showing little interest, an unlikely champion appeared from the East in the shape of Yasser Arafat who, in calling for an oil embargo on the United States, knocked the dollar from its perch. Sterling recovered swiftly to 2.0240 and closed comfortably at 2.0235. Forward margins continued to widen as inter-bank sterling deposits firmed further. Three months' cover cost 1⅝% p.a. and the intrinsic discount remained at 7/16%.

Sterling fell ½% against the Swiss franc (3.40½) and ⅜% against each of the French franc (8.68½) and deutschemark (3.77). The Swiss sold $47 mn. in support and a further $8 mn. against exports of capital and their franc closed slightly easier at 1.6825 (after 1.6855). The Bundesbank sold $35 mn. on Federal Reserve account, the deutschemark closing slightly firmer at 1.8627 (after 1.8656). The French franc, unsupported, kept within range, closing at 4.2920. The snake widened to around 2% again and the constituents began to polarise. The Italian lira (839.80) replaced the Danish krone at the head after official purchases of $16 mn. by the Bank of Italy and $4 mn. of marks by the National Bank. The punt closed perilously close to the Belgian franc at the lower extreme. On the divergence indicator, sterling was 30 and the punt 31. In Tokyo this morning, the Bank of Japan continued its vigorous support of the yen with sales of $361 mn. It closed there at 207.80 and in London at 207.15.

Another lacklustre performance from gold saw the fixing levels fall successively to $243.85 and $242.25.

Operations:	Market	- $32 mn.
	Sundries	+ 1
		- $31 mn.

19th March 1979.
JGH

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 20th March 1979

Sterling was in modest but persistent demand for much of the day and in the process recovered much of yesterday's lost ground. The dollar continued firm. Sterling's ERI rose to 64.9.

The pound closed comfortably at 2.0252 in New York yesterday and opened at 2.0256 this morning. The early tone for sterling was again soft and as small selling orders came in, so the rate retreated to 2.0232. Professional profit-takers then emerged, however, covering some of yesterday's sales and sterling advanced smartly, at first to 2.0275 and later to around 2.03. New York evinced some interest in buying pounds and the rate climbed further to 2.0342 before closing quietly at 2.0324. The cost of three months' cover was little changed at 1 9/16%; the intrinsic discount was ½%.

Sterling regained ⅜% against each of the deutschemark (3.78½) and Swiss franc (3.41¼) and ½% against the French franc (8.72⅜). The Swiss sold $21 mn. (net) in cover of capital exports; their franc was 1.6820. The French swapped out $105 mn.; their franc was 4.2923 and eased fractionally against the mark (1.8620). The snake continued around 2% in width with the Belgian franc (29.45) at the base and the lira (839.35) at the head. The Italians took in $55 mn. The punt recovered to rejoin the mark in mid-grid. On the divergence indicator sterling improved from 30 to 12 and the punt from 31 to 15. The yen went unsupported in Tokyo for the first time this month. It closed there at 207.20 and in London at 207.07.

Gold was again dull ahead of another US auction today. Fixings were $242.00 and $242.10.

Operations:	Market	+ $39 mn.
	IDA	+ 5
	Manchester (PSB G'teed)	- 7
	Sundries	+ 3
		+ $40 mn.

20th March 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st March 1979

A day of stark contrasts for the pound which met heavy demand from the Continent this morning, only to find aggressive American sellers this afternoon. The dollar was very firm indeed. Overall, sterling's ERI was unchanged at 64.9 , after reaching 65.1 at noon.

The pound closed lower at 2.0290 yesterday in the United States, where the dollar was in good demand, especially from the Chicago IMM. This morning sterling opened at 2.0305 and, despite the dollar's continuing firmness, moved ahead from the outset as London banks came in as buyers. There followed a massive wave of demand for pounds, generated largely, it seemed, by two or three of the larger European professionals, doubtless backed by customers' investment funds and looking perhaps for the new gilt. Sterling was swept up forcefully to 2.0377 and even the dollar dipped in acknowledgment. Once appetites were sated, however, the dollar resumed its upward trend, sterling retreating with the European currencies to around 2.03½ and attracting in the process a fair number of commercial and professional sellers. Good two-way business characterised the midday exchanges but, when New Yorkers returned to bid up the dollar again, one of their number proved a hefty seller of sterling (for yen it seemed). The pound slipped away, provoking some profit-taking or panic cutting of losses from earlier buyers. Sterling was traded down to 2.0293 before a late bargain-hunter brought an upturn to 2.0302 at the close. Forward margins widened this afternoon but closed narrower overall although sterling deposits hardened while eurodollars were fractionally softer. Three months' cover cost 1 7/16% p.a. and the intrinsic discount fell to 5/16%.

Sterling nonetheless gained ⅛% on the French franc (8.72⅝), ¼% on the deutschemark (3.79⅜) and ⅛% on the sickly Swiss franc (3.43¾). The Swiss gave $70 mn. of support and sold a further $42 mn. against capital exports; their franc eased to 1.6934 at the close. The Bundesbank sold $100 mn. on Federal Reserve account as the deutschemark weakened to 1.8686. Yesterday the US authorities sold $53 mn. for marks in the market and a further $106 mn. to the Bundesbank who had earlier sold a similar sum in cover of capital exports. The French franc was4.2980 and the French took in $5 mn. of marks. The Belgian franc (29.52) and Italian lira (840.85) remained at bottom and top of the snake which was a little over 2% in width. The Italians bought $41 mn. On the divergence indicator the punt was 8 and sterling 5. Tokyo was closed but the yen in Europe proved relatively firm, closing at 207.21.

Gold lost ground following a US auction which some regarded as discouraging. Fixings were $240.25 and $239.90.

Operations:	Market	+ $79 mn.
	British Airways (PSB G'teed)	+ 70
	Sundries	- 1
		+$148 mn.

Jan

21st March 1979.
JGH

SECRET 1979/12

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 21st March

Sterling fell 0.2 to 64.9 in effective terms, the index ranging between 64.6 and 65.1. The pound was in good demand at times between periods of profit taking, but the prospect of the Prime Minister's television broadcast threw a late shadow. The dollar gained in most centres. The snake remained comfortable.

After the excitements of the previous few days, sterling opened the period quietly, easing back from 2.0393 last Wednesday to 2.0349 at the official London close on Friday. In late dealings, however, commercial selling from New York pulled the rate down, and sterling traded as low as 2.0205 on Monday, despite modest official support. However, the selling had no steam behind it, and Yasser Arafat's proposal of an embargo on oil supplies to the USA brought a prompt recovery in the rate. The pound was in moderate but persistent demand on Tuesday, and then met heavy buying again on Wednesday morning, rising above 2.03 3/4 before profit-taking and political uncertainty brought it back to 2.0302 at the close. The demand might again have been to buy gilt-edged securities. The two sets of price figures published during the week - the Price Commission's index of increases notified to it, and retail prices in February - were only briefly sobering. Both the cost of forward cover and interbank sterling interest rates rose slightly, the former to 1 7/16%; the covered margin against sterling was little changed at 5/16%.

The dollar remained firm, despite the (aberrant) leap in money supply published on Thursday. Economic statistics continue to be distorted by the weather but prospects for peace in the Middle East and the hope of a presidential statement on energy policy helped. Arafat caused only temporary upset. The Fed sold $200 mn. in the market against marks. The Bundesbank sold $160 mn. and passed some of the marks to the Fed, the mark easing 5/8% to 1.8686. Latest inflation figures are better. The Swiss franc fell back over 7/8% to 1.6934; the SNB were substantial sellers of dollars, $320 mn. altogether, much of it to cover capital exports. They too passed some of the proceeds to the Fed. Japanese support for the yen was again heavy, $830 mn. (making nearly $3 bn. so far this month), but the scale of intervention teneded to diminish (fall). The yen closed steady at 207.21. The French franc fell 1/2% to 4.2980 without support. The Danish crown and the Belgian franc started out at the extremes of the snake, but the lira took over top place on Monday and remained there. It closed stronger against the dollar, at 840.85, the Bank of Italy having bought $130 mn. and also $30 mn - worth of marks. The Belgian franc closed at 29.52, leaving the snake about 2 1/8% stretched. When sterling was weak on Monday, the Irish pound came close to occupying bottom place, but it finished in mid-snake. No currency approached its divergence threshold. On balance, sterling gained slightly on the main continental currencies, to 3.79 3/8 against the mark and 8.72 5/8 against the French franc. The Canadian dollar improved to 85.70, enabling the central bank to buy in $60 mn. for the reserves.

Gold gained $1/2 to $239.90 in a dull market. The U.S.Treasury auctioned another 1 1/2 mn. ounces on Tuesday; the bars in good delivery form fetched $241.30 an ounce on average.

22 March 1979.

P.A.B.

RATES, ETC.

10.15 a.m. 15th March		10.15 a.m. 22nd March
2.0367	£/$	2.0345
65.0	Effective exchange rate index	65.0
1 1/4% disc.	Forward 3-months	1 9/16% disc
10 3/4%	Euro-$ 3-months	10 11/16%
1/2% disc.	I.B.Comparison	1/4% disc.
1.8590	$/DM	1.8635
3.78 5/8	£/DM	3.79 1/8
8.71 3/4	£/FF	8.73 1/8
207.25	$/Yen	206.35
$240.15	Gold	$243
1.6795	$/S.Fc.	1.6895
3.42 1/16	£/S.Fc.	3.43 3/4

Swiss franc [illegible] and was only just a touch easier against the

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd March 1979

The exchange witnessed few major developments to-day. Sterling suffered a little from election uncertainty this morning but soon recovered its poise and was little disturbed by either the money supply figures or the Prime Minister's statement in the house. The dollar lost ground in New York overnight but traded fairly steadily in Europe to-day. Sterling's ERI was unchanged throughout at 64.9.

The pound closed substantially firmer at 2.0395 yesterday in New York where the dollar was generally offered following a report that an influential Saudi newspaper was advocating an Arab invasion of Gaza and the West Bank. This morning the pound opened at 2.0370 and touched 2.0375 on the early exchanges. Some sudden Swiss selling sent sterling sagging to 2.0324 and for a while political uncertainty filled the air but stability was soon restored. Modest two-way trading thereafter kept sterling in a fairly narrow range until mid-afternoon when it was traded down to 2.0316. However, shortly before the Prime Minister's statement, the pound recovered to 2.0358 and closed comfortably at 2.0345. Forward margins widened as comparable transatlantic interest rates continued to diverge slightly. Three months' cover was 1 5/8% p.a. while the intrinsic discount fell to 3/16%.

Sterling lost 1/8% to both the deutschemark (3.78 7/8) and Swiss franc (3.43 1/8) and was only just a touch easier against the French franc (8.72 1/8). The Swiss franc apparently continued under pressure, at least in so far as the National Bank sold $87 mn. in support and a further $23 mn. against capital exports. The franc firmed to 1.6864. The deutschemark likewise advanced to 1.8622 and the French franc also to 4.2867. The snake slimmed to 1 7/8% in width, contained still by the Italian lira (840) and Belgian franc (29.43). On the divergence indicator, sterling and the punt worsened slightly to 8 and 11 respectively. The Japanese yen continued its recuperation. Having closed in Tokyo at 207.08, it firmed in London to 205.72.

Gold opened higher on the weaker dollar but trading thereafter again lacked conviction. Fixings were $242.90 and $242.85.

Operations:		
	Market	+ $6 mn.
	British Airways (PSB G'teed)	+ 25
	National Water Council (PSB G'teed)	+ 10
	Iraq	+ 10
	Interest	+ 10
	Government	- 40
	Sundries	+ 2
		+ $23 mn.

22nd March 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd March 1979

A typically quiet end to the week found both pound and dollar continuing firm. Sterling's ERI rose to 65.0.

The pound closed at 2.0357 overnight in New York and opened at 2.0345 this morning. A little early Swiss selling took sterling back to 2.0332 but it steadied naturally there and later in the morning began to move ahead in concert with the dollar. The trend continued through the afternoon with some commercial buyers of sterling adding to the buoyancy. The pound touched 2.0368 on several occasions and closed at 2.0364. After the close, American interest took sterling higher still. Wider forward margins were not sufficient to compensate for a further hardening in inter-bank sterling deposits and the covered differential against London was eliminated. Three months' cover cost 1 3/4% p.a.

Sterling gained 1/4% on each of the Swiss franc (3.43 7/8), French franc (8.74 1/4) and deutschemark (3.79 7/8). The Swiss bought $6 mn. and swapped in $200 mn. for traditional end-quarter liquidity considerations but elsewhere in Europe intervention was eschewed. The Swiss franc closed at 1.6885, the French franc at 4.2927 and the deutschemark at 1.8653. The snake extended to 2 1/8% in width, contained still by the Italian lira (840) and Belgian franc (29.48). On the divergence indicator sterling stood at - 2 and the punt at 2. In Tokyo the yen closed at 205.80 after official sales of $10 mn.; in London it firmed slightly to 205.65.

Gold continued to trade within a narrow range. Fixings were $242.15 and $242.50.

Operations:

Market	+ $19 mn.
British Gas (PSB G'teed)	+ 1
Sundries	+ 5
	+ $25 mn.
Overnight	+ $25 mn.

23rd March 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th March 1979

Hawkish signals from the O.P.E.C. meeting brought another flight from the dollar this afternoon with sterling very much the favoured home. Widespread demand for pounds, strongly tinged with an American flavour, carried sterling's ERI to 65.4.

The pound was strongly bid on Friday in New York, coloured by the bullish sentiment which had earlier pervaded the domestic markets in London. It closed there at 2.0430 and opened in London at that same level this morning, trading quietly in a narrow range through the earlier session and easing to 2.0414 in the first moments of the afternoon. Indications that the O.P.E.C. meeting was likely to lead to a formal price increase hit the newswires as the New York day was beginning. Sterling was swept strongly ahead on successive waves of demand to a closing level of 2.0517. Subsequently business was transacted as high as 2.0542. Forward sterling was very strong with periods out to three months trading at or through the interest arbitrage points. Three months' cover cost 1 9/16% p.a. at the close.

Sterling gained another 3/8% on each of the deutschemark (3.81 1/4), French franc (8.77 7/8) and Swiss franc (3.45). Continental currencies moved largely in line with each other. The Swiss gave $14 mn. in support of their franc - which closed at 1.6819 - and sold a further $38 mn. in cover of capital exports. The Danish krone (5.1632) replaced the lira (839.10) at the head of a snake which was still 2 1/8% in width at the finish. The Danes bought $15 mn. and $2 mn. of marks; the Italians bought $50 mn. and the French took in $35 mn. of marks. On the divergence indicator the pound improved to - 13 and the punt to - 7. In Tokyo the yen eased to 206.42, the Bank of Japan selling $19 mn. In London it closed at 2.0646.

Gold was in demand before ever the exchanges came onto the boil. Strong demand at this morning's fix set a price of $244.30 and this afternoon the price was fixed yet higher at $245.25.

Operations:	Market	+ $210 mn.
	Iraq	+ 20
	I.D.A.	+ 5
	Sundries	+ 1
		+ $236 mn.
	Overnight	+ $11 mn.

26th March 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th March 1979

News from the O.P.E.C. conference threatened to engulf the dollar at times to-day and carry sterling up in consequence. In the event, however, a reprieve was granted, in part, perhaps, because the fear exceeded the reality and in part, no doubt, because dealers had taken precautionary positions in advance. Sterling was not heavily traded but was not without its detractors: nonetheless it closed quite firm with the ERI a notch higher at 65.6.

The pound closed at 2.0530 in New York yesterday after business as high as 2.0565. This morning sterling began at 2.0535 and met only modest demand at first. When buyers showed their hand, the pound traded up to 2.0569 but otherwise meandered dully around 2.0550. Later, the first signs from Geneva took the dollar down and sterling, in particular, was marked up swiftly to 2.0572. The movement was short-lived, however, since a closer scrutiny of the O.P.E.C. agreement appeared to show the dollar in a better light. Selling of pounds generally developed and sterling fell in rapid order to 2.0497. Thereafter, the market traded erratically with the trend quite uncertain. The pound again saw 2.0497 after New York opened but recovered as sharply to 2.0551 before closing at 2.0542. Forward sterling remained strong with discounts little changed. The three months' was 1 9/16% p.a. and again traded through the interest arbitrage level.

Sterling gained a further 3/8% against both the deutschemark (3.82 3/4) and French franc (8.80 7/8) and 1/4% on the Swiss franc (3.46). The latter proved the main feature, closing lower against the dollar at 1.6845 but better against the mark. All this, however, was achieved after sales by the Swiss National Bank of $249 mn. in support and a further $39 mn. in cover of capital exports. The French franc was 4.2880 and the deutschemark 1.8630. The French swapped out $60 mn. The Danish krone (5.1797) and Belgian franc (29.45) continued to surround the snake which remained a little over 2% in width. The punt moved up the band to join the lira in the second rank. On the divergence indicator the punt and pound improved to - 28 and - 36 respectively. The yen weakened in New York yesterday and the Bank of Japan gave up $111 mn. in support. This morning it closed without support at 207.05 in Tokyo. In London it firmed slightly to 206.93.

Gold firmed further this morning and was fixed at $246.30. This afternoon, having fallen back before the better dollar, it fluctuated aimlessly in mirror image of the exchanges. The later fixing was $244.35.

Operations:	Market	+ $23 mn.
	France	+ 21
	Government	- 38
		+ $7 mn.
	Overnight	- $14 mn.

27th March 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th March 1979

Sterling was firm again this morning and attracted some demand. The strength was dissipated, however, this afternoon as the effects of a large commercial selling order began to tell. The ERI fell to 65.5 as a result.

The pound fell to 2.0502 yesterday in New York where a large commercial offering late in the London day caused some indigestion. Any ill-effects had worn off by this morning, however, and sterling opened at 2.0540, trading up to 2.0552 on some solid interest, both from the Far East and Continent. The rest of the morning saw the pound fluctuating quietly around the opening level. Early this afternoon, however, yesterday's commercial seller returned, again in size and again with a taste for deutschemarks. Both pound and dollar eventually sagged as a result and sterling was traded down to 2.0483 before closing at 2.0495. Forward margins were again steady as both dollar and sterling deposits eased. Three months' cover cost 1 9/16% p.a. again and this produced interest parity.

Sterling gave up 1/4% to each of the Swiss franc (3.45) and French franc (8.79 1/8) and naturally lost 3/8% to the deutschemark (3.81 1/2) which was preferred in its stead. The Swiss franc was again heavily supported by the National Bank who expended $98 mn. in the market in addition to $58 mn. sold in cover of capital exports. $820 mn. were swapped in over the end-quarter. The franc closed slightly firmer at 1.6829. The deutschemark was 1.8619 and the French franc 4.2892. The franc more than gave up yesterday's modest gains on the mark. The Italian lira (838.35) regained supremacy in the snake from the Danish krone (5.1740). The Italians bought $61 mn. and the Danes sold $5 mn. and $2 mn. of marks. The Belgian franc (29.44) continued to prop up the band which closed at 2 1/8% in width. On the divergence indicator, the punt was -15 and the pound -23. The Bank of Japan sold $11 mn. in New York yesterday to keep the yen steady but allowed a decline to 207.55 this morning in Tokyo, while selling $50 mn. In London, it sagged further to 208.12.

Gold found some support in New York yesterday at the day's lower levels and traded steadily to-day. Fixings were $243.75 and $244.40.

Operations:

Market	+ $78 mn.
Ireland	+ 51
British Gas (PSB G'teed)	+ 2
Government	- 18
Bangladesh	- 10
Sundries	- 4
	+ $99 mn.

28th March 1979.

J.G.H.

SECRET 1979/13

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 28th March 1979

Sterling was again in good demand at times, gaining 0.6 in effective terms to 65.5 after 65.6, the best level for over a year. The O.P.E.C. conference kept markets in suspense; the dollar closed slightly lower in most centres.

From 2.0302 at the London close on 21st March, sterling softened at first on the prospect of an early election. However, a suggestion in the Saudi Arabian press that Arabs should invade Gaza set the dollar back, and sterling firmed up, coming into some commercial demand and then meeting buying interest from New York on Friday. The money figures had little effect. The pound was heavily bought again after the weekend; in spite of official intervention the rate rose to 2.0572 at one time on Tuesday. Political uncertainties were brushed aside; and the prospect of a large increase in oil prices was good for sterling. The market then eased back, a trifle nervous ahead of the censure debate, and sterling closed the period at 2.0495 after some commercial selling. The cost of forward cover was little changed at 1 9/16%, but a rise in sterling interest rates eliminated the small intrinsic discount.

The dollar held up quite well against uncertainty over the oil price, although it was knocked back by the advocacy of Arab aggression as a protest against the peace treaty and then by some of the wilder forecasts of the outcome of the O.P.E.C. conference. Another fall in money supply was posted, perhaps helping the market to digest the biggest rise in consumer prices for 4 1/2 years. On balance, the dollar eased against most currencies. The Fed. themselves did not intervene in the market, but the dollar was sold in operations by other central banks. The SNB were the main sellers of dollars ($610 mn.), partly to cover capital exports; their franc improved 0.6% to 1.6829. They bought dollars spot and sold them forward to ease the domestic money market. The Japanese again supported the yen, though to a lesser extent ($350 mn.) than earlier in the month. It weakened to 208.12, worries about oil and inflation keeping it down. The snake was well stretched at times, closing 2 1/8% wide, but under no real pressure. Despite political uncertainty and charges against central bank officials, on top of worry about inflation and a less strong trade position, the lira gained 1/4% to 838.35 and recaptured top position which it had earlier ceded to the Danish crown (5.1740). The Bank of Italy bought $110 mn. The Belgian franc (29.44) remained in bottom seat. The mark and the French franc showed similar modest gains on the dollar, to 1.8619 and 4.2892 respectively. The Bundesbank sold $110 mn. to cover capital exports. German external trade remains strong, and French inflation in February was comparatively modest. The French bought a few marks. The punt sat comfortably in the upper half of the snake, well away from its divergence threshhold. The Canadian dollar continued firm, closing at 85.86; a general election will be held on 22nd May. Sterling gained further ground on the main continental currencies, the mark going to 3.81 1/2 and the French franc to 8.79 1/8.

Gold improved as the O.P.E.C. meeting got under way, fixing at $246.30 on Tuesday morning. The price later receded to $244.40, a gain of $4 1/2 over the period.

29th March 1979.

PAB

RATES, ETC.

10.15 a.m. 22nd. March		10.15 a.m. 29th. March
2.0345	£/$	$ 2.0516
65.0	Effective exchange rate index	65.6
19/16 % disc.	Forward 3-months	13/8 % disc.
10 11/16 %	Euro-$ 3-months	10 9/16 %
1/4 %	I.B.Comparison	3/16 % pm.
1.8635	$/DM	1.8655
3.79 1/8	£/DM	3.82 3/4
8.73 1/8	£/FF	8.80 3/8
206.35	$/Yen	208.82
$243	Gold	$242.10
1.6895	$/S.Fc.	1.6872
3.43 3/4	£/S.Fc.	3.46 1/8

D.M. and SWISS FRANC

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th March 1979

Sterling reacted slowly to the fall of the Government and for much of the day the market's focus was on the dollar which had strengthened markedly in the wake of a much reduced trade deficit. Later this afternoon, however, the pound met very heavy demand. The ERI closed higher at 65.7. The 1% increase in Discount Rate by the Bundesbank did nothing to halt the progress of either the pound or the dollar.

New York traded sterling up to 2.0553 yesterday as short positions were covered but, following the US trade figures, the pound retreated, in concert with other currencies, to close at 2.0505. Sterling opened at 2.0525 this morning and dipped to 2.0510 on the early exchanges only to recover in late morning as the dollar eased slightly. Despite the Bundesbank's announcement, New York returned to bid up the dollar again and only sterling stood firm. Buyers of sterling gradually showed their hand, with Parisian and London names as first predominant. Very late in the day, Americans came in forcefully and sterling finished the day very well bid indeed. The rate touched 2.0558 before closing at 2.0550. After the close, the pound was bid up to 2.0583. Neither the announcement of the General Election nor President Carter's publicised fears over the inflationary impact of a teamsters' settlement had any more impact than the Bundesbank's announcement. Forward sterling was again very strong as eurosterling deposits were placed. Three months' cover cost 1 1/2% p.a. and sterling appeared to command an intrinsic premium of nearly 1/4%.

The pound jumped by 3/8% against the French franc (8.82 3/4), 1/2% against the deutschemark (3.83 1/2) and 5/8% against the luckless Swiss franc (3.47 1/4). The Swiss shelled out $228 mn. in support of their franc which closed around the day's low at 1.6895. The deutschemark eased to 1.8664, despite the increase in interest rates which was larger than expected, and the French franc fell to 4.2957. The French bought $54 mn worth of marks: their franc improved to 2.30 1/8 to the mark. For the first time since the inauguration of EMS the snake - with the lira still at the head at 839.60 - closed beyond the otherwise maximum spread of 2 1/4% in width. The second-place Danes bought $28 mn. while the Italians and Dutch sold $12 mn. and $17mn respectively. On the divergence indicator sterling rose to -43 and the punt to -35. These compared with the Danish krone's -48. The Japanese yen received massive support. In New York yesterday, the Bank of Japan sold $149 mn. and in Tokyo this morning they spent $432 mn. It closed at 208.80 and eased further in London at first before recovering to 208.32.

Gold was softer in response to the U.S. Trade figures. Fixings were $241.60 and $241.50.

Operations:	Market	+ $171 mn.
	Interest	+ 39
	Government	+ 16
	Sundries	- 2
		+ $224 mn.

Overnight: + $66 mn.

29th March 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 30th March 1979

In a rousing finale to a hectic week, sterling's burgeoning strength carried the punt to the top of the 2 1/4% currency grid and caused the Irish authorities to abandon their historic parity with sterling. Enormous demand for pounds ensued and persisted until late in the day when the Chicago I.M.M. began profit-taking. Sterling's ERI rose from 65.7 to 66.2 at noon and closed at 66.1. The dollar otherwise remained firm and the Japanese and Swiss currencies again required substantial support.

The pound was heavily bought in the U.S.A. yesterday and traded up to 2.0625 before closing at 2.0605. This morning it began at 2.0605 and, with the official hand firmly in control, fluctuated between 2.0594 and 2.0615 on the opening exchanges. Gradually buyers of pounds came in and sterling inched higher, pulling the punt up to (and for a while beyond) the top of the snake. The Irish effectively broke the link shortly after 11 a.m. By then demand for pounds was mounting but with that a tidal wave overwhelmed the currency and it was swept up to 2.07. This afternoon returning Americans had one final push for pounds and business was transacted up to 2.0713. The opening of the Chicago I.M.M. however, brought the first serious profit-taking and sterling came back quickly to close at 2.0665. After the close a familiar commercial selling interest was revived in size and sterling fell to 2.0620, little higher than the day's opening level. Three months' cover again cost 1 1/2% p.a., with three month forward sterling trading at or through the interest arbitrage level.

Sterling gained 5/8% on both the French franc (8.88 1/4) and deutschemark (3.86 1/8) and a full 1% on the sickly Swiss franc (3.50 5/8). The Swiss sold $209 mn., only $5 mn. of which were in cover of capital exports. Their franc finished at 1.6967. The Bundesbank sold $100 mn., the mark closing at 1.8684. The French did nothing. Their franc was 4.2982; it firmed to 2.30 against the mark. The Belgian franc (29.58) remained at the tail of the snake throughout. The Italian lira was the lead currency for most of the day. It closed at 839.90 after official sales of $26 mn. 2 3/8% was the width of the band. Within the narrower 2 1/4% confines, the Irish punt was at or beyond the upper extreme for most of the session. It closed at 2.0590, at its full distance from the franc. The Irish appeared to sell sterling equivalent to $31 mn. and $20 mn. but later denied that this was intervention. The Belgians sold punt equivalent to $3 mn. On the divergence indicator, sterling was - 76 and the punt - 41. In Tokyo this morning, the Japanese expended a further $494 mn. to effect a close for the yen of 209.30. Later it breached 210 in London before closing at 209.74.

Gold weakened further, fixing at $239.65 and $240.10.

Operations:		
	Market	+ $364 mn.
	Ireland	+ 62
	British Gas (PSB G'teed)	+ 2
	Bangladesh	- 10
		+ $418 mn.
	Overnight	+ $14 mn.

30 March 1979.

J.G.H.

The result for March is an increase of $5,330 mn. to a reserve level of $21,947mn., after net public sector debt repayments of $180 mn. $4,493 mn. of the increase is attributable to the revaluation of the reserves. The overbought forward position was increased by $471 mn. to $1,519 mn.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd April 1979

Sterling continued firm today although demand was rather more subdued than of late and certainly less broadly based. Elsewhere the dollar went from strength to strength and was restrained only after massive Central Bank intervention. Sterling's ERI rose to 66.5.

Having been sold in London late on Friday, sterling was bid up again in New York to close at 2.0702. This morning it opened quietly at 2.0733 but soon met a rush of buyers in London itself, which saw business up to 2.0748. Meanwhile the dollar was advancing fast and, when a large Swiss came in to sell pounds, sterling retreated readily to 2.0664. Early this afternoon, European professionals returned to buy and sterling topped 2.07 again, only to tail off with the dollar towards the close which came at 2.0685. Forward sterling improved again. Three months' cover cost 1 1/4% p.a. and sterling again commanded a small intrinsic premium.

The pound picked up 7/8% against the deutschemark (3.89 1/2), 5/8% against the French franc (8.93 7/8) and 1/2% on the Swiss franc (3.52 1/4). The Swiss sold $398 mn. in support and $141 mn. in cover of capital exports. Their franc eased to 1.7030 (after 1.7070). The Bundesbank sold $525 mn. (of which all but $80 mn. was reportedly for Federal Reserve account). The deutschemark closed at 1.8832 (after 1.8857). On Friday the Federal Reserve sold $10 mn. against marks and $8 mn. against Swiss francs. Meanwhile in Tokyo this morning the Bank of Japan lost a further $635 mn. and the yen weakened to 211.10. In London it closed at 211.62 (after 211.87). The snake, anchored still by the Belgian franc (29.76), was fully stretched. The Danish krone (5.2252) was 2 1/4% off the floor and the lira (842.25) 2 3/4% above. The Italians took in $70 mn. The Danes bought $9 mn. and $29 mn.-worth of Belgian francs. The Belgians sold $20mn.-worth of Danish kroner. On the divergence indicator the punt was -43 and sterling -108. The punt closed at 2.0385, 1 1/2% discount on sterling.

Gold was quiet and without any definite trend. Fixings were $240.05 and $239.70.

Operations:

Market	+	$106 mn.
I.D.A.	+	7
Sundries	-	6
	+	$107 mn.

2nd April 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 3rd April 1979

A much less consequential session today saw sterling lose a little of its recent shine. The dollar remained firm, though with much less upward pressure: save against the yen, whose sun continued in decline. Sterling's ERI fell to 66.4 (having risen to 66.6 at noon).

The pound closed at 2.0687 in New York yesterday. This morning it opened at 2.0695 and eased to 2.0640 on the opening exchanges on selling from Switzerland. This operation was evidently in reversal of a position taken yesterday against the yen. Thereafter sterling settled down to trade comfortably in its established range, standing firm around midday (when the dollar firmed elsewhere) on buying for the Continent. This afternoon, the reserve figures made little impact. The pound traded off to 2.0623 at one stage in concert with the dollar, but closed comfortably enough at 2.0652. Forward margins narrowed again, the three months' to 1% p.a. discount. This gave sterling an intrinsic premium of 1/8%.

Sterling lost 1/4% to the deutschemark (3.88½) and 1/8% to both the Swiss franc (3.51 7/8) and French franc (8.92 5/8). Central Bank support for the currencies was much diminished during the European day. In New York yesterday, however, the Federal Reserve sold $297 mn. (of which all but $20 mn., split between the yen and Swiss franc, were for deutschemarks). Additionally, the Swiss sold $17 mn. and the Japanese a further $197 mn. Furthermore, in Tokyo this morning the Bank of Japan spent $499 mn., while allowing a substantial fall in the yen to 214.40. In London the yen improved to 213.47. The Swiss National Bank today sold $84 mn. and their franc closed little changed at 1.7040. The deutschemark was slightly firmer at 1.8811 after Bundesbank sales of $50 mn. on Federal Reserve account. The Belgian franc (29.76) continued to underpin the snake. The Lira (842.30) again closed 2 3/4% above the franc after Italian purchases of $30 mn. The Danish krone (5.2240) was at the full 2 1/4% spread. The Danes bought $8 mn. and $8 mn.-worth of Belgian francs. The French franc was unchanged at 4.3220. The Bank of France swapped out $50 mn.

Gold attracted a few cheap buyers in front of tomorrow's I.M.F auction. Fixings were successively higher at $239.90 and $240.00.

Operations:		
	Government	+ $ 5 mn.
	Crown Agents	- 5
	Sundries	+ 11
		+ $11 mn.

3rd April 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 4th April 1979

For the second successive day, the exchanges were relatively subdued. Pound and dollar were each a touch firmer while the yen continued suspect. Sterling's ERI recovered to 66.5.

The pound closed at 2.0657 in New York yesterday and began today at 2.0670. The entire session was passed in an unusually narrow trading range between extremes of 2.0647 and 2.0687, both seen this morning. The higher level came in the wake of some keen interest from a Swiss source, countered later by some professional off-loading from Scandinavia. Otherwise there was little activity of note and sterling closed at 2.0667. Forward margins widened slightly, the three months to 1 3/16% p.a. discount. Sterling reverted to a small intrinsic discount.

The pound regained ⅛% on each of the Swiss franc (3.52½), French franc (8.93½) and deutschemark (3.89). Yesterday in New York the Federal Reserve sold a further $354 mn. for deutschemarks, while the Japanese added another $82 mn. in support of the yen. The Swiss, too, sold an additional $98 mn. after hours. This morning in Tokyo, the Bank of Japan spent a mere $93 mn. The yen closed there unchanged at 214.40, easing slightly thereafter in London to 214.55. The Swiss sold $113 mn. today (swapping in $30 mn.). Their franc was 1.7052 at the finish. The Bundesbank confined themselves to swapping in $500 mn. in order to restore some of the liquidity which the last few days' intervention has taken out of the system. The deutschemark closed at 1.8825. The snake retained its recent shape. The lira (842.05) was 2 7/8% above the Belgian franc (29.77). The Danish krone (5.2297) headed the narrower band which was 2 3/16% in width. The Italians took in $35 mn. and the Danes $5 mn. worth of Belgian francs. On the divergence indicator, the punt was -36 and sterling -98.

Gold was rather more active immediately before the I.M.F. auction, although fixing levels were little changed at $239.80 and $239.75.

Operations:	Market	+$15 mn.
	Ireland	+ 83
	Iraq	+ 10
	Government	+ 6
	Sundries	+ 5
		+$119 mn.
	Overnight	+ $12 mn.

4th April 1979.

J.G.H.

1979/14

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 4th April 1979

Sterling was again in heavy demand, rising 1.0 in effective terms to 66.5 after 66.6 at one time on Tuesday. The Irish chose to break the link between their currency and the pound. The dollar was also strong; the mark, the Swiss franc and especially the yen received massive support.

From 2.0495 at the London close on 28th March, sterling fell at first in the backwash of a commercial selling order from the Continent, and made a slow start on Thursday morning. The government's defeat on Wednesday night may have made for some nervousness. As Thursday went by, however, buyers gathered strength, and enormous and widespread demand swept the pound above 2.07 on Friday, leading the Irish to break the link with their punt in mid-morning. Some late profit-taking took the edge off the rate, which closed the day at 2.0665 against a dollar which itself was strong. Sterling remained firm after the weekend, though less exuberant, closing on Wednesday at 2.0667 after a best level of 2.0748 on Monday morning. The virtual immunity from the effect of oil price increases which the balance of payments enjoys, high interest rates and, perhaps, the prospect of a Conservative government, account for the strength. The week's economic news - the caretaker budget, the March reserves and continuation of the Supplementary Special Deposit scheme - had no apparent impact. The cost of forward cover declined by ⅜% to 1 3/16%, but a fall in inter-bank sterling rates put sterling at an intrinsic discount of 1/16%.

The dollar was also very strong, gaining in all main centres except London despite massive official sales by some central banks. The market welcomed the U.S. trade figures for February - a sharply reduced deficit of $1.3 bn. - although much of the improvement apparently came from an interruption to oil imports from Iran. An increase in weekly money supply was brushed off, as was the start of a lorry-drivers' strike. The Fed. themselves bought $920 mn. worth of currencies in the market, mostly marks. Even this, together with a 1% increase in discount and Lombard rates and $630 mn. of support by the Bundesbank, did not prevent the mark falling over 1% to 1.8825. The Bundesbank bought dollars back on a swap basis to relieve liquidity shortages. The Swiss franc fell even further, by 1¼% to 1.7052, despite $1,330 mn. of support. However, to 214.55 the sharpest fall (3%*) and the heaviest support (over $2,500 mn.) were reserved for the yen. Especial vulnerability to oil price increases and threat to supplies, worries about inflation, and perhaps signs of a weakening in the trade position, have all contributed to the yen's fall. The lira, in contrast, had an easy time of it, closing top of the snake at 842.05 after modest ($100 mn.) accruals to the reserves, despite the resignation of yet another government. The lira ended 2 13/16% above the bottom snake currency, the Belgian franc (29.77), which stood 2 3/16% below the strongest 2¼% currency, the Danish crown (5.2297). The Danes bought $50 mn. and some Belgian francs; the Belgians sold a handful of Danish crowns and punt. In mid-snake, the French franc and the guilder fell back against the dollar, to 4.3235 and 2.0285 respectively. The French bought $50 mn. worth of marks; the Dutch gave their currency light support. The Irish pound settled at a discount of about 2¾ cents against sterling; it is not clear whether the Irish intervened

immediately before the break, but they have not needed to since. The Canadian dollar was again firm, allowing the central bank to buy $550 mn. for the reserves. Sterling made handsome gains on the main continental currencies, improving 2% against the mark to 3.89 and rising 1⅝% to 8.93½ against the French franc.

Gold fell nearly $4¾ to $239¾ against the stronger dollar. The I.M.F. auctioned 470,000 ounces at an average price of $239.21.

5th April 1979

P.A.B.

RATES, ETC.

10.15 a.m. 29th March		10.15 a.m. 5th April
2.0516	£/$	2.0673
65.6	Effective exchange rate index	66.5
1 3/8% disc.	Forward 3-months	1 3/16% disc.
10 9/16%	Euro-$ 3-months	10 1/2%
3/16% pre.	I.B.Comparison	1/16% disc.
1.8655	$/DM	1.8840
3.82 3/4	£/DM	3.89 1/2
8.80 3/8	£/FF	8.94 1/8
208.82	$/Yen	214.50
$242.10	Gold	$240 3/4
1.6872	$/S.Fc.	1.7041
3.46 1/8	£/S.Fc.	3.52 1/4

cover cost 15/16% p.a. at [illegible]

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 5th April 1979

The American appetite for pounds was whetted once again following the reduction in Minimum Lending Rate today and, with the official grip now that much more relaxed, sterling's ERI closed at 66.7, its highest level for over a year. Continental markets were again subdued: the dollar remained firm and strengthened with sterling.

The pound closed better at 2.0702 yesterday in New York, where some demand was in evidence, perhaps ahead of today's M.L.R. announcement. This morning, however, sterling opened at 2.0675 and touched 2.0662 on the opening exchanges. Two-way business was transacted through the morning but there seemed no inclination for sterling to firm and the rate was still around the opening level when the 1% reduction in M.L.R. was announced. The pound dipped momentarily, met a brief burst of buying interest, which took the rate to 2.0683, and settled back around the opening level to await the return of New York. Demand for pounds then built steadily and the rate advanced slowly with operators assuming that the authorities were again dictating the pace. Late in the day, the Chicago I.M.M. gave impetus to the movement and sterling touched 2.0728 before closing at 2.0718. After the close, a newswire report, suggesting that official tactics in the market had changed, caused a sharp uplift and the pound was traded up to 2.0765. Forward margins naturally narrowed after the reduction in M.L.R. Three months' cover cost 15/16% p.a. at the close and the intrinsic discount was 1/16%.

Sterling added 1/4% on the French franc (8.96 1/8), 3/8% on the Swiss franc (3.54) and almost 1/2% on the deutschemark (3.90 3/4). Following sales of $152 mn. for deutschemarks by the Federal Reserve yesterday (and a further $22 mn. sold on Japanese account), intervention today was minimal. The Swiss sold $20 mn. (net) in cover of capital exports, the French bought $9 mn.-worth of marks and the Germans swapped in a further $500 mn. to relieve the strain on liquidity. The mark was 1.8858, the Swiss franc 1.7082 and the French franc 4.3255. The snake closed fully stretched between the Belgian franc (29.84) and Danish krone (5.2375). The Lira (841.15) stood 3 3/16% above the franc. On the divergence indicator the punt was -36 and sterling -114. In Tokyo, the yen closed at 214.60 and the Japanese did not intervene. In London, the yen eased to 215.15.

Gold was a more active market and the price firmed following the I.M.F. auction yesterday (470,000 ounces sold at an average price of $239.21). Fixings were $240.50 and $240.65.

Operations:	Market	+ $33 mn.
	Iraq	+ 10
	Ireland	+ 10
	Interest	+ 10
	Crown Agents o/a Brunei	+ 8
	BIS o/a Nigeria	- 21
	Sundries	+ 4
		+ $54 mn.

Overnight + $8 mn.

5th April 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Friday, 6th April 1979

The freeing of Jack this morning brought few traumas in its wake. Indeed the pound sailed swiftly into calmer waters, with well-matched cross currents making for a halcyon day. The dollar was very firm again. Sterling's ERI rose to 67.4.

The pound closed at 2.0802 last night in New York where American demand continued following yesterday's press reports of a change in official market tactics. This morning the London market opened early and sterling was inevitably wanted. Starting at 2.0845 it moved by steady steps, to 2.0905, pausing for breath at times, before the first major break occurred. London banks were the initial takers. When the Continental dealers entered the fray, sterling was bid up again from 2.0865 to 2.0925 but again refused to rise any further without profit-taking setting in. An excellent two-way market then developed, with commercial sellers not slow to cover requirements at the new exalted levels. The pound traded down as low as 2.0853. This afternoon sterling shot ahead again in front of New York's return but again refused to top 2.0920 since some operators evidently were persuaded of an official presence. In the event, Americans did not rush for pounds but an interesting two-way market again developed with sterling retreating to 2.0855 before closing at 2.0895. Forward margins narrowed sharply but widened again this afternoon as comparable transatlantic interest rates began to diverge again. The cost of three months' forward cover was 11/16% p.a. at the close and sterling commanded an intrinsic premium of ⅛%.

The pound gained all of 1⅛% on both the Swiss franc (3.58⅛) and French franc (9.06⅛) and nearly 1¼% on the deutschemark (3.95½). The Swiss franc again floundered. Having sold $299 mn. after hours yesterday, the Swiss National Bank shelled out $358 mn. today (of which $103 mn. were three months' outright). Additionally $385 mn. were swapped in to ease liquidity. The Swiss franc weakened to 1.7138. The Bundesbank too, yet again swapped in $500 mn. to relieve liquidity strains as well as selling $100 mn. (half of which was apparently for Federal Reserve account). The deutschemark eased to 1.8928. Ironically the yen alone stood up to the dollar. The Bank of Japan sold $100 mn. in New York yesterday and $50 mn. in Tokyo this morning but managed to prevent any further weakening. The Tokyo close was 215.30 while London ended at 215.35. The snake remained fully taut for much of the day between the Belgian franc (29.89) and Danish krone (5.2475). The Belgians sold $29 mn.-worth of kroner and the Danes bought $19 mn.-worth of francs and a few marks. The French franc was comparatively firm and, while easing to 4.33⅜ to the dollar, closed at 2.29⅛ to the mark. The French took in $13 mn. of marks. The lira (842¼) finished 3¼% above the floor of the band. The punt also appreciated within the snake and the Irish apparently sold both dollars and sterling; once more, however, this was not classified at intervention. On the divergence indicator, the punt was -35 and sterling -162.

Gold reacted to the stronger dollar and eased slightly in modest trading. The price was fixed at $239.85 and $239.75.

Operations:		
	Market	+ $40 mn.
	Ireland	+ 63
	India	+ 10
	EEC	- 66
	Sundries	+ 4
		+ $51 mn.

6th April 1979.
.TGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 9th April 1979

Another balanced session saw sterling swing very much in Friday's same range. The dollar was again very firm and sterling's ERI advanced as a result to 67.6.

The pound fell a half cent on profit-taking in New York on Friday to close at 2.0842. This morning the movement was largely ignored and sterling began at 2.0931, touching 2.0940 on the opening exchanges. Sellers soon emerged, however, as the dollar forged ahead and the pound came back steadily to 2.0862 by mid-morning. The rest of the day passed comfortably in that range; New York took profits in the dollar and sterling rose again to 2.0943 before closing at 2.0925. Later, good demand for pounds from Chicago saw sterling as high as 2.0975. Forward margins fluctuated narrowly as interest rates dictated. Eurodollar deposits firmed sharply over the day as fears of an imminent tightening in Federal Reserve policy began to take hold. Inter-bank sterling deposits continued to firm but turned easier at the day's end. Three months' cover cost ⅞% p.a. at the finish which left sterling with an intrinsic discount of 1/16%.

Sterling gained ¼% on each of the French franc (9.12⅜), Swiss franc (3.60¼) and deutschemark (3.98⅜). The latter two again received massive support. On Friday the Federal Reserve sold $250 mn. for deutschemarks. Today the Bundesbank sold $200 mn. spot (of which at least $100 mn. for American account) and $100 mn. outright forward. The deutschemark eased to 1.9035. The Swiss sold $232 mn. spot and $175 mn. outright forward. Their franc weakened to 1.7242. The yen, by contrast, went unsupported and closed slightly better at 214.40 in Tokyo and 214.32 in London. The snake was less than fully stretched between the Belgian franc (30.07) and Danish krone (5.2852). The lira (843.65) was 3⅝% above the floor and the Italians took in $35 mn. The French, too, added $22 mn. of marks to their reserves, keeping their franc around 2.29 to the mark. It eased to 4.3597 to the dollar. On the divergence indicator, the punt was -38 and sterling -192.

Gold was quiet and steady. Fixings were $240.00 and $240.20.

Operations:	Market	+ $20 mn.
	Ireland	+ 63
	Lothian Regional Council (PSB G'teed)	+ 12
	IDA	+ 11
	British Gas (PSB G'teed)	+ 3
	BIS o/a Nigeria	- 21
	New Zealand	- 8
	Sundries	+ 8
		+ $88 mn.
	Overnight	+ $63 mn.

JGH

9th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th April 1979

Having been swept upwards yesterday on keen interest from the United States, sterling met very active two-way business today. Several heavy sellers were attracted in at the new higher levels but fresh demand was always somehow generated and the pound finished the day on an even keel. The dollar gyrated in sympathy with sterling. The ERI closed at 67.8 after 68.0 this morning.

American commercial interests and the Chicago IMM were heavy buyers of sterling yesterday afternoon in the USA and the pound traded up to 2.1070 before closing at 2.1060. This morning sterling opened strongly at 2.1040 and saw business up to 2.1050. However, sellers were again quick to show their hand, attracted not so much by the passing of the $2.10 barrier as the fact that the pound had crossed the DM 4.00 line for the first time for over a year. One large operator was seen for as much as £100 mn. on investment account - the funds certainly to come out of gilts - and there were other smaller but sizeable offerings of a similar kind as well as the usual commercial corporations keen to cover their currency needs. Sterling eased but only at a measured pace falling to 2.0970 before a few cheap buyers steadied the market. This afternoon, Americans returned to buy pounds and dollars, though not on yesterday's frenzied scale. Sterling traded up to 2.1060 but was sold just before the close and finished at 2.1028. Forward margins were steady. Three months' cover cost ⅞% p.a. The adverse covered differential widened to 3/16% as dollar deposits firmed.

The pound closed well below its best levels against the major Continental currencies but still made up ¼% on both the Swiss franc (3.61¼) and deutschemark (3.99½) and ½% on the French franc (9.16¼). The hapless Swiss sold a further $377 mn. (including $15 mn. outright forward and $11mn. against exports of capital) while their franc strengthened to 1.7202. Yesterday the Federal Reserve sold $15 mn. against Swiss francs and $100 mn. against marks. Otherwise today's intervention was limited to the outsiders in the snake. The Belgians sold Danish Kroner equivalent to $14 mn. and the Danes bought $15 mn. and $8 mn. of Belgian francs. The franc closed at 30.07 and the krone at 5.2797 - 2¼% apart. The lira was 841½, almost 4% off the floor. The mark closed at 1.9002 and the French franc 4.3595. The punt slipped to over 4% discount on the pound and the Irish sold $40 mn.-worth of sterling. On the divergence indicator the punt was -35 and the pound -218. The yen firmed further, in Tokyo to 213.70 and in London to 212.67.

Gold eased slightly with fixings at $239.60 and $239.75.

Operations:	Market	+ $4 mn.
	Sundries	+ 7
		+$11 mn.
	Overnight	+ $6 mn.

JGH

10th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 11th April 1979

The market suffered its first real test of the past week when this afternoon's index from the Price Commission frightened many of sterling's new-found friends into selling out. The dollar retreated in sympathy and sterling's ERI fell from 67.9 this morning to 67.3 at the close.

The pound closed at 2.0998 in New York yesterday and opened very quietly this morning at 2.1010, touching 2.1013 on the early exchanges. After a while, some light selling materialised, pushing sterling below 2.10, but at these levels a good, balanced market again developed and by early afternoon the pound was again above 2.10. The Price Commission's index was not well received. Persistent selling set in from all quarters and sterling fell precipitately to close at 2.0895. After the close, selling continued from the USA and the pound was traded as low at 2.0865. Eurodollar deposits were very well bid this morning but closed below their highest levels. Sterling deposits firmed slightly too and forward margins were little changed. Three months' cover cost ⅞% p.a. and the intrinsic discount widened to 5/16%.

The pound gave up a full 1% to each of the deutschemark (3.95¾), Swiss franc (3.58½) and French franc (9.08). The Swiss sold only $9 mn. but swapped in a further $330 mn. Their franc firmed to 1.7142. The Belgian franc (30.02) and Danish krone (5.2760) continued to bracket the narrower snake which was fully stretched at times. The two Central Banks bought and sold each other's currencies in small amounts and the Danes took in $9 mn. The lira opened some 4⅛% above the floor of the band but closed at 841.55, only 3¾% off the base after official purchases of $35 mn. The mark was 1.8938 and the French franc 4.3455. On the divergence indicator, the punt was -30 and sterling -191. The yen closed at 213.40 in Tokyo and 212.62 in London.

Gold was easier, fixing at $239.10 and $238.35. After the second fixing, the price fell away rapidly to around $236.

Operations:	Market	-	$26 mn.
	IMF	-	27
	New Zealand	-	7
	Ireland	+	21
	Sierra Leone	+	11
	India	+	11
	Interest	+	10
	Government	+	8
	Sundries	+	6
		+	$7 mn.

11th April 1979.
JGH

SECRET 1979/15

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 11th April 1979

The pound went sharply higher this week following some relaxation of the official grip. Sellers were attracted, however, by the higher levels and a healthy, well-balanced market soon developed. The dollar's continued firmness, too, contributed to a rise in sterling's ERI from 66.5 to 67.3. On Tuesday the index stood at 68.0.

The pound began the week at 2.0675 and traded around that level for much of Thursday with no marked impact from the reduction in MLR until American buyers resumed their interest. Late in the day a newswire report suggested that official market tactics had changed and sterling firmed to 2.0802 in New York. The pound was in strong demand on Friday morning and advanced to 2.0925 before profit-taking set in. A vigorous two-way market then developed until late on Monday the Chicago IMM bid sterling up as far as 2.1070 - its highest level against the dollar for 3½ years. The pound opened strongly again on Tuesday morning and, incidentally, exceeded DM 4.00 for the first time for over a year. This hurdle, however, triggered heavy selling. Sterling eased gradually, since fresh buyers were readily found, and the rate fluctuated around 2.1000 until Wednesday. That afternoon, however, a sharp rise in the Price Commission's index, provoked general selling and sterling retreated to finish the week uncertainly at 2.0895. Forward margins narrowed further as comparable interest rates converged. Eurodollar deposits were well bid at the end of the week on fears of tighter US monetary policy. The cost of forward cover fell by 5/16% to ⅞% p.a., giving an intrinsic discount for sterling of 5/16%.

The level of official intervention, despite the dollar's strength, reduced markedly as the week progressed and nowhere more so than in Japan where the yen, looking now distinctly oversold, improved over the week to 212.62. The Bank of Japan sold only $150 mn. The Swiss franc, however, remained very uneasy and the National Bank sold nearly $1.7 bn., swapping in over $750 mn. to relieve the resultant strain on liquidity. The Swiss franc closed at 1.7142 (after 1.7282). The Bundesbank sold over $400 mn. (including $200 mn. for the Federal Reserve) and themselves swapped in $1 bn. Additionally, the Federal Reserve sold $½ bn., almost exclusively for deutschemarks. The mark finished the week at 1.8938 having earlier traded up to 1.9075. In the snake, the lira (841.55) rose as far as 4% and more beyond the Belgian franc (30.02). The Italians bought around $70 mn. The Danish krone (5.2760) led the 2¼% band and over the week the Danes and Belgians bought and sold each other's currencies. The French franc closed at 4.3455 and the French bought deutschemarks when the cross-rate neared 2.29. The Irish pound continued to slip away from sterling and reached a discount of 4¼% at one stage. The Canadian dollar continued firm and the authorities recouped nearly $700 mn. for their reserves. Sterling rose sharply against the major Continental currencies. It gained 1¾% against the mark to 3.95¼ and 1⅝% against the French franc to 9.08.

Gold was quiet and steady until Wednesday when bear selling from New York depressed the price. The final fixing that day was $238.35, little changed from a week before, but by the close the price had fallen to $236.00.

12th April 1979.
JGH

RATES, ETC.

10.15 a.m. 5th April		10.15 a.m. 12th April
2.0673	£/$	2.0870
66.5	Effective exchange rate index	67.4
1 3/16% disc.	Forward 3-months	1 1/16% disc.
10 1/2%	Euro-$ 3-months	10⅞%
1/16% disc.	I.B.Comparison	⅜% disc.
1.8840	$/DM	1.8971
3.89 1/2	£/DM	3.95⅞
8.94 1/8	£/FF	9.09⅛
214.50	$/Yen	214.40
$240 3/4	Gold	$235⅛
1.7041	$/S.Fc.	1.7180
3.52 1/4	£/S.Fc.	3.58½

Belgian franc (36.11) and Danish krone (5.2905) were 2⅛% apart at the

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Thursday, 12th April 1979

Sterling was sold this morning from the Continent but recovered later in an increasingly thin market. The dollar rebounded strongly after yesterday's fall. Sterling's ERI rose to 67.5.

The pound closed quietly at 2.0895 in New York yesterday and opened at 2.0892 this morning. Swiss and Scandinavian sellers appeared early to continue yesterday's bearish trend and sterling fell quickly and nervously to 2.0830. Once these sellers were clear, however, the pound gradually improved and, as many traders were already closing their books for the long weekend, a bear squeeze developed. Sterling climbed steadily to 2.0915 before settling around the opening levels. The Retail Price Index made little impact but Americans returned to buy the dollar and sterling eased modestly to close at 2.0867. After the close in a very thin and untidy market one or two small sellers sufficed to force sterling down by a cent. Forward margins widened, the three months' to 1% p.a. discount and the adverse covered differential rose to ⅜%.

The pound regained ¼% on the deutschemark (3.96¾) and ⅜% on each of the Swiss franc (3.59⅝) and Franch franc (9.11). The yen was hard hit by a report that Iran was cutting oil supplies to Japan; the Japanese sold $90 mn. in Tokyo this morning to effect a close of 213.90. In London the yen weakened to 215.30. The Swiss sold $152 mn. as their franc again eased to 1.7235. The snake was bedevilled by a holiday in Denmark. The Belgians sold $13 mn. of Danish kroner. The Belgian franc (30.11) and Danish krone (5.2905) were 2⅛% apart at the close, while the lira (843.35) was 3⅞% above the franc. The Bundesbank swapped in a further $1 bn. The deutschemark closed at 1.9014 and the French franc at 4.3660. The punt was 2.0172.

Gold met heavy selling at this morning's fixing which produced a price over $4½ lower than yesterday afternoon at $233.75. The afternoon was again fairly active with the price set at $233.95.

Operations:	Market	- $18 mn.
	Overnight and holidays	+ $6 mn.

12th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS.

Tuesday, 17th April 1979

Some interest in buying sterling was resurrected over the paschal weekend, following the pound's descent in New York last Thursday, but today was on balance notably quiet until New York dealers began with modest selling orders. The dollar fell out of favour again as operators laid off their bets that the Fed would soon tighten monetary policy, in the wake of overnight reports that Carter had told his advisers to lay off their pressure on the Fed for such a development. After 67.7 earlier, the ERI for sterling closed unchanged at 67.5.

On Thursday, the pound closed in New York at 2.0765; it rose again to 2.0810 on Good Friday and further to 2.0892 last night. After opening at 2.0890 in London today it slipped for a while on Far East selling, to 2.0847, but was quoted around 2.0875 for most of the day before the New York orders began to be felt. It closed at 2.0852. Eurodollar rates were marked lower as part of the general reaction to the lack of prospects for Fed tightening, the three months' period declining to 10¼%. With sterling interbank rates rising by ⅛%, the covered differential was reduced to 1/16% against London.

In Europe, sterling was little changed. The dollar began strongly, rising to over 1.91 in Germany, but it soon began to lose ground and ended up close to Thursday evening's levels. Before its reversal, however, the Germans had sold $150 mn. The snake had a steady day, though close to 2⅛% wide between the Danish krone (5.30⅛) and the Belgian franc (30.18). The French franc was a touch lower at 4.3720, the lira at 843.90 (4% above the Belgian franc) and the punt at 2.0075 (about 3⅛% discount on sterling). The Swiss sold $115 mn. late Thursday and over the weekend and $66 mn. today: their franc, after 1.7317, closed at 1.7231. The yen required further heavy support: $81 mn. late on Thursday and on Friday, $318 mn. yesterday and $295 mn. this morning. After 218.72, it closed in London at 217.15.

Gold lost about $2, trading actively in advance of tonight's US Treasury auction. Fixings took place at $231.75 and $231.90.

Operations:	Market	-	$4 mn.
	Iran	+	10
	IDA	+	7
	Sierra Leone	-	6
	Sundries	+	1
		+	$8 mn.

17th April 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 18th April 1979

The pound met rough water to-day. Persistent, but modest, selling rippled out from European professionals this morning and was followed by a more aggressive wave in the afternoon; the groundswell probably had its origin in gilt sales. The dollar rocked uneasily, too, as belief hardened against a firming of monetary policy. Sterling's ERI ebbed to 67.0.

New York was quiet last night, the pound closing there at 2.0845. It opened to-day 10 points higher and briefly touched 2.0862 before European selling began to tell. As the day progressed the rate drifted lower, the movement accelerating as New York sellers appeared. After 2.0727, sterling closed at 2.0743 - some ½% lower on the day. Forward margins moved out with three months' cover costing 1 3/8% p.a. and the covered differential widening to 3/8% against London.

Sterling yielded about 1% in Europe, closing at 3.93 in Germany, 3.55¾ in Switzerland and 9.04½ in France. The dollar shed some ½%, easing to 1.8944 against the deutschemark. The Italians bought $50 mn. as the lira improved to 842.85 (3 3/4% above the Belgian franc). The snake closed 2 1/4% wide between the Danish krone (5.28 1/8) and the Belgian franc (30.08). The French franc firmed to 4.3595 and the punt to 2.0172 (a discount of about 2 3/4% on sterling) the Irish bought $46 mn. (equivalent), including £15 mn. After yesterday's Bank Rate rise, the yen improved to 215.62.

At yesterday's auction, the US Treasury sold 1 million fine ounces of gold at an average price of $230.96 and a further 500,100 ounces of lower quality bars at $230.17. In London the gold price picked up because of the larger number of unsatisfied bids and the first fixing was at $234.50. It eased at the second fixing to $233.20 but rose sharply soon afterwards on news that the next American auctions would offer only 750,000 ounces; the closing price was $238.37.

Operations:

Market:	+ $12 mn.
Spot - 21	
Forward + 33	
Iran	+ 20
BIS	+ 6
Interest	+ 5
IMF (Oil facility)	- 81
Sundries	+ 3
	- $35 mn.
Overnight	- $12 mn.

18th April 1979.

DAHB

DAHB.

SECRET

1979/16

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 18th April 1979

Some profit-taking caused sterling to weaken by 0.3 in effective terms to 67.0, after 67.7 on Tuesday. Although an expected tightening in US monetary policy did not occur, the dollar improved fractionally in most centres. The yen was heavily supported again.

From an uneasy 2.0895 at the London close on 11th April, sterling weakened at first in the wake of the Price Commission's discouraging figures, until squaring off before the holiday weekend brought a technical recovery. However, sterling came on offer again in late trading on Thursday, falling a cent in a thin market. The ground was recovered by Tuesday morning, however, when the pound opened at 2.0892 in London; but it drifted down again, and then met heavier professional selling before closing the period at 2.0743. Profit-taking on gilts as well as on the exchange rate may have been behind the selling. The retail price and wages and earnings figures made little impact. The cost of forward cover increased to 1⅜%, but the covered margin against sterling widened only marginally, to ⅜%.

The dollar eased back after earlier strength, but still managed to gain against most currencies on balance. The expectation of higher US interest rates buoyed it up for a while, and the market did not seem unduly disturbed when remarks by Chairman Miller and President Carter indicated no tightening for the present. The prospect of yet another increase in oil prices in June was a slight dampener. As often around a holiday, trading was mostly light, though the Japanese and to a lesser extent the Swiss and the Germans again gave their currencies substantial support. The yen fell another 1½% to 215.62, after topping 218½; the Bank of Japan sold $800 mn., and the Fed bought $130 mn.-worth of yen. A report that Iran will cut oil supplies to Japan did the early damage, though a ¼% increase in discount rate (to 4¼%) eventually steadied the market. Both the mark and the Swiss franc eased back, to 1.8944 and 1.7155 respectively. The Bundesbank sold $280 mn. and the SNB $360 mn.; in addition, the Fed bought $60 mn.-worth of marks. The Bundesbank also bought $1 bn. spot and sold them forward, to relieve shortages in the domestic money market. The French franc slipped ⅜% to 4.3595; the lira also closed slightly lower at 842.85, but the Bank of Italy took another $100 mn. into the reserves. The lira remained comfortably top of the expanded snake, some 1½% above the strongest 2¼% currency, the Danish crown (5.2812) which in turn closed 2¼% above the weakest, the Belgian franc (at 30.08 registering 64 on the divergence indicator). The Irish pound (2.0172) remained in the upper half of the snake, above the guilder (2.0562). There was some official buying of Belgian francs against Danish crown, and the Bank of Ireland intervened modestly, buying dollars and sterling. The Canadian dollar advanced further to 87.71; the central bank added $630 mn. to their reserves. Sterling softened against the major continental currencies, for example to 3.93 against the mark and 9.04¼ against the French franc.

Gold fell ahead of the US Treasury auction on Tuesday. The bars in good delivery form fetched under $231 per ounce on average, but the number bid for sparked a rally in the market, which carried the price at the afternoon fix on Wednesday to $233.20, reducing the fall on the week to about $5. Gold rose sharply after the fixing on the news that the US authorities will halve the amount offered (to 750,000 ounces) from next month.

19th April 1979.
PAB

RATES, ETC.

10.15 a.m. 12th April		10.15 a.m. 19th April
2.0870	£/$	2.0749
67.4	Effective exchange rate index	66.9
1 1/16% disc.	Forward 3-months	1 9/16% p.a.
10⅞%	Euro-$ 3-months	10½%
⅜% disc.	I.B.Comparison	7/16% disc.
1.8971	$/DM	1.8833
3.95⅞	£/DM	3.90¾
9.09⅛	£/FF	9.00⅝
214.40	$/Yen	215.42
$235⅛	Gold	$240.25
1.7180	$/S.Fc.	1.7037
3.58½	£/S.Fc.	3.53½

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19th April 1979

Sterling improved this morning on the back of a dollar which continued to weaken and without noticeable buying interest. This help was returned this afternoon, however: when the pound rose strongly on a large buying order against deutschemarks, it pulled the dollar up with it. The ERI (66.8 at the opening) rose to 67.1.

Late selling from the West Coast depressed the pound in New York's final hour yesterday and the rate fell to 2.0695. It opened in London today at 2.0698 and had reached 2.0762 by noon. Quite soon a large buyer appeared, pushing the rate to 2.0831 before it eased to close at 2.0814. Forward margins were steady; the covered differential narrowed to ¼% against London.

In Europe, sterling was virtually unchanged compared to last night. The dollar, which at one stage showed a ⅝% loss against the deutschemark, rallied to yield only a net ¼% in Germany, where it closed at 1.8892 (the low was 1.8815). The EMS required no intervention: the Belgian franc (at 29.99) was 2 3/16% away from the Danish krone (5.2672) and 3⅝% away from the lira (842.10); its divergence indicator is creeping upwards and was 68 at the close. The French franc did better than most and strengthened to 4.3440. The punt closed at 2.0255 (2¾% discount, unchanged). The Swiss franc improved to 1.7095 but the yen was little changed at 215.50.

Gold continued its rally and fixed at $241 and $240.90 on modest turnover.

Operations:	Market	+	$7 mn.
	IMF repayment	-	1,004
	Sundries	+	4
		-	$993 mn.
	Overnight	-	$16 mn.

19th April 1979.

DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 20th April 1979

The dollar regained further strength after yesterday's first quarter American GNP figures and on the latest prospects for inflation; Miller's reference to the inappropriateness of relaxations in monetary policy was a further helpful factor. In quiet, featureless conditions sterling shaded a little lower: the ERI eased to 67.0.

A short spurt of selling in New York took sterling down to 2.0733 at yesterday's close there. After opening at 2.0765 today, the pound rose to 2.0780 and then declined in sympathy with the general trend in the dollar's favour, closing at 2.0663 (after 2.0655). Forward margins edged slightly wider, the cost of three months' cover rising to 1⅛% p.a. and the covered differential to 5/16% against London.

In Europe sterling again held steady. The dollar gained ½% although the Germans (- $216 mn.) and Swiss (- $64 mn.) tempered its rise. The deutschemark fell to 1.9035, in line with the snake's decline: the Belgian franc (30.18) and Danish krone (5.3010) lay 2 3/16% apart still and the lira kept its further distance at 3⅝% on a rate of 846.40. The Swiss franc closed at 1.7238, the French franc 4.3735 and the punt 2.0170 (2 7/16% discount): the Irish bought £16 mn. and $4 mn. In Tokyo the yen eased to 216.80, without any support, but in London it fell more sharply to close at 218.30 - a decline of over 1⅛% since last night.

Gold's strength proved to be a passing fancy. The dollar's revival was partly the cause but a further factor seemed to be a noticeable absence of firm buying. Fixings were at $237.80 and $236.40.

Operations:	Market	- $9 mn.
	Sundries	- 1
		- $10 mn.

20th April 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 23rd April 1979

St.George's Day found little to stir the exchanges from the somewhat indecisive mood which prevailed at the end of last week, although both pound and dollar flagged over the day. Sterling's ERI closed lower at 66.9, after 67.1 this morning.

The pound closed much firmer at 2.0722 in New York on Friday after Middle Eastern interest had seen business up to 2.0750. This morning it began at 2.0690 and touched 2.0714 in quiet, early dealings. Suddenly, however, a short, sharp bear raid from the Continent saw sterling back to 2.0660. Thereafter, the market was subdued. The pound soon recovered, as the dollar eased elsewhere and touched 2.0710 again early this afternoon on modest short-covering. Late in the day, however, sterling retreated again in sympathy with a declining dollar to close at 2.0670. Forward margins were little changed. Three months' cover cost 1½% p.a. and, with sterling deposits continuing to firm, the adverse covered differential was reduced to ⅛%.

Sterling lost ¼% to each of the Swiss franc (3.55½) and deutschemark (3.92½) and ⅛% to the French franc (9.02⅝). These all improved against the dollar to 1.7185, 1.8990 and 4.3672 respectively. No intervention was undertaken by the authorities, although on Friday the Federal Reserve had bought $25 mn.-worth of deutschemarks. The Japanese yen, however, continued to receive support. The Bank of Japan sold $101 mn. in New York on Friday and $146 mn. in Tokyo this morning. The close there was 218.60 but in London the yen recovered to 217.72. The snake closed fully stretched between the Belgian franc (30.12) and Danish krone (5.2877) with the lira (845.65) still 3⅝% above the floor. The Danes and Italians each bought $20 mn. The punt was 2.0127 (2 11/16% discount).

Gold was steady at the lower levels. Fixings were $236.75 and $236.85.

Operations:

Market	+ $15 mn.
PSB G'teed	+ 29
Strathclyde	+25
National Coal Board	+ 4
India	+ 10
Iraq	+ 10
IDA	+ 9
Government	+ 9
BIS o/a	
Nigeria	- 41
	+ $41 mn.

23rd April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 24th April 1979

The exchanges continued to mark time today, awaiting the US and German trade returns later this week. Meanwhile, in the absence of any developments on the interest-rate front, the dollar again drifted slightly easier, enabling sterling to hold steady. The ERI was unchanged throughout at 66.9.

The pound again improved in New York overnight, closing there at 2.0717. This morning, it opened at 2.0690 and touched 2.0698 on the opening exchanges as the odd Continental buyer emerged. Business was in a low key throughout the day. A single commercial selling order in London sufficed to push sterling back to 2.0660. One or two modest buyers this afternoon saw a gentle recovery to 2.0679 at the close. Forward margins were again little changed with the three months' at 1½% p.a. discount and the covered differential still ¼% against London.

Sterling gave up ⅛% to both the deutschemark (3.92) and Swiss franc (3.55) and ¼% to the French franc (9.00⅞). The Swiss franc gave ground to the deutschemark this morning but recovered partially following sales by the National Bank of $21 mn. in support and $59 mn. in cover of capital exports. Their franc closed at 1.7166, a further modest improvement against the dollar. The deutschemark and French franc also gained, to 1.8960 and 4.35⅝ respectively. The Belgian franc (30.08) and Danish krone (5.2840) kept their distance but were not fully separated for long and a tiny purchase of francs by the Nationalbank sufficed to restore order in the snake. The lira (844.60) closed 3⅜% above the floor after official purchases of $35 mn. The punt was 2.0182 (2½% discount). In Tokyo, the yen closed at 218.15 without support. In London it improved slightly to 218.02.

Gold was bid up in New York yesterday and retained most of the gains today with fixings at $240.00 and $239.70. New York's return saw further demand and the closing level in London was around 241.75.

Operations:	Market	+ $6 mn.
	Sundries	+ 8
		+ $14 mn.
	Overnight	- $12 mn.

24th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Wednesday, 25th April 1979

This morning's opinion polls sparked a decided turn of sentiment against a pound which was already somewhat suspect. Widespread selling persisted throughout the day and rarely, if at all, were there any firm signs of a natural recovery. The dollar was itself depressed by sterling's performance but showed some resilience this afternoon. Sterling's ERI, which finished yesterday at 66.9, closed tonight at 66.1.

Sterling was well offered by the Chicago IMM late yesterday and closed a further ¾ cent lower at 2.0603 in New York. This morning the pound began at 2.0632 but its decline was quickly resumed as selling built up from the Far East and Continental Europe. London banks joined the fray, selling, as often as not, for their own self-protection. The further the movement snowballed, the more panic sellers were driven out. The usual professional marauders were lurking, but were by no means prominent: the selling was, in fact, very broad-based. The pound plunged to 2.0510 by mid-morning before professional profit-taking induced a pause and an uneasy balance seemed to set in. Sellers were never far, however, and ensured that sterling rarely rose beyond 2.0550. The afternoon brought fresh and bigger offerings from both the Continent and New York. The pound fell through 2.05 as the morning's pattern was repeated and, when the Chicago IMM resumed yesterday's trend late in the London day, continued its downward path touching 2.0437 before closing at 2.0440. Forward margins widened in sympathy, the three months' to 1 11/16% p.a. discount, giving an intrinsic discount for sterling of 7/16%.

The pound shed all of 1¼% against each of the Swiss franc (3.50⅜), French franc (8.89½) and deutschemark (3.87) all of which again registered modest gains on the dollar to 1.7140, 4.3522 and 1.8927 respectively. Only the Swiss intervened to sell $19 mn. (net) against capital exports and swap in $400 mn. for a week. The snake remained fairly tight: the Belgian franc (30.05) and Danish krone (5.2810) were 2⅛% apart at the close after sales of kroner equivalent to $6 mn. by the Belgians and a purchase of $3 mn. by the Danes. Italian markets were closed. The lira (843.05) remained 3⅝% above the floor. The punt was 2.0182 (1¼% discount). The Irish sold $18 mn.-worth of pounds sterling. In Tokyo the yen closed at 218.40 after official Japanese sales of $110 mn. In London the yen finished at 218.22.

Gold continued to improve and, after fixings at $241.50 and $241.80 saw business up to $243 before profit-taking set in.

Operations:	Market	- $223 mn.
	Government	- 8
	National Coal Board (PSB G'teed)	+ 20
	India	+ 10
	IDA	+ 7
	Iran	+ 5
	Sundries	+ 5
		- $184 mn.
	Overnight	- $35 mn.

jgr

25th April 1979.
JGH

SECRET

1979/17

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 25th April 1979

Sterling soon steadied after an uneasy start, only to fall sharply on heavy selling late on Tuesday and on Wednesday. The ERI declined from 67.0 to 66.1 after 67.1. The dollar weakened slightly in the main continental centres, but again improved against the yen.

From an uncomfortable 2.0743 at the London close on 18th April, sterling improved in New York and again in London on Thursday morning, later touching 2.0831 against a rather softer dollar. The fall in money supply may have helped. The pound then drifted gently to close on Friday at 2.0663. Some selling in a thin market on Monday morning brought the rate down quite sharply, but sterling steadied until American selling on Tuesday night, repeated in the Far East and then with greater weight in Europe and America on Wednesday, caused the rate to tumble to 2.0440 at the London close. Election uncertainty appeared to be behind the selling. The cost of cover reflected the unease, increasing to 1 11/16%; however, a rise in the interbank sterling rate kept the covered differential against London down to 7/16% on the usual 3 months' comparison.

The dollar was less firm than of late. Mr.Miller's suggestion that US interest rates will not fall in the near future and may rise, together with surprisingly slow growth of national income in the first quarter, helped the tone; but money supply rose, March trade and inflation figures are awaited with trepidation, and some remain disappointed that monetary policy was not tightened at last week's FOMC meeting. The main continental currencies recorded slim gains. Thus the mark, despite another set of disturbing inflation figures, improved fractionally to 1.8927. The Bundesbank gave $350 mn. of support, some of it to cover capital exports; the Fed bought a mere $50 mn.-worth of marks in the market. The Swiss franc also gained marginally, to 1.7140, after $210 mn. of support from the SNB who also swapped in $1,000 mn. to relieve a shortage of liquidity at home. The yen, on the other hand, continued in travail, weakening 1⅛% to 218.22 after topping 218½ again; however it made do with $400 mn. of support, considerably less than of late. The lira, although closing slightly weaker at 843.05, remained comfortably top of the expanded snake, 1½% above the Danish crown (at 5.2810 the strongest 2¼% currency); the Belgian franc (30.05) stayed in bottom place, 2⅛% below the crown, registering 67 on its divergence index. The Italians bought $80 mn. and the Danes $50 mn.; there was very modest official buying of Belgian francs against Danish crowns. Of the other snake currencies, the French franc hardened to 4.3522, the guilder to 2.0528, and the Irish pound, still just below the Danish crown on the parity grid, to 2.0182; the Central Bank of Ireland bought a handful of dollars and £20 mn. Another good week for their currency enabled the Bank of Canada to add $130 mn. more to their reserves. Sterling fell sharply against the main continental currencies, by, for example, about 1⅝% against the mark and the French franc to 3.87 and 8.89½.

The announcement that the US authorities are halving their sales at first pushed the gold price up sharply until resistance was felt around the $240 level. The $241.80 fixed at the afternoon session on 25th April represented a gain of $8.60 on the week.

26th April 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
19th April		26th April
2.0749	£/$	2.0490
66.9	Effective exchange rate index	66.2
1 9/16% p.a.	Forward 3-months	1 11/16%
10½%	Euro-$ 3-months	10 9/16%
7/16% disc.	I.B.Comparison	⅜% disc.
1.8833	$/DM	1.8913
3.90¾	£/DM	3.87½
9.00⅝	£/FF	8.91⅛
215.42	$/Yen	218.05
$240.25	Gold	$242¼
1.7037	$/S.Fc.	1.7116
3.53⅓	£/S.Fc.	3.50 11/16

the Swiss intervened to buy $18 mn. (net). The real interest was in

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 26th April 1979

A natural and technical reaction to yesterday's heavy selling lifted sterling onto higher ground today, although renewed American bearishness this afternoon ensured that the foothold remained less than fully secure. The dollar tended better with sterling and was little moved by a further 1% increase in the Consumer Price Index. Sterling's ERI closed unchanged at 66.1, after 66.0 this morning.

Continued selling from New York professional sources and the Chicago IMM pushed the pound back to 2.0370 in the United States yesterday before the close of the futures market brought some recovery to 2.0400 at the end of the American day. This morning, sterling continued offered in the Far East - probably on West Coast overnight limit orders - and was traded down to 2.0340 in those markets. By the time London opened, however, a recovery was already under way and, having started here at 2.0360, the pound rapidly climbed back through 2.04 as European professionals returned to cover yesterday's sales. In a somewhat thin and nervous market sterling eventually hit 2.0498 before settling back to trade comfortably either side of 2.0475 into the afternoon. New York, however, returned in a sceptical mood and selling built up once again, intensifying late in the day with the advent of the Chicago professionals. Sterling sank to 2.0405 before closing at 2.0427. Forward margins were little changed. Three months' cover cost 1 11/16%p.a. and the adverse covered differential was ⅛%.

Sterling fell by ⅛% against each of the Swiss franc (3.50), French franc (8.88⅛) and deutschemark (3.86⅛). These were all just a fraction firmer on the dollar at 1.7139, 4.3490 and 1.8916 respectively. Only the Swiss intervened to buy $18 mn. (net). The real interest was in the snake where the Belgian franc (30.12) and Danish krone (5.2882) were tight-stretched for much of the day. The franc finished at 74 on the divergence indicator, just a point short of the alarms sounding, and the Belgians sold $31 mn.-worth of kroner to keep the ship steady. The Italians bought $25 mn. with the lira (845½) still 3⅜% off the floor. The punt was 2.0148 (1⅜% discount) and the Irish bought $14 mn.-worth of sterling in the market. The yen closed at 217.75 in Tokyo and 217.98 in London.

Gold continued firm while still resisting levels much above $243. Fixings were $242.25 and $242.20.

Operations:	Market	- $10 mn.
	Ireland	+ 72
	Interest	+ 16
	Sundries	+ 3
		+ $81 mn.

JGH

26th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 27th April 1979

Sterling's technical recovery continued apace today, gathering further momentum when the American bears returned to lick their wounds. The dollar held up, doubtless drawing on sterling's strength, despite very large increases in the US monetary aggregates. Sterling's ERI advanced from 66.1 to 66.5.

The pound closed at 2.0545 in New York yesterday following short-covering on the Chicago IMM. This morning it opened more cautiously at 2.0490 and saw good, two-way business on the early exchanges. Sellers eventually predominated, however, and the pound backed off to 2.0454 before steadying. Later this morning, the buyers returned and sterling topped 2.05, although this level proved a stumbling-block until North American markets opened. Demand then built up and sterling moved ahead to 2.0580 before a sharp bout of late profit-taking cut it down to a closing 2.0554. Forward margins narrowed in sympathy. Three months' cover was reduced in cost to 1⅛% p.a. and the intrinsic discount was ⅛%.

Sterling regained ⅝% on each of the Swiss franc (3.52¼) and deutschemark (3.89) and ¼% on the French franc (8.95). The latter was slightly easier on the dollar at 4.3540 but the deutschemark (1.8923) and Swiss franc (1.7142) were hardly changed. The Swiss sold $36 mn. in support and $22 mn. in cover of capital exports. The snake was less troubled, though closing all but fully-stretched between the Belgian franc (30.11) and Danish krone (5.2860). The Danes bought $20 mn. The Belgian franc finished at 72 on the divergence indicator. The punt was 2.01½ (2% discount). The lira (845.85) closed 3½% above the Belgian franc, after purchases of $32 mn. by the Bank of Italy. The yen hit new recent lows, closing at 219.15 in Tokyo - where the Bank of Japan sold only $64 mn. - and all but touching 220 in London before closing at 219.67.

Gold shone strongly this afternoon. After fixings of $242.75 and $243.70, business was seen up to $244.90 before profit-taking brought a turn.

Operations:	Market	+	$51 mn.
	Interest	+	7
	Bangladesh	-	10
	Sundries	+	2
		+	$50 mn.
	Overnight	+	$6 mn.

27th April 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 30th April 1979

The buyers of sterling returned in some force today. There seemed no apparent motive - save perhaps for the slight change in the message from the opinion polls - and the advent of the new month was probably as much a spur as anything. The dollar was a good deal firmer, following the unexpected reduction in the U.S. trade deficit in March, but closed well below the day's best levels. Sterling's ERI advanced to 67.1.

The pound closed at 2.0530 in New York on Friday, little moved by the stronger dollar. This morning it opened at 2.0495 and touched 2.0473 in the opening exchanges as the dollar again tended firmer. This trend did not last, however, and buyers of sterling began to come in, first from London and later more broadly from Continental Europe. The pound advanced strongly to 2.0586 before pausing to consolidate. New Yorkers returned early (having switched to Summer Time this past weekend) and immediately bid strongly for pounds. Sterling rose quickly to 2.0672, paused to absorb some profit-taking, then came on again towards the close to touch 2.0700 before ending the day at 2.0685. Forward margins narrowed, the three months' to 1⅛% p.a. discount. Eurodollar deposits hardened, following a tightening of the monetary screw by the Federal Reserve on Friday, but sterling deposits softened and the adverse covered differential was thus increased to ½%.

Sterling climbed 1% over the French franc (9.04¼) and deutschemark (3.93) and 1½% against the Swiss franc (3.56½). On Friday the Federal Reserve had sold $274 mn. for deutschemarks as the dollar firmed in the wake of the trade result. Today the Bundesbank sold $50 mn. and the deutschemark closed at 1.8997 (after 1.9075). The Swiss sold $162 mn, their franc easing to 1.7233. With Tokyo closed, the yen crashed to 222¼ at one stage before closing at 221⅝. The snake was fully-stretched for much of the day between the Belgian (30.26) and Danish (5.3122) currencies. The Belgians sold $13 mn. of kroner and the Danes bought $22 mn and $2 mn of francs. The lira (845.45) rose to 4⅛% above the Belgian franc after the Italians had taken in $47 mn. The punt was 2.0052 (3 3/16% discount). The Irish sold pounds sterling equivalent to $25 mn.

Gold was bid up to $246½ on Friday in New York before the U.S. trade figures brought profit-taking. This morning's fixing was $243.45 but this afternoon's, at $245.30, presaged a further push from New York, now associated with the stronger silver price, and the yellow metal closed in London around $247.

Operations:	Market	+ $105 mn.
	Ireland	+ 10
	British Gas (PSB G'teed)	+ 6
	Sundries	- 10
		+ $111 mn.

The result for April is a reserve loss of $480mn to a level of $21,467 mn after IMF repurchases of $1,085 mn and net public sector debt repayments of $70 mn. The overbought forward position was increased by $35 mn. to $1,557 mn.

30th April 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 1 May 1979

Still at the mercy of every change in the opinion polls, sterling was cut down this morning in response to the latest apparent shift in fortunes. With most of Europe, however, distracted by the celebration of May Day, volume was thin and the pound was never in any serious distress. The ERI fell to 66.9.

Sterling closed quietly in New York at 2.0700 yesterday but met aggressive selling in the Far East this morning following news of the N.O.P. findings. In London sterling began at 2.0595 but, after reaching 2.0590, recovered to trade steadily up again to 2.0663 around mid-day. Americans tended to offer pounds, though again in no great volume, and sterling eased again this afternoon to 2.0552 before recovering once more to close at 2.0600. Forward discounts widened, the three month's to 1 3/8% p.a. discount. The adverse covered differential was again 1/2%.

Sterling lost 5/8% to the French franc (8.99), 3/4% to the deutschemark (3.90 1/4) and 7/8% to the Swiss franc (3.53 3/8). Against the dollar all three firmed to 4.3642, 1.8941 and 1.7155 respectively. The Belgian franc (30.16) finished 2 1/16% below the Danish krone (5.3042) in the snake and 3 11/16 beneath the lira (845.90). The punt was 2.00 7/8 (2 9/16% discount) after the Irish had sold sterling equivalent to $33 mn. The yen continued offered. Yesterday the Japanese sold $147 mn. in overseas markets (following sales of $264 mn. in New York on Friday). This morning in Tokyo they spent a further $213 mn. to effect a close of 223 3/4. The yen went on to touch 224.30 before closing in London at 224.17.

Gold continued to harden and topped $248 between fixings of $247.70 and $247.30.

Operations:-	Market	-$9 mn.
	Sundries	-$2 mn.
		-$11 mn.
		====

1 May 1979
J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd May 1979

Sterling evinced some keen interest at times today and eventually regained the higher ground ceded after yesterday's opinion poll. The dollar opened better, following Chairman Miller's latest prognostications on both US monetary policy and the balance of payments, but moved only narrowly today. Sterling's ERI rose to 67.2.

Having closed at 2.0610 in New York overnight, the pound opened at 2.0593 and dropped to 2.0565 on the early exchanges as yesterday's nervous tone persisted. At the cheaper levels, however, a large buyer appeared from the distant reaches of Continental Europe, quite possibly concealing a commercial interest, and sterling began to advance strongly. This brought in other buyers - perhaps squaring-off before the election - and the pound crested 2.07 before pausing for consolidation. This afternoon, further interest both from Europe and New York carried the pound to 2.0717 but trading then slipped into a minor key and the rate came back to close at 2.0683. Forward discounts narrowed, the three months' to 1⅛% p.a. Sterling's intrinsic discount was thus reduced to 5/16%.

Sterling reversed yesterday's losses against the major Continental currencies putting on ½% against the French franc (9.03⅞), ¼% against the deutschemark (3.93⅛) and ⅛% against the Swiss franc (3.56¼). The Swiss sold $222 mn. (of which only $32 mn. covered exports of capital) and swapped in $270 mn. as their franc eased to 1.7223. The mark was 1.9007 and the French franc 4.3685. The yen was again very weak. The Japanese added $113 mn. of support in New York yesterday and $197 mn. in Tokyo this morning. The yen closed there at 224.55 but touched 225.80 in London before good demand from Switzerland brought a recovery to 224⅞ at the close. The snake finished all but fully stretched between the Belgian franc (30.25) and Danish krone (5.3110). The Danes bought $13 mn. while the Belgians raised Discount Rate by 1% to 7%. The lira (846.90) closed 3⅞% off the floor after official purchases of $50 mn. The punt was 2.0072 (3 1/16% discount). The Irish bought sterling equivalent to $14 mn.

Gold traded in a more narrow range today and consolidated recent gains ahead of the IMF auction. Fixings were $246.60 and $246.30.

Operations:	Market	+ $36 mn.
	Sundries	+ 2
		+ $38 mn.

2nd May 1979.
JGH

SECRET 1979/18

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 2nd May 1979

Although buffetted by the opinion polls, sterling more than recovered the ground lost in the previous week, improving 1.1 to 67.2 in effective terms. The yen had another wretched time. In the European monetary arrangement, the Belgian franc became the first currency to cross its divergence threshold; the authorities reacted with a prompt rise in discount rate.

Sterling soon recovered from the spate of selling which had taken the rate down to 2.0440 at the London close on 25th April, but the tone remained rather uneasy on Thursday and Friday despite short covering. The rate opened lower on Monday morning, against a generally stronger dollar, but broadly-based demand carried the pound as high as 2.07 before more profit-taking and nervousness induced by the public opinion polls brought a retreat. The rate continued to swing back and forth, still reflecting election sentiment, and 2.0717 was seen on Wednesday afternoon before sterling eased back to close the period at 2.0683. The cost of forward cover shrank to 1⅛%, leaving the covered differential against sterling rather narrower at 5/16%.

The dollar gained against most other currencies. A 1% rise in US consumer prices, announced on Thursday, had been discounted; the sharp increase in money supply in the latest week might have done some damage but for the surprisingly good trade figures (the March deficit of $0.8 bn. was the best for almost two years) and evidence that the Fed have tightened monetary policy after all. The Fed themselves sold $340 mn. in the market against marks. The yen had another bad week, falling to 225.80 before closing at 224.87 for a 3% fall over the period. The Bank of Japan gave $1,000 mn. of support. Faster inflation, confirmation that the long-awaited decline in the trade surplus has arrived, and worries about oil continue to depress the market. The yen is now back around its levels of a year ago. The mark eased ⅛% to 1.9007, despite another sizeable trade surplus; the Bundesbank bought $180 mn. worth of their currency in the market, on top of the Fed's transactions. The Swiss franc received similar support as it softened ⅛% to 1.7223. The lira remained the strongest currency in the expanded snake, closing at 846.90 against the dollar, some 1⅝% above the highest 2⅛% currency, the Danish crown (5.3110), which in turn stood almost 2⅛% above the weakest, the Belgian franc. The latter had the distinction of being the first currency to cross its divergence threshold, albeit when the local market was closed. The Belgians responded with a 1% rise in discount rate; and by Wednesday afternoon the divergence indicator was back at 73 on a dollar rate of 30.25. Official purchases of Belgian francs against Danish crowns were modest, no doubt because the outriders are not heavily-traded currencies. The Italians bought $160 mn. and the Danes $60 mn. The French franc (4.3685) and the guilder (2.0616) were both untroubled in mid-snake, easing against the dollar. The Irish pound (2.0072 - 3% discount against sterling) stayed in close touch with the Danish crown; the Central Bank sold some sterling. Elsewhere, the Canadian dollar had a more subdued week, easing back against its neighbour despite $180 mn. of support. Sterling improved against the major continental currencies, for example by over 1½% against both the mark and the French franc to 3.93⅛ and 9.03⅞ respectively.

Gold gained $4½ over the week to $246.30 at the afternoon fix on Wednesday, in moderate turnover. The IMF auctioned 470,000 ounces at an average price of $246.18; in addition they sold 20,000 ounces to non-competitive buyers.

3rd May 1979.
PAB

RATES, ETC.

10.15 a.m. 26th April		10.15 a.m. 3rd May
2.0490	£/$	2.0788
66.2	Effective exchange rate index	67.6
1 11/16%	Forward 3-months	1%
10 9/16%	Euro-$ 3-months	10⅞%
⅛% disc.	I.B.Comparison	¼% disc.
1.8913	$/DM	1.8988
3.87½	£/DM	3.94¼
8.91⅛	£/FF	9.08⅜
218.05	$/Yen	224.77
$242¼	Gold	$246.25
1.7116	$/S.Fc.	1.7214
3.50 11/16	£/S.Fc.	3.57⅞

The lira (847) was 4½% from the base. The punt was [illegible]

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 3rd May 1979

The majority of market participants elected to remain on the sidelines today while awaiting the outcome of the nation's polling. However, the turn-out amongst the remainder was more than marginal and produced a decided swing in sterling's favour. The ERI rose to 67.5.

The pound closed at 2.0680 in New York and opened at 2.0720 in London this morning after modest buying in the Far East. Two-way professional jobbing was the order of the day from the outset but buyers were sufficiently predominant and sterling advanced in good order to 2.08 by mid-morning, when profit-taking set in. New York again proved rather more undecided and sterling fluctuated around 2.0750 through the afternoon before closing at 2.0759. Forward margins were little changed; three months' cover cost 1 1/16% p.a. and sterling's intrinsic discount was ⅛%.

The pound gained ⅜% against each of the deutschemark (3.94½), Swiss franc (3.57½) and French franc (9.07⅜). These were all barely changed on the dollar at 1.9004, 1.7217 and 4.3715 respectively. The Swiss franc continued under pressure and the National Bank, who had committed a further $158 mn. in support late yesterday, added $257 mn. today (of which only $18 mn. for capital exports) while swapping in $450 mn. to create liquidity. Elsewhere, the snake was fully stretched again at the close between the Belgian franc (30.32) and Danish krone (5.3222). On the divergence indicator the franc was 81 but despite this the Belgians sold only $9 mn. of kroner. The Danes bought $2 mn. The lira (847) was 4⅛% from the base. The punt was 2.0035 (3⅝% discount). The Irish bought sterling equivalent to $4 mn. and $1 mn. Tokyo was closed but the yen survived in London, closing at 224.70.

Gold was steady and the price was fixed at $245.90 and $246.50.

Operations:	Market	+	$27 mn.
	Iraq	+	10
	Interest	+	7
	Sundries	+	2
		+	$46 mn.

3rd May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 4th May 1979

After a brief, early burst of enthusiasm following the apparent certainty of a change of government, sterling traded off over much of today as professional long positions were liquidated. Only later this afternoon was some calm restored and sterling's ERI, which had touched 67.8 this morning, closed at 67.3.

The pound closed at 2.0807 in New York yesterday and was bid up to 2.09½ in the Far East this morning as news of the early trend in the election filtered out. By the time London returned, however, this early exuberance was already on the wane and the pound began the day at 2.0880, seeing business at 2.0890 in early two-way exchanges. After an hour, however, a number of the familiar professionals appeared from Continental Europe offering sterling and the rate began to drift lower, picking up momentum as time passed and more small sellers were flushed out. This trend persisted, almost without interruption, until late morning when, at 2.0652, the pound turned and stabilised around 2.07. This afternoon saw some early buying interest from New York which carried sterling to 2.0775 but this soon petered out and sterling traded quietly back to close at 2.0742. Forward margins closed little changed on balance. Three months' cover cost 1% p.a. and sterling's intrinsic discount widened to 9/16%.

Sterling registered only minor movements against the French franc (9.08) and deutschemark (3.94 1/4) but lost almost 1/4% to the Swiss franc (3.56 3/4). The latter gained a little on the dollar (1.72) after official sales of $48 mn. in support and $8 mn. for capital exports. The mark was barely changed at 1.9002 and the French franc a touch easier at 4.3772. In the snake, the Belgian franc (30.32) finished only 2 1/8% below the Danish krone (5.3297) and 4 1/8% under the lira (846 1/2). The Italians bought $50 mn. and the Belgians unusually sold $8 mn.-worth of French francs. On the divergence indicator, the Belgian franc finished at 79. Elsewhere, the Dutch swapped in $261 mn. and the Irish sold sterling equivalent to $17 mn. The punt closed at 2.0000 (3 3/4% discount). The yen was aided in New York overnight by Ohira's expressed wish for a level of 200. It recovered to 220 1/4 but required $285 mn. of support in Tokyo before closing there at 222.80. In London its fortunes fluctuated and, after 220.30, the close came at 221.60.

Gold pushed strongly ahead this afternoon and crested $249 between fixings of $247.65 and $248.45.

Operations:	Market	- $37 mn.
	Ireland	+ 21
	Sweden	+ 9
	Interest	+ 8
		+ $1 mn.

Overnight and Holiday + $1 mn.

8th May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 8th May 1979

Having traded comfortably over the holiday, sterling reran Friday's course again today, with further sizeable profit-taking from professional sources, provoking a general sell-off. The ERI declined from 67.3 to 66.8.

The pound closed at 2.0805 in New York yesterday having moved narrowly either side of this level throughout yesterday. This morning it began at 2.0810, touched 2.0845 in the opening exchanges, but then succumbed to selling from one or two professionals who had evidently anticipated higher levels after the election. Once again there was a steady and largely uninterrupted fall which itself attracted further general selling. The pound hit 2.0680 before steadying around 2.07. This afternoon, returning Americans, surprised by the lower levels, sold pounds themselves as a protective measure and this outweighed any benefit accruing from European short-covering. Business was seen down to 2.0638 before the close came at 2.0663. The Wholesale Price Index was not helpful. Forward margins widened, the three months to 1 1/16% p.a. discount. With sterling deposits much firmer, however, the adverse covered differential fell to 5/16%.

Sterling lost 1/2% to the French franc (9.03 3/4), 5/8% to the deutschemark (3.91 3/4) and 3/4% to the Swiss franc (3.54). The dollar eased generally in the period since Friday, largely in response to a sharply firmer yen, which followed reports from Tokyo that the Japanese had sought American support in regaining the 200 level. The yen closed at 215.00 in Tokyo this morning (after 212.00) and the Bank of Japan sold $160 mn. In London, it firmed to 213 this morning but closed easier at 215.10. The Swiss franc hardened to 1.7134, the deutschemark to 1.8955 and the French franc to 4.37 3/8. The snake was around 2 1/8% in width for much of the day with the Belgian franc (30.28) and Danish krone (5.3240) the outriders. On the divergence indicator, however, the franc moved out to 82. The lira (846.20) was 4 1/16% above the franc. The Italians took in $60 mn. yesterday and $23 mn. today. The punt closed at 2.0022 (3 3/16% discount); the Irish sold sterling equivalent to $11 mn.

Gold breached the $250 barrier yesterday and again this morning, fixing at $250.20. This afternoon, however, profit-taking in the precious metals from the United States brought a sharp fall and, after fixing at $248.95, the price closed around $246.

Operations:	Market	- $25 mn.
	EEC	+ 72
	Ireland	+ 21
	Interest	+ 6
	Sundries	+ 3
		- $67 mn.

8th May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 9th May 1979

Sterling encountered some healthy two-way activity this morning but retreated this afternoon in the wake of the Banking Statistics. The yen continued its recovery behind Morinaga's vocal support. Sterling's ERI eased to 66.7.

The pound closed better at 2.0698 in New York yesterday but opened rather nervously at 2.0675 this morning. A clutch of small sellers soon appeared from the Continent, keen to resume yesterday's trend, and sterling fell in short order to 2.0635. At the lower levels, however, good buying interest developed, both from London and abroad, and the pound recovered as quickly to 2.0693. A well-balanced market then developed around the opening level and this persisted into the afternoon. The Banking Statistics were not well received and sterling traded swiftly down to 2.0633 before steadying to close at 2.0644. Forward margins widened a touch. Three months' cover cost 1⅛% p.a. and the adverse covered differential was ¼%.

Sterling shaded fractionally lower against the deutschemark (3.91½), Swiss franc (3.53⅜) and French franc (9.03¼). Only the yen moved markedly against the dollar, firming to 214.75 in Tokyo (after 216.40 and official sales of $66 mn.) and 213.07 in London. This followed Morinaga's assertion that the yen was undervalued at current levels. The Belgian franc (30.31) and Danish krone (5.3322) continued to bracket the slimmer snake which was barely 2% in width at the close. The lira (846¼) was 4⅛% above the franc; the Italians took in $50 mn. On the divergence indicator, the Belgian franc moved out to 83. The punt (2.0007) closed at a discount of 3 3/16% on sterling. The deutschemark (1.8962), French franc (4.3755) and Swiss franc (1.7135) were all barely changed.

Gold recovered gradually throughout the day from yesterday evening's depressed levels. Fixings were $247.00 and $247.95.

Operations:

Market	- $7 mn.
Ireland	+ 21
Interest	+ 9
British Gas (PSB G'teed)	+ 5
Bangladesh	- 10
	+ $18 mn.
Overnight	- $4 mn.

9th May 1979.

J.G.H.

SECRET 1979/19

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 9th May 1979

Apart from a brief burst of enthusiasm in the immediate aftermath of the election, sterling has generally tended easier on the liquidation of long positions taken up in anticipation of the result. The ERI fell from 67.2 to 66.7.

The pound began the week at 2.0720. Most dealers were content to await the outcome of the election but, as the opinion polls were swinging again toward the Conservatives, sterling was firmer for choice. The following morning, as the early trend in the election became known the pound was dealt up to 2.09 1/2 in the Far East, but London provided no follow-through and sterling never bettered 2.0890 here. Later, professional offerings began to come out of Continental Europe and the pound drifted off, gathering more panic sellers as it fell to 2.07 before stabilising. Sterling traded quietly and comfortably in overseas markets during the Bank holiday and reopened in London on Tuesday at 2.0810. Once again, professional selling at the higher levels provoked a sharp decline and, with Americans picking up the trend, sterling touched 2.0638. The Wholesale Price Index was not very helpful. On Wednesday, however, business was better-balanced until the Banking Statistics sparked a sell-off and the pound fell to 2.0633 before closing at 2.0644. Forward margins were little changed overall. Three months' cover cost 1 1/8% p.a.; the intrinsic discount was 1/4%.

The dollar gave up last week's gains, largely in response to a spectacular recovery by the yen, which was supported by Ohira's declared aspiration to regain the 200 level. Morinaga, too, publicly asserted the yen's attractiveness and the currency responded, not without tangible support, by climbing almost 6% to 212 before closing at 213.07. The Japanese sold over $550 mn. The deutschemark gained 1/4% to 1.8962 and the Swiss franc 1/2% to 1.7135. The Bundesbank sold around $125mn. in cover of capital exports; the Swiss spent over $300 mn. (including $30 mn. for capital exports) and swapped in $800 mn. to relieve liquidity strains. The lira remained at the top of the wider snake closing at 846 1/4, 4 1/8% above the Belgian franc (30.31). The Italians took in $180 mn. The Danish krone (5.3322) remained at the head of the 2 1/4% band throughout. This finished the week only slightly over 2% in width, having earlier been fully stretched at times. The Belgians sold a handful of Danish Crowns and French francs but were otherwise content. On the divergence indicator, their currency was beyond the threshold throughout and indeed moved out to 83 at the close. The French franc (4.3755) and guilder (2.0611) remained with the mark in the middle of the band, the former somewhat softer against the dollar. The punt (2.0007) closed at 3 3/16% discount on sterling and stayed on the heels of the Danish Crown. The Canadian dollar ran into further storms following the Quebec Government's announced intention to nationalise the Asbestos Corporation. It closed at 86.15 after official sales of $ 800 mn.

Gold moved strongly through $250 on Monday, fixing at $250.20 on Tuesday morning. This level, however, provoked profit-taking and the metal retreated to $246 before recovering to $247.95 at Wednesday afternoon's fixing.

10th May 1979.

J.G.H.

RATES, ETC.

10.15 a.m.		10.15 a.m.
3rd May		10th May
2.0788	£/$	2.0527
67.6	Effective exchange rate index	66.3
1% p.a. discount	Forward 3-months	1⅛% p.a. discount
10⅞%	Euro-$ 3-months	10 15/16%
1/4% discount	I.B.Comparison	5/16% discount
1.8988	$/DM	1.8961
3.94¾	£/DM	3.89¼
9.08⅜	£/FF	8.98⅜
224.77	$/Yen	213.55
$246.25	Gold	$252.15
1.7214	$/S.Fc.	1.7147
3.57⅞	£/S.Fc.	3.52

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th May 1979

Sentiment for sterling soured this morning as news of the accelerated pay award to the police and the armed services followed further consideration of yesterday's banking figures. There was further speculation, too, on sterling's possible entry into the EMS exchange rate system and the lower rate which, it is assumed, this would entail. With this in mind, market operators were more than usually ready to test the Central Bank's resolve and heavy selling of pounds was seen this morning. Sterling's ERI fell from 66.7 to 66.4 (after 66.3 at noon).

The pound closed at 2.0620 in New York yesterday, opened at 2.0630 this morning and touched 2.0635 on the opening exchanges in response to some professional demand in the Far East. Sentiment turned very quickly, however, and widespread selling soon engulfed the pound, driving it down to 2.0510 before calmer waters were reached. An uneasy lull ensued but in mid-morning the marauders returned and, in another swift and savage onslaught, pushed sterling to 2.0493. This afternoon was quieter. The pound traded around 2.0525, despite a stronger dollar, then fell to 2.0511 after the disappointing CGBR out-turn, only to recover to 2.0555 when Iran announced a substantial rise in oil prices from next week. The close came at 2.0533 but Americans resumed selling later and sterling again dipped below 2.05. Forward margins widened in sympathy with the weaker pound. The cost of three months' forward cover was 1⅛% p.a. and the covered differential against London rose to 7/16% despite firmer inter-bank sterling deposits.

Sterling lost ¼% to the Swiss franc (3.52⅞) and ⅜% to both the French franc (9.00⅜) and deutschemark (3.89⅞). The yen improved to 211.65 in Tokyo this morning before closing unsupported at 213.00. Later, however, it succumbed to Swiss selling, following a view that it was currently at the high end of its trading range, and closed at 214.52. This provoked a generally firmer dollar and the deutschemark weakened to 1.8987, the Swiss franc to 1.7185 and the French franc to 4.3840. The Swiss bought a net $6 mn. and swapped in $150 mn. The snake remained around 2% in width, bracketed still by the Belgian franc (30.41) and Danish krone (5.3492). The lira, however, at 847.55 advanced to 4⅜% above the franc which accordingly moved out to 85 on the divergence indicator. The Italians took in $46 mn. The Dutch sold $15 mn. and $2 mn. of marks as the guilder eased rather more than most to 2.0676. The punt weakened to 1.9952 but its discount on sterling was reduced to below 3%.

Gold again stormed the heights following a further strong rally in New York yesterday. Fixings were $251.70 and $252.25.

Operations:	Market	- $113 mn.
	N.Ireland Electricity (PSB G'teed)	+ 55
	Ireland	+ 31
	India	+ 6
	BIS (net)	- 10
	Sundries	+ 14
		- $17 mn.

10th May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 11th May 1979

Sterling somehow survived another nervous session without taking too much of a pounding but still finished a somewhat depressing week in a poor state of health. The ERI fell to 66.2.

The pound finished at 2.0515 in New York overnight, began today at 2.0490 and soon ran into a squall which seemed to spring largely from its own native shores. Business was seen down to 2.0450 but the selling did not persist and the market was left to occasional and two-way commercial interests. The Retail Price Index caused a momentary downturn but, with most traders now short, sterling soon recovered above 2.05 by the early afternoon. The Prime Minister's announcement that no consideration would be given to our joining the EMS exchange rate regime before September gave the pound a fillip and 2.0543 was paid. The higher levels, however, encouraged transatlantic selling and this was intensified when the Chicago futures market joined the fray. Sterling was sold down to 2.0462 before closing at 2.0465. Later, with the Chicago bears persisting, business took place as low as 2.0420. Forward margins widened slightly. The cost of three months' cover was 1 7/16% p.a. and sterling's intrinsic discount remained at 7/16%.

The pound shed a further ¼% to each of the Swiss franc (3.52⅛), French franc (8.98¼) and deutschemark (3.88¾). The latter two parted company for a while this morning with the French franc unaccountably weaker and the deutschemark rising almost to the top of the narrower snake. The franc closed at 4.3895 (after 4.3982) and the mark at 1.90. The cross-rate was 2.31 (after 2.31½). In the event, the Belgian franc (30.39) and Danish krone (5.34⅜) contained a 2%-wide snake at the close while the mark had slipped back into third place behind the punt. The lira (848.17) was 4¼% off the floor. The Italians took in their customary $42 mn. Elsewhere, as the mark strengthened, the Belgians and Dutch sold marks equivalent to $12 mn. and $16 mn. respectively. The punt (1.9955) was at 2 9/16% discount on sterling.

Gold was steadier and a little quieter today. Fixings were $251.10 and $251.50. Later, American selling took the price down through $250 again.

Operations:	Market	- $73 mn.
	Ireland	+ 31
	Interest	+ 14
	India	+ 6
	Sundries	- 3
		- $25 mn.
	Overnight	- $14 mn.

11th May 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th May 1979

The exchanges began the new week with a steady performance and sterling recovered a little of its lost poise in the process. The ERI nonetheless fell further to 66.1 (after 66.0 this morning).

The pound closed still friendless in New York on Friday at 2.0390. This morning it opened at 2.0435 and traded down to 2.0405 on the opening exchanges, hovering nervously around that level for some time. Eventually, however, some buying interest developed in London and the pound perked up a little, reaching 2.0483 by mid-morning before steadying to consolidate the gain. Modest two-way trading characterised the rest of the day but sterling never fell below 2.0426. Late in the day, 2.0470 was paid for pounds but soon after American selling pushed the rate back to a closing 2.0429. Forward margins were little changed: the three months was 1 7/16% discount. With inter-bank sterling deposits firmer, however, the covered differential against London fell to ⅛%.

Sterling lost ⅛% to the French franc (8.96⅞) and deutschemark (3.88⅛) and ¼% to the Swiss franc (3.51¼). The dollar firmed a little this afternoon on US interest. The mark closed at 1.8999, the Swiss franc at 1.7188 and the French franc at 4.3901. The Belgian franc (30.40) and Danish krone (5.34⅝) continued to bracket the snake, although the Danes sold $26 mn. and $3 mn. of marks when the band narrowed to only 1⅛% in width. It closed at 2 1/16%. The lira (849½) was 4⅛% above the base and the Italians took in $41 mn. The punt (1.9947) was at 2 7/16% discount. In New York on Friday the yen touched 212 after the announcement of the liberalisation of inward capital controls. This morning in Tokyo the yen closed at 213.80 and the Japanese sold $70 mn. In London the day finished at 213.50.

Gold lost ground in New York on Friday but picked up this afternoon following the news of a small reduction (to 444,000 ounces) in the monthly IMF offerings. Fixings were $250.65 and $251.00.

Operations:	Market	+ $19 mn.
	Ireland	+ 20
	Interest	+ 6
	Sundries	+ 5
		+ $50 mn.
	Overnight	+ $1 mn.

14th May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 15th May 1979

The markets sprung to life again and sterling, the dollar and gold were all in good demand. There was little fresh news to provoke such a movement. However, the market reacted perversely to Chairman Miller's overnight assertion that the yen was undervalued and continued to sell the currency when the Kuwaiti oil minister forecast another substantial rise in the oil price in the fourth quarter. Sterling's ERI rose from 66.1 to 66.7.

The pound closed better at 2.0487 in New York yesterday. This morning it opened at 2.0447, touched 2.0430, then began to move gently ahead in tandem with the dollar. Business was by no means hectic and there was no particular source of demand. In fact, the only motive seemed the weakening yen which, pace Chairman Miller, was undergoing another reappraisal, perhaps following Solomon's optimistic US current account forecast. Sterling traded up to 2.0485 this morning. Early this afternoon, American interest was soon in evidence, no doubt in part on the Queen's speech, but also on stop loss orders from New York professionals and the Chicago IMM as the pound rebounded through 2.05. The Kuwaiti oil forecast gave sterling another fillip and, with demand persisting from North America, 2.0605 was paid for pounds before the close came at 2.0593. Three months' cover again cost 1 7/16% p.a.; the intrinsic discount shaded lower to 3/16%.

Sterling gained 1⅛% against both the deutschemark (3.92½) and French franc (9.07⅛) and 1¼% against the Swiss franc (3.55½). The Swiss sold $150 mn. as the franc fell to 1.7260 (swapping in $100 mn., too, to ease liquidity). The French franc, too, looked unwanted - apparently as local call money rates were hoisted - but the Bank of France sold only $11 mn.-worth of marks as the franc retreated to 4.4050. The deutschemark closed at 1.9060 after Bundesbank sales of $25 mn. The punt (1.9952 - 3¼% discount) finished at the top of the snake which was 2 3/16% in width. The Belgians sold $23 mn.-worth of marks as their franc eased to 30.49. The lira (851) closed 4¼% above the Belgian franc. In Tokyo the yen closed unsupported at 212.65. In London, however, it weakened to 214.10 by the day's end.

Gold was in strong demand ahead of the US Treasury auction. Moved partly by a resurgence in the silver price and partly, no doubt, by the talk of higher oil prices, the metal was fixed at $253.40 this morning and a record $255.50 this afternoon, after trading at $256.25.

Operations:	Market	+ $63 mn.
	Ireland	+ 21
	India	+ 6
	Sundries	+ 1
		+ $91 mn.
	Overnight	+ $8 mn.

15th May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th May 1979

Sterling's tone improved this morning following further consideration of the Queen's speech. The earnings figures, however, were a disappointment and the pound again fell foul of professional sellers this afternoon. The ERI advanced to 67.0 this morning but closed at 66.8.

The pound was bid up to 2.0660 in New York yesterday but came back to close there at 2.0615. A similar pattern developed this morning. Having opened at 2.0637, sterling was traded up to 2.0670 on some modest but broad-based demand. The better sentiment owed much to the Queen's speech. The higher levels, however, quickly induced profit-taking and some good two-way business ensued around 2.0650. Sellers eventually predominated and the pound eased lower falling to 2.0590 after the earnings figures. Sterling attempted a rally early this afternoon but could not get beyond 2.0637. A large Continental bull then turned out his position in frustration and the rate fell to 2.0567 before recovering, as the dollar eased, to close at 2.0615. Three months' cover cost 1 5/16% p.a. and the intrinsic discount fell to ⅛%.

Sterling gained slightly on the Swiss franc (3.56) and deutschemark (3.93) but was barely changed against the French franc (9.07⅛). Against the dollar, the Swiss franc (1.7272) was a little easier, the French franc (4.4010) a little firmer and the deutschemark (1.9061) unchanged. The Swiss National Bank sold $78 mn. and swapped in $100 mn. The Bundesbank sold $30 mn., following Federal Reserve sales of $200 mn. yesterday against marks. The snake closed at 2 1/16% in width, spread still between the Belgian franc (30.50) and Danish krone (5.3640). The Belgians sold $14 mn. The lira (850.65) was 4¼% above the franc, which moved out to 84 on the divergence indicator. The punt (1.9842) was at 3⅞% discount on sterling. In Tokyo the yen closed at 214.90 after official sales of $30 mn. Later it eased in London following publication of a trade deficit of $361 mn. in April and closed here at 214.47.

Gold set new highs following yesterday's US auction with a price of $257.25 between fixings of $256.10 and $256.50. The auction saw an average price of $254.92 for 750,000 ounces in coin bars with much of the gold going to a single bidder.

Operations:	Market	+ $12 mn.
	Ireland	+ 21
	Iraq	+ 10
	GLC (PSB)	+ 10
	Government	+ 8
	Sundries	+ 2
		+ $63 mn.

16th May 1979.
JGH

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 16th May 1979

Sterling continued soft throughout last week as the public sector pay awards seemed to presage higher inflation. Since the weekend, however, the tone has improved somewhat following the Queen's Speech. With the dollar particularly firm, sterling's ERI has risen from 66.7 to 66.8 (after 66.0 on Monday and 67.0 on Wednesday).

The pound opened at 2.0630 on Thursday but soon ran into selling on a broad front as dealers digested the inflationary implications of the accelerated pay awards to the police and armed services and the ominous portents contained in the previous day's banking figures. Sterling was sold down to 2.0493 before turning on news of an imminent rise in Iranian oil prices. Nonetheless selling was later resumed from the USA and, in a nervous market the following day, the pound traded as low as 2.0420. The CGBR and RPI proved unhelpful but an unexpected stimulus came from the Prime Minister's announcement that the UK would not join the EMS regime before September. The new week began nervously, with business down to 2.0405 but some buying interest developed at these lower levels although Americans remained bearish. On Tuesday, however, the Queen's speech gave buyers further encouragement and, when the Kuwaiti oil minister forecast another increase in oil prices, demand was renewed and the pound rose through 2.05, sparking stop-loss orders from American professionals. 2.0670 was paid on Wednesday morning but this level provoked profit-taking and sterling retreated again to close at 2.0615. Forward margins moved in sympathy with spot sterling. Overall the cost of three months' forward cover rose slightly to 1 5/16% p.a. but the covered differential against London was reduced from ¼% to ⅛%.

The dollar finished the week in fine form. Solomon's optimistic current account forecast was a support but the movement seemed largely a response to the weakness of other currencies and, in particular, the yen. This seemed to have reached the top of its trading range (having breached 212 in Tokyo on Thursday) and tended offered thereafter. Federal Reserve Chairman Miller's view that the yen was still under-valued was not heeded and the yen finished the week at 214.47 (after 215.22). The Bank of Japan sold only $330 mn. The April trade deficit ($361 mn.) was not helpful (although below some expectations). The Swiss franc weakened by ¾% to 1.7272, the Swiss selling over $300 mn. The Federal Reserve bought deutschemarks equivalent to $230 mn. while the Bundesbank sold around $225 mn., much of which was in cover of capital exports. The deutschemark closed ½% weaker at 1.9061. The snake was relatively relaxed throughout the period and was usually around 2% in width. The Belgian franc (30.50) and Danish krone (5.3640) were, for the most part, at tail and top, although both the deutschemark and punt had brief spells at the head. The Belgians and Dutch together sold some $30 mn. and marks equivalent to $50 mn. to contain the mark's appreciation. The lira continued over 4% above the Belgian franc and closed at 850.65 (4⅛%). The Italians took in over $150 mn. The French franc (4.4010) looked a little soft at times, following the cancellation of Iranian export orders, and call money rates were raised. The French sold a few deutschemarks to keep the cross-rate within sight of 2.31. The Canadian dollar had a better week and closed at 86.51. The Canadians bought $90 mn.

Gold set record levels on Wednesday following the latest US Treasury auction. The metal traded up to $257.25 and fixed that afternoon at $256.50. The outlook for oil prices was a continuing bull factor.

17th May 1979.
JGH

RATES, ETC.

10.15 a.m. 10th May		10.15 a.m. 17th May
2.0527	£/$	2.0607
66.3	Effective exchange rate index	66.8
1⅛% disc.	Forward 3-months	1 5/16% disc.
10 15/16%	Euro-$ 3-months	10¼%
5/16% disc.	I.B.Comparison	⅛% disc.
1.8961	$/DM	1.9070
3.89¼	£/DM	3.93
8.98⅜	£/FF	9.08
213.55	$/Yen	215.40
$252.15	Gold	$257.85
1.7147	$/S.Fc.	1.7270
3.52	£/S.Fc.	3.55⅞

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 17th May 1979

Sterling remained quite steady today in the face of a strong advance by the U.S.dollar. This reflected a continuing reappraisal of the relative energy situation, following yesterday's increase in Venezuelan prices, and the first overt signs, reported yesterday, of a downturn in activity in the U.S. economy. Sterling's ERI was unchanged throughout at 66.8.

The pound closed quietly in New York yesterday at 2.0593. This morning it opened at 2.0598 and traded comfortably throughout the day between 2.0570 and 2.0622, dipping only on some light professional selling early this afternoon. Otherwise the level of activity was modest and well-balanced, with sterling floating happily around 2.06 this afternoon, as the dollar surged, before closing at 2.0580. Forward margins were little changed. The cost of three months' forward cover was 1 5/16% p.a., the intrinsic discount 3/16%. Both sterling and dollar deposits were a touch softer.

Sterling gained 1/8% or so on each of the Swiss franc (3.56 5/8), French franc (9.08 3/4) and deutschemark (3.93 1/2). The first and last of these were heavily supported. The Swiss sold $180 mn. as their franc weakened to 1.7327 and the Bundesbank lost $200 mn. while the deutschemark was falling to 1.9121. The French franc was 4.4157. The yen was again the focal point of the movement but it received little support, closing in Tokyo at 215.10 after official sales of only $31 mn. In London, it fell to 216.10. The snake again finished at 2 1/16% in width between the Belgian franc (30.61) and Danish krone (5.3832). The franc, however, closed at 84 on the divergence indicator and the Belgians sold $6 mn. of Danish kroner to try and redress the balance. The lira (851 3/8) rose to 4 9/16% above the floor. The punt (1.98 1/8) was 3 7/8% discount on sterling.

Gold set another record at this morning's fix, which was set at $257.55, and traded on to a new peak of $258.85. Later selling, on a wild rumour of further U.S. official sales, brought the price back to $256.80 at this afternoon's fixing.

Operations:	Market	- $8 mn.
	Ireland	+ 21
	Interest	+ 11
	India	+ 6
	Sundries	+ 5
		+ $35 mn.

Overnight - $4 mn.

17th May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th May 1979

The dollar continued to surge strongly ahead today as further signs emerged of an economic slowdown. Sterling again held up well, for the most part, but came off this afternoon so that the ERI closed unchanged at 66.8 (after 66.9 this morning).

The pound closed at 2.0562 in New York yesterday. This morning it began at 2.0575, traded up to 2.0582 on some modest professional interest, then eased gently back to opening levels to watch proceedings elsewhere. Business was very light throughout. A downward adjustment in late morning took sterling towards 2.05 but this level was not breached until North America reawoke. This afternoon, the pound traded down to 2.0466 but recovered again to close at 2.0500. Three months' cover was a little more expensive at 1⅜% p.a., but the adverse covered differential was reduced to ⅛%.

Sterling was unchanged on the deutschemark (3.93½), a touch firmer on the French franc (9.09¾) and a shade easier against the Swiss franc (3.56½). Central banks were again active. The Bank of Japan sold $103 mn. in New York yesterday and a further $28 mn. this morning in Tokyo where the yen closed at 217.20. Later it crashed off to 219.60 before closing here at 218.67. Yesterday in New York the Federal Reserve sold $112 mn. for marks and the Bundesbank added $55 mn. to their own losses. Today the Germans sold $320 mn. and $200 mn. outright forward. The deutschemark fell to 1.9198 (after 1.9230). The Swiss shelled out $215 mn. in support of their franc which closed at 1.7380 (after 1.7419). The snake closed fully stretched between the Belgian (30.84) and Danish (5.4130) currencies. The Belgian franc went out to 92 on the divergence indicator and the Belgians sold $8 mn., $3 mn. of marks and $10 mn. of Danish kroner. The French bought $7 mn. of Belgian francs as a gesture while the Danes bought $10 mn. The Dutch, however, sold $33 mn. The lira (855.57) closed 4⅞% above the franc and the Italians took in $27 mn. The punt (1.9680) was at 4⅛% discount.

Gold never quite recovered yesterday's heights and, having fixed at $257.50 this morning, came off to $256.40 this afternoon.

Operations:	Market	- $18 mn.
	Government	- 5
	Sundries	- 3
		- $26 mn.

18th May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st May 1979

The new week began as the old had finished. The dollar made further strides and met further stiff Central Bank resistance. Gold paradoxically leapt to new unprecedented heights. Sterling again struggled to keep a brave face and finished a scrappy day somewhat easier. The ERI fell from 66.8 to 66.6.

The pound closed at 2.0515 in New York on Friday and opened this morning at 2.0485. Before long, all currencies began giving ground to the dollar and sterling retreated, not without some professional selling from the Continent, to a low of 2.0393 in mid-morning. By early afternoon, the pound had recovered to around 2.0425 on some cheap buying interest and, when returning Americans viewed the dollar as a little too expensive, sterling improved further to 2.0450 before easing back late in the day to close at 2.0423. Business was at a low level throughout the afternoon. Three months' forward cover cost an unchanged 1⅜% p.a. and the intrinsic discount was ⅛%.

Sterling lost ¼% to both the Swiss franc (3.55½) and deutschemark (3.92⅜) and was a fraction easier also against the French franc (9.09⅛). All three were heavily supported. The Swiss sold $343 mn. (of which only $19 mn. were for capital exports) and swapped in $450 mn. The Bundesbank sold $195 mn. (following Federal Reserve sales of $82 mn. for marks on Friday). The Swiss franc eased to 1.7403 and the deutschemark to 1.9210 (after 1.9255). Partly no doubt in response to the continuing official support, the deutschemark moved up to the top of the snake, closing 2⅛% above the Belgian franc (30.84). The franc finished at 90 on the divergence indicator. The Belgians sold $18 mn. and deutschemarks equivalent to $2 mn. while the Dutch sold $10 mn. The French franc (4.4514) was the most pressured, however, and the authorities sold $45 mn. and $60 mn. of marks as the cross-rate eased from 2.31⅛ to 2.31¼. The lira closed only 4⅝% above the floor of the band, after the Italians had bought in $50 mn. The punt (1.9625) was at 4 1/16% discount on sterling. In Tokyo the yen closed at 219.30 and in London at 218.85 (after 220.10). The Japanese sold $42 mn. in New York on Friday and a modest $18 mn. this morning.

Gold cleared the $260 hurdle in the Far East this morning and went on to set successive new record fixing levels of $261.05 and $262 before trading up to $263.75.

Operations:	Market	- $10 mn.
	Ireland	+ 20
	India	+ 10
	IDA	+ 5
	Sundries	+ 3
		+ $28 mn.

21st May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 22nd May 1979

Sterling's recent softness persisted this morning, the more so with the dollar off its recent high levels. This afternoon, however, both recovered together, leaving sterling slightly firmer on balance with the ERI at 66.7 (after 66.5 at noon).

The pound closed better at 2.0457 yesterday in New York where the dollar was generally considerably easier. This morning sterling began at 2.0442 and met only modest two-way professional activity on the opening exchanges. Eventually the sellers predominated and the pound drifted back to 2.0372 before steadying on some commercial interest around 2.04. A healthier tone developed this afternoon on professional short-covering combined with some fresh US interest. Sterling traded up to close at the day's best level of 2.0443. Three months' cover again cost 1⅜% p.a. and the adverse covered differential remained at ⅛%.

Sterling finished only fractionally easier against the Swiss franc (3.55¼), French franc (9.08⅞) and deutschemark (3.92⅛). The deutschemark closed at 1.9184 and the Bundesbank stayed out of the market. The Swiss, however, sold a further $135 mn. (including $17 mn. for capital exports) and swapped in $515 mn. The snake continued to show signs of tension, though closing at only 2⅛% in width between the Belgian franc (30.80) and deutschemark. The franc finished at 90 on the divergence indicator amid market speculation on a further increase in Discount Rate. The Belgians sold $25 mn. and the Dutch spent $8 mn. and $6 mn. of marks. The Danes helped by buying $7 mn. The French again showed most concern for their currency, apparently to keep the DM cross-rate around 2.31¾. They sold $62 mn. and $32 mn. of marks. Their franc finished in mid-band at 4.44⅜ against the dollar. The punt (1.9655) closed at 4% discount. The yen closed at 218.75 in Tokyo, receiving only $7 mn. of official support, and 219.42 in London.

Gold continued active, establishing another new record level of $266.80 between successive record fixings of $265.15 and $265.40. Profit-taking set in when American metals markets opened lower but this was readily absorbed.

Operations:	Market	-	$10 mn.
	BIS o/a Nigeria	-	20
	Ireland	+	31
	Interest	+	6
	Iran	+	5
	Sundries	-	6
		+	$6 mn.
	Overnight	+	$7 mn.

22nd May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 23rd May 1979

Last night's promises by the Chancellor on public spending took sterling out of the doldrums and, with a following wind from New York, the pound notched some useful gains. Yesterday's news of a sharp fall in US durable goods orders carried the dollar higher but, after further official sales, it lost ground when New York opened. The snake remained perplexed. Sterling's ERI improved from 66.7 to 67.1.

Volume remained modest this morning when the pound opened at 2.0445, having ended higher at 2.0475 in New York yesterday. 2.0488 was paid on the Continent for sterling in the early exchanges but the rate climbed no higher through a quiet morning. Sterling was well bid, however, this afternoon, both from the familiar European professionals and also from returning Americans. The pound soon topped 2.0550 and, as the dollar lapsed later, touched 2.0586 before closing at 2.0580. Forward discounts edged lower and, with the cost of three months' forward cover at 1¼% p.a., sterling's intrinsic discount was eliminated.

Pounds were ⅝% better bid at the close against each of the principal rivals in Europe - the Swiss franc (3.57½), French franc (9.14⅝) and, in lead position still in the snake, the deutschemark (3.94½). All showed no marked change on the dollar at 1.7375, 4.4440 and 1.9172 following continued sales by the Swiss ($159 mn.), French ($21 mn.) and Germans ($100 mn.) who extended the mark's margin over the Belgian franc (30.83) to a full 2⅛%. Most others, too, were active. The Danish, Dutch and Belgian Central Banks found it necessary to sell $72 mn. and $49 mn.-worth of marks between them. With the lira (856.90) 4⅝% off the floor, the Italians bought $20 mn. The ailing yen closed at 219.90 in Tokyo and 219⅜ here; the Bank of Japan lost $54 mn. The punt (1.9675) was at 4⅝% discount on sterling.

Extreme nervousness assailed the gold market and prices moved uncertainly, showing no firm trend. Fixings were lower at $264.40 and $264.15.

Operations:	Market	+ $68 mn.
	Iraq	+ 10
	Bangladesh	- 10
	Sundries	+ 5
		+ $73 mn.

jgh 23rd May 1979.
JGH
(with apologies to DAHB - il miglior fabbro)

SECRET

1979/21

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 23rd May 1979

Rising oil prices and perhaps the prospect of public spending cuts helped sterling to gain 0.3 to 67.1 in effective terms, after 66.5 at noon on Tuesday. The dollar also improved despite heavy official sales. On the continent, a relative improvement in the mark put the Belgian franc under further pressure. The yen was weak again.

From 2.0615 at the London close on 16th May, sterling held firm at first against a strengthening dollar, later easing a little, perhaps on consideration of the money supply figures, to close on Friday at 2.0500. The tone was softer for a while after the weekend, with some professional selling from the Continent, and the rate dipped below 2.03¾ at one time on Tuesday morning. Thereafter sterling improved again, although the dollar remained firm, and closed the period at 2.0580. The pound continues to benefit from continuing announcements of higher oil prices and from reports that the government intend to cut public spending soon; on the other hand, faster monetary growth and inflation are sources of concern. The cost of forward cover fell slightly to 1⅛%, and the covered differential against sterling was eliminated.

Rises in oil prices, together with apparent easing of the domestic economy and forecasts of a period of stability for the currency from administration leaders, brought gains for the dollar in all the main centres, despite substantial official sales. Most of the improvement came before the weekend. The Fed themselves sold $210 mn. in the market, mostly against marks. The Bundesbank gave their currency very heavy support, selling over $1,250 mn., some of it to cover capital exports; the mark fell 0.6% to 1.9172. The Germans reduced their intervention towards the end of the period, once the mark had moved to the top of the 2¼% band in the expanded snake and put the Belgian franc under pressure. The Swiss franc fell a similar amount to 1.7375, after $1,050 mn. of support. The yen was weak again, falling 3⅛% to 219.37, but the Bank of Japan intervened much less ($280 mn.) than they had done earlier. The current account was in deficit for the second successive month in April. The Belgian franc remained bottom of the snake, closing at 30.83; the snake was mostly well-stretched, the mark taking over top position among the 2¼% currencies from the Danish crown on Monday. The Belgians gave fair support, selling $80 mn., $40 mn.-worth of marks and some Danish crowns. There are rumours of another rise in interest rates. The French - perhaps concerned about their cross-rate with the mark, which weakened from 2.30⅞ to 2.31¼ - sold $130 mn. and $90 mn.-worth of marks. Their franc closed at 4.4440 against the dollar. The Dutch, while fairly comfortable, also gave their currency some support. The lira, which is not constrained by the 2¼% band, closed 2⅜% above the mark, at 856.90 against the dollar. The Bank of Italy bought $100 mn. The Irish pound closed at 1.9675, the discount against sterling widening to 4⅝% despite some support. Sterling also gained against the main continental currencies, for example, by ⅜% to 3.94½ against the mark and by ¼% to 9.14⅝ against the French franc.

Gold scaled new heights, despite the dollar's strength. The $265.40 on Tuesday afternoon set a record for a fix; earlier, the metal had traded as high as $266.80. On Wednesday afternoon gold fixed rather lower at $264.15, to show a gain of $7.65 over the week.

24th May 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
17th May		24th May
2.0607	£/$	2.0587
66.8	Effective exchange rate index	67.0
1 5/16% disc.	Forward 3-months	1 5/16% disc.
10¾%	Euro-$ 3-months	10½%
⅛% disc.	I.B.Comparison	parity
1.9070	$/DM	1.9130
3.93	£/DM	3.93⅞
9.08	£/FF	9.13⅞
215.40	$/Yen	218.90
$257.85	Gold	$263
1.7270	$/S.Fc.	1.7335
3.55⅞	£/S.Fc.	3.56⅞

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 24th May 1979

The Ascension Day holiday in most European centres made for a generally quieter day. The final PSBR and first quarter GDP figures depressed sterling this afternoon and the dollar, too, lost ground when Chairman Miller asserted that there was no recession in sight in the US. Sterling's ERI, having risen to 67.2 this morning, closed lower overall at 66.8.

The pound finished at 2.0576 in New York yesterday and opened at 2.0575 this morning. Some early demand from the Far East saw business up to 2.0620 but the opening levels were quickly re-established when one or two local commercial sellers appeared and sterling traded quietly thereafter through the morning. The PSBR was an unwelcome surprise and sterling fell to 2.0497 after New York opened. Miller's intervention took the dollar generally lower but the pound fared rather less well than most and never bettered its closing 2.0535. Forward margins widened following the PSBR announcement. Three months' cover cost 1⅜% p.a. at the close, leaving an intrinsic discount for sterling of 1/16%.

Sterling lost ⅜% to the Swiss franc (3.56⅜), 7/16% to the French franc (9.10⅜) and ½% to the deutschemark (3.92½). The deutschemark was 1.9115, rather firmer than most. The French franc (4.4345) eased to 2.32 against the mark. The Swiss franc (1.7342) slipped to 0.9070 to the mark. The Belgian franc (30.78) was all of 2⅜% off the mark and 4⅜% from the lira (855.22). The punt (1.9665) was 4 7/16% discount on the pound. The yen closed unsupported at 219.10 in Tokyo and 218.50 in London.

Gold eased to $263 at this morning's fixing but recovered to 263.75 this afternoon. Miller's statement took the price $1 higher before the close in London.

Operations:	Ireland	+ $21 mn.
	British Gas (PSB G'teed)	+ 10
	Government	- 5
	Sundries	+ 5
		+ $31 mn.

24th May 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 25th May 1979

Impending holidays in the U.K. and U.S. together with the annual Forex gathering made for a relatively quiet day on the exchanges. Sterling was sold this morning but later recovered. The dollar strengthened late in the day despite a large increase in the U.S. Consumer Price Index. Sterling's ERI rose to 66.9.

The pound opened at 2.0537 this morning, having closed three points better than that in New York yesterday. 2.0560 was seen on the opening exchanges following modest interest from the Far East, but Europeans soon came in as sellers and sterling swiftly dropped to 2.0485 before settling to trade around 2.05 for the rest of the morning. This afternoon, 2.0535 was paid for pounds as some of this morning's sellers took their profits but sterling soon lapsed back into the morning's range and closed at 2.0503. Forward margins widened, the three months' to 1 1/2% p.a. discount. The covered differential against London increased to 1/4%.

Sterling gained fractionally on the Swiss franc (3.56) and French franc (9.11 1/4) but rose nearly 1/4% against the deutschemark (3.93 1/4). The latter was not supported as it eased to 1.9184, the Bundesbank merely swapping in $600 mn. The Swiss, by contrast, sold $247 mn (including $36 mn for capital exports) and swapped in $570 mn. Their franc eased slightly to 1.7364. The French franc fell to 4.4440. The Bank of France spent $45 mn. and $21 mn. worth of marks (also swapping in $90 mn.) to push the cross-rate up from yesterday's 2.32 to the DM. to 2.31 7/8 and, with the late fall in the mark, it closed at 2.31 5/8. The snake was well-stretched for much of the day but the mark finished only 2 1/8% above the Belgian franc (30.81). Brussels was again closed. The Danes sold $36 mn. to arrest the continuing decline of their krone in the band. The Italians, however, bought $20 mn. and the lira (855.20) ended the day 4 3/4% above the floor. The punt (1.9705) was at 4 1/16% discount. The yen closed at 219.20 in Tokyo and 219.82 in London.

Gold was bid up strongly in New York yesterday and the Far East this morning and continued to firm throughout the day. Successive records were set at the fixings of $270 and $270.60 and trading took place around $271 in between.

Operations:		
	Market	- $12 mn.
	Interest	+ 9
	I.D.A.	+ 6
	Sundries	- 4
		- $1 mn.

25th May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 29th May 1979

A good day for both sterling and the dollar saw general demand for pounds in evidence, especially this afternoon once New York had opened. Sterling's ERI advanced from 66.9 to 67.2.

The pound traded steadily through the Bank Holiday and closed in New York yesterday at 2.0532. This morning sterling opened at 2.0515 and fell to 2.0470 on the early exchanges as one of yesterday's bulls returned to take a modest profit. This done, however, the pound quickly recovered its poise and, on a modest level of demand, traded either side of 2.0525 through the rest of the morning. This afternoon both dollar and pound were wanted, with American influence undoubtedly underlying the movement, and in a late flurry of activity, sterling was dealt up to 2.0570 before closing at 2.0557. Forward margins narrowed, the three months' to 1 7/16% discount. Sterling's intrinsic discount was reduced to 3/16%.

The pound gained over 1/4% against the French franc (9.14) and 1/2% and more against the Swiss franc (3.58) and deutschemark (3.95 1/4). The Swiss sold $71 mn. yesterday and $108 mn. today, their franc closing at 1.7418. They also swapped in $1 1/2 bn. over the two days. The French sold $73 mn. and $27 mn. of marks yesterday to keep the DM. cross-rate at the required level. Today the franc recovered naturally and, at its closing 4.4460, was 2.31 1/4 to the DM. The deutschemark, though weakening to 1.9224, remained at the head of a fully-stretched snake. The Bundesbank, who were idle yesterday sold $100 mn. today and bought a token amount of Belgian francs. The Belgian franc (30.91) finished at 93 on the divergence indicator and the Belgians sold $64 mn.-worth of marks. Elsewhere the Dutch sold $5 mn. and the Danes $27 mn. as their currencies - the latter in particular - moved considerably closer to the foot of the band. The yen closed at 221.45 in Tokyo this morning and 222.17 in London. The Bank of Japan sold $14 mn. yesterday and $19 mn. today.

Gold was bid up strongly in Switzerland yesterday and opened this morning above $275. Having fixed at a record $276.10 this morning, it continued to advance as far as $278.25 this afternoon before profit-taking set in ahead of New York's opening. At a difficult fixing, the price was set at $273.80 but frenzied selling in the United States after European hours took the metal down as far as $267.75.

Operations:	Market	+ $46 mn.
	Ireland	+ 21
	Interest	+ 16
	India	+ 10
	British Gas (PSB G'teed)	+ 4
	Sundries	- 1
		+ $96 mn.

29th May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 30th May 1979

It was a fairly quiet day for sterling, with the New York market closed for Memorial Day, but some buying interest was seen at times. The dollar came off its best levels this afternoon and as a result sterling's ERI closed a shade lower at 67.1. The European monetary cauldron continued to bubble.

The pound opened at 2.0565 this morning, having closed at 2.0557 yesterday in New York. After a quiet start, some good two-way business developed which left the professional bulls predominant. Sterling was carried up to 2.0602 before settling to trade around 2.0585 through the rest of the morning. This afternoon, some further modest Continental interest kept sterling buoyant and, when the dollar sagged towards the close, the rate rose to 2.0616 before winding up at 2.0598. Forward discounts narrowed. Three months' cover cost 1 1/4% p.a. and this produced interest parity between domestic and eurosterling.

Sterling lost 1/4% to each of the Swiss franc (3.57) and deutschemark (3.94 3/8) and 1/8% to the French franc (9.12 3/4). The Swiss franc lost ground to the deutschemark this morning but more than recovered the ground this afternoon following relaxations of exchange dealing restrictions (effectivly inward exchange control relaxations). The franc closed at 1.7328 and provoked the late fall in the dollar. Against the mark it was 0.9050. The Swiss National Bank sold $25 mn. and swapped in $150 mn. The French franc continued firm and unsupported closing at 4.4310. The Bundesbank sold $58 mn. and the deutschemark improved to 1.9146. This followed Federal Reserve sales of $201 mn. for marks yesterday. As a result the snake was fully-stretched throughout. The Belgian National Bank announced a further 1% increase to 8% in Discount and Lombard rates with effect from tomorrow but this did little to turn the tide and sales of $58 mn. of marks were necessary to keep the system intact. The franc closed at 92 on the divergence indicator. The Dutch, too, announced a 1/2% increase in Discount Rate to 7% and this, together with sales of $25 mn., kept the guilder (2.0950) from slipping any further within the band. The Danish krone, however, at 5.4972, continued its fall from grace and closed only 1/2% above the Belgian franc despite sales of $24 mn. by the Danish National Bank. Meanwhile, the lira (855) continued to hover around 4 3/4% above the floor after official purchases of $17 mn. The punt (1.9630) was at 3 3/8% discount on sterling. The yen closed at 221.95 in Tokyo and 220.10 in London. The Japanese sold $10 mn. only.

Gold staged a modest rally this morning and fixed at $272.60. This afternoon, however, the bears returned and the price was fixed at $270.25.

Operations:	Market	+	$4 mn.
	Ireland	+	21 (for May)
	Australia	+	17
	India	+	10
	New Zealand	-	6
	Sundries	+	7
		+	$53 mn.

30th May 1979.

J.G.H.

SECRET

1979/22

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 30th May 1979

With the Forex convention and various holidays putting a damper on activity, sterling's effective rate was unchanged on balance at 67.1 after 66.8 on Thursday evening. The dollar was slightly softer in most centres. The Belgians raised discount rate to counter pressure in the expanded snake; the Dutch quickly followed.

From 2.0580 at the London close on 23rd May, sterling made a bright start, topping 2.06 briefly on Thursday morning, until the revelation that the PSBR in the first quarter had substantially exceeded expectations brought some selling. However, the pound attracted sufficient interest on Friday to close for the holiday weekend at just over 2.05. Although never heavy, renewed demand on Tuesday and Wednesday sufficed to take the rate yet higher, and the pound closed at 2.0598 after 2.0616. The Government's wish to curb public spending and the borrowing requirement, as well as further rises in oil prices, probably helped the tone. With little change in the cost of forward cover or in interest rates, sterling stayed around interest parity on the usual comparison.

Forex and a spate of holidays making for a quiet market, the dollar eased slightly in most centres. Mr.Miller's pronouncement on prospects for a recession caused a slight upset, but the poor U.S. consumer price figure (a rise of 1.1%) was brushed aside. Oil price increases now seem to be helping the dollar, on the grounds that they add to the amount of balances which buyers need to settle their purchases. The Fed. sold another $250 mn., entirely against marks. Although no doubt inhibited by the mark's position in the expanded snake, the Bundesbank themselves sold $160 mn.; the mark gained a touch to 1.9146, as Germany recorded another strong trade surplus in April. The Swiss franc improved 1/4% to 1.7328, some exchange control relaxations being announced on Wednesday; the SNB sold $450 mn. in intervention, but bought over $2 bn. on a swap basis to relieve money market shortages. Helped by official support - the Bank of France sold $120 mn. and $50 mn.-worth of marks and saw to an increase in money-market rates - the French franc also gained 1/4%, to 4.4310, bettering 2.31 1/2 against the mark. The yen, on the other hand, weakened again, by 0.3% to 220.10 after a modest $40 mn. of support, for the usual reasons - gloom about inflation and about oil prices and supplies, and the turnround in the current account balance of payments. In the expanded snake, the Belgians responded to continuing pressure by increasing discount rate by another 1%: their franc closed at 30.79, 2 1/4% below the mark and 4 3/4% below the lira (855). The Dutch followed with a 1/2% rise in their discount rate. The BNB sold $120 mn.-worth of marks and the Dutch, $30 mn.; the Italians bought $40 mn. Of the other currencies, the Danish crown, leader of the 2 1/4% band until recently, has fallen back, closing at 5.4972 after $70 mn. of support; and the Canadian dollar eased to 86.20 in the week following the election. Sterling closed little changed against the mark, at 3.94 3/8; against the French franc, it fell back to 9.12 3/4.

Gold had a hectic week. The record fix, $276.10, came on Tuesday morning; the metal subsequently traded beyond $278 until profit-taking caused the price to tumble over $10. A modest recovery on Wednesday left the afternoon fixing price at $270 1/4 for a gain of over $6 in the period.

31st May 1979.

for P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
24th May		31st May
2.0587	£/$	2.0648
67.0	Effective exchange rate index	67.2
1 5/16% disc.	Forward 3-months	1 3/16% disc.
10 1/2%	Euro-$ 3-months	10 11/16%
parity	I.B.Comparison	1/8% disc.
1.9130	$/DM	1.9087
3.93 7/8	£/DM	3.94 1/8
9.13 7/8	£/FF	9.13 3/8
218.90	$/Yen	220.25
$263	Gold	$278.25
1.7335	$/S.Fc.	1.7250
3.56 7/8	£/S.Fc.	3.56 3/16

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 31st May 1979

The unexpectedly large U.S. trade deficit for April took the shine off the dollar today, as dealers began to open positions for the new month. Some ground was recovered later, however, following further indications of a slowing economy. Sterling was very firm with the N.I.E.S.R. report proving at least a disincentive to sellers. The ERI advance to 67.4.

The pound opened at 2.0675 this morning and met some good two-way business trading up to 2.0695 and back to 2.0639 as the dollar recovered from somewhat depressed opening levels. This afternoon, however, sterling ran into strong demand even before New York returned from a day's holiday. The pound quickly scaled 2.07 and, despite a steady dollar, advanced strongly to 2.0750 before closing at 2.0720. Three months' cover again cost 1 1/4% p.a. and interest parity once more prevailed.

Sterling gained almost 1/4% against the deutschemark (3.95 1/4) and French franc (9.14 1/2) but was little changed against the Swiss franc (3.57 1/8). The Swiss sold $45 mn., mostly for capital exports, and swapped in $400 mn.; their franc closed at 1.7237. The deutschemark closed at 1.9076 following a 1/2% increase in Lombard Rate by the Bundesbank to 5 1/2%. The snake was fully-stretched for much of the day. The Germans bought $7 mn.-worth of Belgian francs and the Belgians sold $56 mn.-worth of marks. Their franc closed at 30.64 and was 90 on the divergence indicator. The Danish krone (5.48 1/2) closed only 1/4% off the floor. The lira (854 3/8) was 4 3/8% off the base and the Italians took in $15 mn. The French bought $19 mn.; their franc was 4.41 3/8. The punt (1.9757) was at 4 7/8% discount on sterling.

Gold was again a frenetic market. Having traded up to a record $279 this morning, it was fixed at a record $277.15 but then traded off and was fixed at $274.50 this afternoon.

Operations:	Market	+ $38 mn.	
	B.I.S. o/a Nigeria	- 62	(for May)
	I.D.A.	+ 7	
	Sundries	+ 3	
		- $14 mn.	

The result for May is a reserve increase of $65 mn. to $21,532 mn. after net public sector debt repayments of $238 mn. The overbought forward position was reduced by $222 mn. to $1,335 mn.

31st May 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 1st June 1979

The impending Whit holiday on the Continent made for generally quieter conditions today, although sterling found some spirited supporters this morning before drifting back to opening levels this afternoon. The dollar improved modestly but the European Monetary System ran into ever deeper problems. Sterling's ERI improved to 67.6 (after 67.7 at noon).

The pound closed at 2.0685 yesterday in New York where the dollar was a good deal better. This morning sterling opened at 2.0705 and tended quietly firmer through the morning. Later there were two flurries of buying interest which took the pound to a peak of 2.0776 early this afternoon but from that point it eased steadily back to close at 2.0715 on little business. Forward sterling was steady. Three months' cover cost 1 3/16% p.a., giving interest parity again on the covered comparison.

Sterling gained ⅜% on the deutschemark (3.96⅞), rather more on the French franc (9.18⅜) and a full ½% on the Swiss franc (3.58⅞). The Swiss sold $16 mn. against capital exports: their franc closed at 1.7325. The French franc was 4.4335 and the deutschemark 1.9160. Neither required support. The snake was heavily embroiled. The Belgians sold $145 mn.-worth of marks. Their franc closed at 30.80, the full distance from the deutschemark. On the divergence indicator, however, it improved slightly to 89 as other currencies weakened. The Danish krone (5.5290) closed only fractionally above the franc and fell to 83 on the divergence indicator. The Danes sold $52 mn. and marks equivalent to $74 mn. The Bundesbank took in $5 mn. of kroner and $27 mn. of Belgian francs. The Dutch sold $15 mn. with the guilder only 1% above the floor. The punt (1.9725) was at 5% discount on sterling. The yen closed at 221.40 in Tokyo and 221.20 in London.

Gold was firm this morning and fixed at $276.70. This afternoon, a persistent seller held the price down and an active fixing set a level of $275.10. Thereafter the market was quiet.

Operations:	Market	+ $376 mn.
	Spot +203	
	Forward +173	
	India	+ 10
	Ghana	- 6
	Sundries	+ 3
		+ $383 mn.
	Overnight	+ $4 mn.

1st June 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 4th June 1979

With all European centres, except those in Italy, closed today, foreign exchange markets had their quietest session for a long time with scarcely a whit of business transacted. Sterling edged up to 67.7 in effective terms.

In New York the pound closed before the weekend at 2.0773. It began the week here a point lower and moved uncertainly to 2.0755 before returning to opening levels. Some commercial trading was noted at times and the rate ended at the best of the day, 2.0788. Forward margins were unchanged but a covered differential of a bare 1/16% emerged in favour of sterling.

The dollar shaded lower once New York opened but it was basically featureless. Notionally, the Belgian franc (30.77½) was at 96 on the divergence indicator. Other closing levels for the dollar were: DM 1.9119, French franc 4.42, lira 853.95, Swiss franc 1.7283, yen 219.7 and punt 1.9665 (nearly 5¼% discount). The Canadian dollar, which required support of $153 mn. on Friday following disappointing trade figures, had another rough ride today when the latest reserve loss was published ($1.1 bn.): it fell from US$85.60 to 85.09 per Can$100.

Gold eased during the morning to fix at $273.60. It was sold off later in anticipation of North American selling, and fell to $271.70 but when this failed to materialise it rallied to $272.90 at the afternoon fixing, progressing then to $275 before closing at $274.25.

Operations:	Market	+ $9 mn.
	India	+ 10
	Bangladesh	- 12
	EEC	- 5
	Sundries	+ 4
		+ $6 mn.

4th June 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

~~Thursday~~ Tuesday, 5th June 1979

Sterling enjoyed another good day despite press gloom on the trade prospects and the potentially discouraging banking statistics. The dollar opened unaccountably weaker but picked up strongly once New York returned and registered small net gains on the day. Sterling's ERI rose to 67.8.

The pound closed at 2.0775 in New York yesterday and opened here this morning at 2.0780. Some fair two-way business was transacted in the morning session with predominantly commercial sellers being generally bettered by professional takers. The rate touched 2.0776 on more than one occasion but traded for the most part around 2.08. The afternoon session was conducted above that level, despite the improving dollar, the pound dipping only fleetingly below 2.08 in the immediate aftermath of the banking figures. 2.0820 was paid for pounds late in the day and the close came at 2.0806. Three months' cover again cost 1⅛% p.a., leaving a modest intrinsic premium still for sterling.

The pound gained ⅛% against the French franc (9.19⅜) and deutschemark (3.98⅛) but put on ⅜% against the Swiss franc (3.60½). The Swiss franc fell to 1.7328 against the dollar while the Swiss offered only $13 mn. in support and a further $27 mn. in cover of capital exports. They also swapped in $400 mn. The French confined themselves to swapping out $50 mn.; their franc closed little changed at 4.42⅛. The deutschemark was 1.9135 and the Bundesbank were idle. Following the Whit holiday the snake took a while to reform in good order but eventually little intervention was required. The Belgian franc (30.74) closed less than the full distance off the mark after Belgian sales of marks equivalent to $13 mn. Danish markets were closed. The lira (852⅜) was 4⅞% from the floor. The punt (1.9757) was 5¼% discount on sterling. On the divergence indicator, the Belgian franc finished at 91 and the Danish krone (notionally) at 78. The yen finished at 219.80 in Tokyo and 220.70 in London.

After business at $278 in Hong Kong this morning, gold traded lower in London and fixed at $275.75 and $274.75. Late in the day, however, further demand emerged and the price soared quickly to $279 before profit-taking, reportedly on Middle East account, brought an end to the rally.

Operations:	Market	+ $17 mn.
	Ireland	+ 42
	India	+ 10
	Post Office (PSB G'teed)	+ 2
	Sundries	+ 8
		+ $79 mn.

5th June 1979.
JGH

SECRET
SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 6th June 1979

Though losing a little ground overall today, sterling continued to display a remarkable degree of resilience in the absence of any good news. The dollar improved overnight on news of a joint US/Canadian plan to explore the Tar Sands but failed to hold its gains. Gold hit new record levels. Sterling's ERI fell to 67.6.

The pound closed a touch easier at 2.0783 in New York yesterday in the face of a firmer dollar. This morning it began at 2.0805 and, as the dollar's advance continued, eased back to a low of 2.0762. Some light professional selling accompanied the movement. Cheap commercial buying then steadied the market and sterling traded either side of 2.0775 into the afternoon. The Chicago IMM opened as a heavy seller of pounds but these offerings were remarkably well absorbed and, after falling to 2.0740, the market again stabilised above 2.0750. Towards the close, however, some long positions were cut out in New York and the pound finished at the day's lowest level of 2.0737. Longer-dated forward margins moved wider, with some evidence of outright selling of pounds. Three months' forward cover, however, was fractionally cheaper at 1 3/16% p.a. and sterling retained a small intrinsic premium on the three months' covered comparison.

The pound lost up to a ¼% against the Swiss franc (3.59⅞), deutschemark (3.97¼) and French franc (9.17⅞). The Bundesbank sold $126 mn. to support the mark which eased to 1.9153. The Swiss sold a net $33 mn. against exports of capital; their franc was 1.7353, also a touch easier. The French franc was 4.4260. The Danish krone (5.5315) closed at the tail of a fully-extended snake. The Danes sold $21 mn. and $44 mn.-worth of marks. The Bundesbank bought $17 mn.-worth of Danish kroner. On the divergence indicator, the krone was 86 and the Belgian franc 92. The lira (845.05) was 4⅞% off the floor. The punt (1.9682) was 5⅛% discount. The yen closed at 220.90 in Tokyo and 220.25 in London.

Gold was active and nervous throughout. Having breached $280 this morning it was fixed at a record $280.75 and traded on to $281.50 before easing to fix at $280 this afternoon and close at $279 ahead of today's IMF auction.

Operations:	Market	+	$7 mn.
	India	+	10
	PSB	+	10
	National Water Council + 6		
	Orkneys + 2		
	Post Office + 2		
	Interest	+	6
	EEC	-	66
	Sundries	+	2
		-	$31 mn.

6th June 1979.
JGH

SECRET

1979/23

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 6th June 1979

Sterling was firm until some late profit-taking emerged, closing 0.4 higher in effective terms at 67.6 after 67.9. Bad trade figures caused the dollar only temporary embarrassment. The relative strength of the mark kept the weaker snake currencies pinned to the ropes.

From 2.0598 at the London close on 30th May, sterling advanced more than most against a dollar which was set back by unexpectedly poor trade figures. By Friday, however, sterling was in good demand although the dollar was generally better; and the firm tone was maintained after the weekend, despite the banking statistics and some disquiet ahead of the trade and balance of payments figures due on 8th June. The NIESR report was if anything well received; the reserves figures for May had little impact. Some selling developed on Wednesday afternoon, however, and the pound closed the period at 2.0737 after 2.0820 on Tuesday. Small changes in eurodollar and interbank sterling rates and the cost of forward cover took sterling to interest parity or slightly better on the usual 3 months' comparison.

Despite poor trade figures (a deficit of $2.15 bn. in April), the dollar edged up in several centres. A sharp drop in leading indicators gave further evidence that the economy is slowing down; the Fed revealed that the US is now entirely free of swap debt for the first time since 1969; and continuing rises in oil prices helped the dollar, if only because buyers need more dollars to pay for supplies. An agreement between the US and Canada to consider extracting oil from tar sands may have been another factor. The Fed sold $70 mn. in the market, entirely against marks. With further support amounting to $180 mn. from the Bundesbank, the mark only shaded back, to 1.9154. The Bundesbank also raised lombard rate by ½%, simultaneously arranging to provide the banks with liquidity. The mark's relative strength in the snake greatly discomfitted the Belgian and Danish authorities, who sold $210 mn. - and $130 mn.-worth of marks respectively to keep their franc and crown within the 2¼% band. The Bundesbank bought them in modest amounts, about $50 mn.-worth altogether. They closed at 30.78 and 5.5315. The Danes sold $80 mn. on top, but took no corrective measures, though a modest devaluation is talked of. The Belgians increased bank rate a further 1% to 8% the day before the Bundesbank raised lombard rate. On the divergence index, both the Belgian franc (92) and the Danish crown (86) finished well over the threshold of 75; the mark, on the other hand, scored a comfortable 29. Of the other snake currencies, the lira (despite Dr.Baffi's impending retirement and warnings about inflation) and the French franc both improved against the dollar, to 854.05 and 4.4260, after modest creaming for the reserves. The Dutch quickly followed the Belgians with an increase in bank rate, by ½%, but they nevertheless lost some ground to the dollar despite modest support. The Irish pound closed at 1.9682 after small net sales of sterling. The Swiss franc eased back to 1.7353 after $140 mn. of support. The yen was steadier than of late, closing at 220¼ with no intervention; but disappointing trade and reserves figures forced the Bank of Canada to sell $250 mn. to help their dollar. Sterling strengthened against the main continental currencies, for example by ¾% to 3.97¼ against the mark and over ½% to 9.17⅞ against the French franc.

In a hectic and nervous market, gold rose nearly $10 over the week to $280 at the afternoon session on 6th June. The $280¾ fixed that morning is the highest so far, but the price touched $281½ between sessions. The IMF auctioned 444,000 ozs. at an average price of $280.39.

7th June 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
31st May		7th June
2.0648	£/$	2.0673
67.2	Effective exchange rate index	67.4
1 3/16% ~~disc.~~ p.a. disc.	Forward 3-months	1¼% p.a. disc.
10 11/16%	Euro-$ 3-months	10⅝%
⅛% disc.	I.B.Comparison	⅛% disc.
1.9087	$/DM	1.9149
3.94⅛	£/DM	3.95⅞
9.13⅜	£/FF	9.14⅞
220.25	$/Yen	220.12
$278.25	Gold	$279½
1.7250	$/S.Fc.	1.7350
3.56 3/16	£/S.Fc.	3.58⅝

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th June 1979

Sterling took on a distinctly softer tone this morning as dealers began to reflect more closely on the economic scene. Pressure was never very great, however, and sterling eased back without undue disturbance to the market. With the dollar itself weakening towards the close, sterling's ERI came back to 67.3.

Having closed at 2.0755 in New York yesterday, the pound opened at 2.0730 this morning and soon ran into a clutch of small sellers who, in an otherwise wary market, pushed sterling down through 2.07. One or two bargain hunters eventually appeared, however, and the market steadied somewhat uncertainly around 2.0675. Short-covering before the lunch break saw a brief return to 2.0702 but the earlier trading range was soon restored. An American professional returned to offer sterling and 2.0647 was seen. Once again, however, the pound rode out its problems and, with other sellers reluctant and the dollar easing, earlier levels were regained and the close came at 2.0662. The three months' forward discount widened to 1⅛% p.a. giving an adverse covered differential of ⅛%.

Sterling lost ⅜% to the French franc (9.14⅝) and ⅝% to each of the deutschemark (3.95) and Swiss franc (3.57¼). The French franc was unchanged on the dollar at 4.4265 but the deutschemark (1.9120) and Swiss franc (1.7314) both firmed. The Swiss sold $24 mn. and $24 mn. in cover of capital exports (while swapping in $100 mn.). The franc gained further from a late announcement that the 50% conversion requirement on exports of capital was to be abolished. The snake continued stretched with the Belgian franc (30.74) and Danish krone (5.5232) alternating at the base. The Danish currency finished there and the Danes bore the brunt of the day's pressures, selling $27 mn. and $43 mn.-worth of marks while the Bundesbank bought $40 mn.-worth of kroner. The Belgians sold deutschemarks equivalent to $36 mn. The lira (854) closed 4¾% above the floor after the Italians had taken in $70 mn. The punt (1.9692) was a little under 5% discount on sterling. The yen closed at 220.10 in Tokyo and 219.65 in London.

Gold was again very volatile and uncertain. The market's initial response to the average price of $280.39 at the IMF auction was favourable but potential selling pressure was already evident by the morning fixing which set a price of $279.30. The price fell sharply on the New York opening and, after a long and tortuous session at which further substantial offerings were seen, the afternoon fixing produced a level of $276.05.

Operations:	Market	-	$27 mn.
	Government	+	11
	India	+	10
	Post Office (PSB G'teed)	+	10
	Interest	+	9
	Australia	+	6
	Iraq	+	6
	Sundries	+	1
		+	$26 mn.

7th June 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 8th June 1979

The long-delayed trade figures for February, March and April had much less of an impact on sterling than such a disastrous result perhaps warranted. Partly due to the hour of publication, partly also to the imminence of the budget and partly perhaps to sterling's own inherent strength, intial selling pressure was very light and the pound finished the day little weaker than it had begun. The ERI eased from 67.3 to 67.2.

The pound closed quietly in New York yesterday at 2.0675. It opened this morning at 2.0667 and yet again ran into early sellers who brought a swift mark-down to 2.0640. Once again, however, there was no follow-through and when opening levels were quickly recovered, the pound traded quietly on in a narrow range around 2.0675. A remarkable diversion was staged in mid-afternoon by a senior Japanese, whose assertion that his Government were seeking a yen rate in the range of 190-200 secured a sharp appreciation for that currency and a concomitant fall in the dollar elsewhere. Sterling topped 2.07 and, when a leading professional took a speculative position in advance of the trade figures, it advanced to 2.0745. Following the announcement, the pound fell from 2.0740 to 2.0700 but trading thereafter was cautious and thin and sterling retreated in measured steps to a closing level of 2.0650. Forward margins were marked wider, the three months' to 1 7/16% p.a. discount, but with sterling deposit rates much firmer, a small intrinsic premium for sterling prevailed.

The pound lost only 1/8% to each of the Swiss franc (3.57 3/8), French franc (9.13 1/2) and deutschemark (3.94 1/2) all of which closed slightly firmer on the dollar at 1.7305, 4.42 3/8 and 1.9102 respectively. The Swiss sold $9 mn. and $3 mn. for capital export proceeds. The snake continued in anguish, though closing slightly less than fully-stretched. As often, pressures intensified at the week's end and the Belgians sold $120 mn. of marks in support of their franc (30.70) while the Bundesbank bought $17 mn. of francs. The Danes, whose krone (5.5135) finished the day at the foot of the band, sold $2 mn. and $31 mn. of marks while the Germans took in $26 mn. of kroner. The lira (853.55) was 4 5/8% above the floor. The punt (1.9717) remained slightly under 5% discount on sterling. The yen, which had closed in Tokyo at 220 1/4, soared to 214 on Kosaka's statement (which, appropriately, followed an interview with Blumenthal) before closing in London at 218.

Gold was somewhat quieter this morning and fixed at $277.40. A strong advance this afternoon, however, took the price to $280 at the fixing.

Operations:	Market	- $4 mn.
	Post Office (PSB G'teed)	+ 9
	Interest	+ 5
	Sundries	+ 3
		+ $13 mn.

8th June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 11th June 1979

Sterling was quietly firm throughout the day, with dealers generally unwilling to face the budget short of pounds. The latest CGBR and Wholesale Price Index did little to change the mood. The dollar improved a shade on the back of sterling. The ERI rose to 67.3.

The pound closed comfortably at 2.0642 in New York on Friday. This morning it began at 2.0652 but soon tended lower. Around 2.0615 some good two-way business was transacted which left the bulls in the ascendancy until a large professional came in to sell sterling down again. 2.0602 was the lowest level seen and from there sterling quietly regained its poise, eventually regaining the opening level as positions were covered. Early this afternoon some modest professional demand was forthcoming from some who evidently felt over-exposed ahead of the budget. Sterling traded up to 2.0675 and remained in the higher reaches through a quiet afternoon before closing at 2.0666. Three months' cover again cost 1 7/16% p.a. and this yielded a small intrinsic premium for sterling on the covered comparison.

The pound gained a further 1/8% on both the Swiss franc (3.57 3/4) and deutschemark (3.95 1/8) but rather less against the French franc (9.14). The Swiss sold $16 mn. (of which half was for capital exports) as their franc eased back to 1.7323 but the Bundesbank were idle as the deutschemark fell in line to 1.9122. The French franc was barely changed at 4.4227. The Belgian franc (30.72) supported a fairly well-stretched snake through the day and the Belgians sold $20 mn. and $48 mn.-worth of deutschemarks. The lira (853.60) was 4 5/8% above the floor. On the divergence indicator the Belgian franc was 88 and the Danish krone 79. The punt (1.9732) improved to 4 3/4% discount on sterling. The yen closed at 218.80 in Tokyo and 218.82 in London.

Gold set new records this morning trading up to $283 before fixing at a new high of $282.40. This afternoon's session set a level of $282.35 with no definite trend emerging and the tendency still for profits to be taken.

Operations:	Market	+ $8 mn.
	Post Office (PSB G'teed)	+ 5
	Interest	+ 5
	Sundries	+ 5
		+ $23 mn.
	Overnight	+ $12 mn.

11 June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 12th June 1979

The radical nature of the budget proved much to the market's liking, and, with the monetary measures particularly encouraging, sterling was widely bought. The dollar firmed at first with sterling but wilted later under the pressures of the flows into London and closed little changed. Sterling's ERI advanced from 67.3 to 68.0.

The pound continued wanted in New York yesterday and closed there at 2.0715. Today it began at 2.0685 and traded around 2.07 for much of the morning on fair, two-way business. Later, some more positive interest from Continental Europe took sterling higher and early this afternoon 2.0765 was paid for pounds as early New Yorkers combined with good Swiss and Scandinavian demand to boost the rate. By the time the Chancellor announced the 2% increase in M.L.R., sterling had eased to 2.0741 but from then on the market's enthusiasm was fired. The pound surged strongly forward on widespread and sizeable demand, pausing only at 2.0880 before the close was taken at 2.0870. Later business was seen up to 2.0950 but at the very end of the day, sterling was trading around 2.09. Forward margins were marked sharply wider in response to the increase in M.L.R. Three months' cover cost 2% p.a. at the close, but, with sterling deposit rates having adjusted rather more so, this left a notional intrinsic premium for sterling of over 1%.

The pound gained 1% on the deutschemark (3.99 1/4), 1 1/8% on the Swiss franc (3.61 7/8) and almost 1 1/4% on the French franc (9.24 7/8). These all closed a little easier against the dollar at 1.9130, 1.7344 and 4.43 1/8 respectively. The Bundesbank sold $30 mn. and the Swiss $10 mn. (in addition to swapping in $250 mn.). The snake was again well-stretched with the Belgian franc (30.75) again on the base throughout. The Belgians sold $25 mn. and deutschemarks equivalent to $36 mn. The Danes sold $9 mn. On the divergence indicator the Belgian franc was 88 and the Danish krone 78. The punt (1.9717) moved out to 5 7/8% discount on sterling. The Japanese yen closed at 219.40 in Tokyo and 219.57 in London.

Gold encountered substantial profit-taking both at the morning fixing - which set a level of $278.90 - and later when New York opened. Following the afternoon fix ($277.75) the price stabilised.

Operations:	Market	+	$66 mn.
	Ireland	+	42
	Iraq	+	37
	Interest	+	5
	Post Office (PSB G'teed)	+	2
	BIS o/a Nigeria	-	21
	Sundries	+	1
		+	$132 mn.
	Overnight	+	$13 mn.

12th June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 13th June 1979

Sterling was an active and sometimes volatile market today. Some large sums were traded in both directions, with some inflows clearly destined for gilt-edged while yet other long-standing bull positions in pounds were liquidated. Unlike yesterday, there were several serious attempts at profit-taking, especially this afternoon at the higher levels, and the pound closed well below its best. Sterling's ERI rose from 68.0 to 68.6, the highest level since the index was revised.

The pound closed at 2.10 in New York yesterday after continuing good demand. This morning, European professionals took profit on a large scale in the Far East and sterling began in London at 2.0939. Modest two-way business on the early exchanges left no decided trend but when a large long outright position came on offer, sterling dipped to 2.0910. Soon, however, buyers appeared in increasing numbers and a good two-way market persisted through the morning around 2.0950. Early this afternoon, some strong demand was seen, stemming partly from Swiss investment interest and partly from stop-loss buying from a few erstwhile bears. Sterling advanced strongly through 2.10 and, with New York returning to find the rate above its previous close, there was no great inclination to buy from that source. The Chicago IMM, however, were evidently very short of sterling and as demand built up there, the pound jumped further ahead in a series of fits and starts to 2.1140, its highest level for nearly four years. Given these unaccustomed heights and a somewhat less visible official presence the market was fairly volatile throughout the afternoon and it was no surprise when a sell-off occurred late in the day. Sterling closed at 2.1077 and later traded down to 2.1040. Forward margins continued to adjust to the new level of domestic interest rates and closed substantially wider. The cost of three months' forward cover was 3 3/16% p.a. and the covered differential was 3/16% in London's favour.

Sterling gained a further 5/8% on the French franc (9.31) and 3/4% on each of the Swiss franc (3.64 5/8) and deutschemark (4.02 3/8). The Swiss sold $54 mn. and swapped in $325 mn., although their franc firmed to 1.7297. The deutschemark, too, hardened to 1.9093; the Bundesbank bought $3 mn. of Danish kroner. The latter fell to the bottom of the snake after another increase in Belgian Discount Rate by 1% to 9% had buoyed the Belgian franc slightly. The franc closed at 30.65 and the krone at 5.50 7/8. The Danes sold $40 mn. and $12 mn. of marks while the Belgians sold $8 mn. and $42 mn. of marks. On the divergence indicator, the franc was 85 and the krone 84. The lira (852 1/4) was 4 11/16% above the floor. The Italians took in $50 mn. The punt (1.9717) finished the day at 6 7/8% discount on sterling. Elsewhere, the Swedes sold $70 mn. to support their krona and the yen eased to 220.07 after closing at 219.85 in Tokyo.

Gold was again softer, though fairly stable at the lower levels. Fixings were $276.10 and $276.60.

Operations:	Market	+ $52 mn.
	Iraq	+ 63
	Government	+ 5
	P.S.B.G'teed	+ 2
Post Office	+ 5	
British Airways	- 3	
	Sundries	+ 5
		+ $127 mn.

13th June 1979.

J.G.H.

SECRET 1979/24

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 13th June 1979

Although sterling went into orderly retreat after the appalling trade figures, the Budget (a 14% MLR in particular) generated strong demand which carried the effective rate up 1.0 to 68.6, the highest since the present index was instituted, after 67.2. The dollar eased back against most currencies. The Belgians raised discount rate another 1% as the EMS remained under pressure.

At first sterling was nervous ahead of the trade figures for the three months February-April due out on Friday afternoon, although some buying from the Continent took the rate to 2.0745 just before the figures were released. The deficit was far wider than even the worst prediction, and sterling retreated in orderly fashion to 2.0650 on Friday afternoon. It opened lower after the weekend, skirting 2.06 on light professional selling on Monday morning, but few were prepared to sell before the Budget and the rate hardened to around 2.07½ when the Chancellor began. The CGBR and wholesale prices for May had made no impact on Monday. Sterling rose sharply when he announced the 2% rise in MLR; the rest of the Budget was well received, the various relaxations of exchange control notwithstanding; and the pound advanced to 2.09½ in late London dealing and then further to 2.10 in New York before professional profit-taking brought a temporary retreat on Wednesday morning. During the afternoon, however, sterling came into good demand again, perhaps to buy gilt-edged, and the pound ended the period at 2.1077 after 2.1140, the highest since 1975. Although it closed at 3 3/16%, 2% higher than a week earlier, the cost of cover did not match the higher domestic interest rates, and sterling went to an intrinsic premium of 3/16% on the usual comparison.

The dollar eased back in other centres, despite a surprisingly low increase in producer prices in May (0.4%) and further sign that the economy is slowing. A couple of major banks reduced their prime rate to 11½%. Fed. intervention in the exchange market was negligible. A bizarre episode brought a sharp but temporary improvement in the yen on Friday, to 214, when a leading Japanese official suggested that a rate in the 190-200 range would be appropriate. The yen soon weakened, however, and closed little changed at 220.07 without intervention. The mark remained top of the expanded snake, but this week the Bundesbank sold only $30 mn. and indeed sold three times as much in marks to support the weaker EMS currencies. On balance, the mark gained 0.3% to 1.9093. The Belgian franc and the Danish krone alternated in bottom place, the franc receiving a late lift from the news of a further 1% increase in bank rate, to 9%. The Belgians sold $50 mn. and $280 mn.-worth of marks; the Danes sold $80 mn. and $90 mn.-worth. Their currencies closed at 30.65 and 5.5087 respectively, both remaining well over 75 on the divergence indicator. Of the other EMS currencies, the lira improved to 852.25, the central bank buying $260 mn., despite poor inflation figures; and the French franc gained 0.2% to 4.4170. The Irish pound closed at 1.9717, a discount of 6 7/8% on sterling. Various exchange control changes may have helped the Swiss franc to gain 0.3% to 1.7297. The SNB sold $140 mn., but also bought dollars on the swap to ease domestic liquidity. The Canadian dollar was in rather better shape than last week. Sterling gained on the continental currencies, improving about 1¼% against both the mark and the French franc, to 4.02⅜ and 9.31 respectively.

After earlier profit-taking, gold advanced as high as $283 on Monday morning before fixing at a record $282.40; thereafter the price fell back and $276.60 was established at the afternoon session on Wednesday, a decline of $3.40 on the week.

14th June 1979.

P.A.B.

RATES., ETC.

10.15 a.m. 7th June		10.15 a.m. 14th June
2.0673	£/$	2.1043
67.4	Effective exchange rate index	68.5
1¼% p.a. disc.	Forward 3-months	3⅛% p.a. disc.
10⅞%	Euro-$ 3-months	10⅜%
⅛% disc.	I.B.Comparison	3/16% pre
1.9149	$/DM	1.9095
3.95⅞	£/DM	4.01¾
9.14⅞	£/FF	9.29⅞
220.12	$/Yen	220.27
$279½	Gold	$279.40
1.7350	$/S.Fc.	1.7298
3.58⅝	£/S.Fc.	3.64

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 14th June 1979

Sterling was again active, though less so than yesterday. A better two-way market began to develop but with commercial sellers now appearing, sterling's tendency was definitely downward. The dollar, too, continued softer and sterling's ERI fell to 68.2.

The pound closed at 2.1050 in New York overnight and opened at 2.1053 this morning. The early morning saw a steady stream of small buyers but sterling never bettered 2.1063 and, when a few commercial sellers showed their hand the pound began to drift back. Nonetheless the market was stable until early afternoon, when the earlier buyers took panic losses and, with a modest commercial selling interest also around, sterling fell rather more sharply to 2.0960. The rest of the day passed comfortably around this level. New York was again surprisingly quiet but Chicago offered sterling and sellers were generally the more visible. The pound traded down to 2.0937 at one stage but recovered comfortably to close at 2.0961. Forward margins were very steady. Three months' cover again cost 3 3/16% p.a. and this left a small intrinsic premium for sterling.

The pound lost 5/8% to the deutschemark (3.99 3/4) and nearly 3/4% to each of the Swiss franc (3.62) and French franc (9.24 5/8). The Swiss sold $15 mn. (of which $11 mn. for capital exports) and swapped in $100 mn. Their franc firmed to 1.7270. Most German centres were closed; the deutschemark hardened, too, to 1.9073. The Danish krone (5.5017) and Belgian franc (30.63) continued hard-pressed in the snake. The former was on the base throughout. The Danes sold $45 mn. and the Belgians $14 mn. and $31 mn. of marks. On the divergence indicator, the franc was 87 and the crown 80. The lira (852.65) slipped to a level 4 1/2% above the floor. The Italians took in $40 mn. The punt (1.9757) recovered to 6 1/8% discount on sterling. In Tokyo, the yen closed at 220.70 after publication of a much larger trade deficit in May. In London, however, it recovered to 220.10.

Gold was bid up in New York and Hong Kong but traded down in Europe. The market was less active than of late and the fixings were $278.80 and $279.

Operations:		
	Market	+ $6 mn.
	India	+ 11
	Iraq	+ 11
	BIS	+ 7
	Sundries	+ 6
		+ $41 mn.

14th June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 15th June 1979

The dollar returned to centre stage today, closing substantially easier against most currencies, as record increases in the key monetary aggregates accompanied further reductions in the Prime Rates of major banks. Sterling was very steady and not very active: both the RPI and the new tap stocks were well received. The snake suffered the usual week-end tension. Sterling's ERI closed unchanged at 68.2.

The pound closed at 2.0985 in New York yesterday and opened just two points cheaper this morning. The opening exchanges were quiet and sterling tended easier. Having touched 2.0964, however, it began to advance in the face of a rapidly softening dollar. Later, a couple of large buyers appeared and, buoyed by the RPI, the pound was carried up through 2.10. New York did little in sterling, though Chicago were small buyers. However, the dollar's fall from grace continued and sterling rose to 2.1057 before closing at 2.1037. Three months' forward cover cost 3 1/16% p.a. and the covered differential in London's favour was 3/16%.

Sterling lost 1% to the Swiss franc (3.58 3/8), nearly 5/8% to the deutschemark (3.97 1/2) but barely 1/4% to the French franc (9.22 7/8). Strangely, the impetus for the dollar's decline seemed to come from Paris where the French franc firmed sharply this morning. By the close, however, the Swiss franc had regained some of its pristine glory with an advance of 1 3/8% to 1.7037. The Swiss bought $16 mn. The deutschemark gained nearly 1% on the dollar to 1.8895 and the Bundesbank took in $25 mn. The French franc, however, was only 1/2% better on the day at 4.3845; against the mark it closed just above 2.32. All this added to the snake's problems. The Danish krone, despite a 1% increase in Bank Rate to 9% yesterday, was at the bottom of the band almost throughout and closed there at 5.4655. The Danes sold $3mn. and $83 mn.-worth of marks while the Germans bought $8 mn.-worth of kroner. The Belgians were no less beleaguered and they shelled out $10 mn., $5 mn. of French francs and $71 mn. of deutschemarks. Their franc finished at 30.34. On the divergence indicator, the franc was 82 and the krone 81. The lira (849.25) eased further relative to the snake and closed only 4 1/4% above the base after Italian purchases of $40 mn. With the guilder (2.0765) now only 1% from the bottom, the Dutch sold $12 mn. and $21 mn.-worth of marks. The punt (1.9872) recovered further to 5 7/8% discount on sterling. The yen closed at 220.30 in Tokyo but gained ground in London as the dollar fell and closed at 219.40.

Gold continued to firm though activity remained only moderate. Fixings were $279.30 and $280.

Operations:	Market	+ $9 mn.
	Ireland	+ 21
	Interest	+ 5
	Sundries	+ 7
		+ $42 mn.
	Overnight	+ $23 mn.

15th June 1979.

J.G.H.

~~SECRET~~

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 18th June 1979

Sterling opened comparatively soft this morning in the face of a still declining dollar. Weekend press comment on the forthcoming trade figures was a worrying factor. Resolute support from the Swiss National Bank prompted a solid recovery for the dollar and this seemed to turn the tide in favour of sterling which closed quite firm. The ERI rose to 68.3.

The pound closed well-bid in New York on Friday at 2.1115. This morning, however, it opened at 2.1047 and, having touched 2.1072 in early dealings, then began to decline with the dollar under some fairly weighty selling. The trade figures were reported as giving some concern but the selling seemed largely on portfolio investment account. Sterling fell to 2.1027 at worst but had recovered to around 2.1050 by midday. The early afternoon saw some sudden buying interest and this was redoubled once American markets opened. The pound traded up to 2.1110 but came back quickly once the demand dried up and closed at 2.1084. Forward margins widened and three months' cover cost 3 5/16% p.a. This gave an intrinsic discount for sterling of 1/16%.

The pound gained 1/4% on the deutschemark (3.98 1/4) and 1/2% on the Swiss franc (3.60 1/4) but was only marginally firmer against the French franc (9.23 1/4). On Friday the Federal Reserve sold deutschemarks equivalent to $393 mn. Today the Swiss National Bank bought $195 mn. and the franc eased back to 1.7083. The Bundesbank, however, did nothing and the deutschemark closed little changed at 1.8893. The French franc was again very firm but closed well below its best at 4.3897. The Danish krone, too, was very comfortable this morning but by the close had rejoined the Belgian franc at the foot of the snake. The franc was 30.35 and the krone 5.4492. The Danes sold $12 mn., the Dutch $30 mn. and the Belgians $16 mn. and $20 mn. of marks. On the divergence indicator, the franc was 85 and the krone 76. The punt (1.9952) closed at 5 5/8% discount on sterling. The lira (847 1/4) continued to ease and closed only 4% from the floor. The yen finished at 219.25 in Tokyo and 219.80 in London.

Gold opened firm ahead of the OPEC meeting but eased once the dollar began to recover. Fixings were $279.90 and $278.00.

Operations:	Market	+ $7 mn.
	PSB G'teed	+ 178
Electricity Council	+ 167	
Central Regional Council	+ 10	
Post Office	+ 1	
	Iraq	+ 11
	Sundries	+ 14
		+ $210 mn.
	Overnight	- $6 mn.

18th June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 19th June 1979

The May trade figures proved much less disappointing than many had been led to expect and sterling was marked up in the aftermath to a new four-year high against the dollar. Earlier, however, the dollar had been heavily sold and sterling's response had been very muted. As a result, sterling's ERI finished lower at 68.2.

The pound, like the dollar, was soft in New York yesterday and closed there at 2.1005. This morning it began at 2.1023 and tended easier on the opening exchanges with fears for the trade outturn still very prevalent. Trading took place down to 2.0975 but volume was light and when the odd cheap buyer appeared, the pound stabilised and began a steady but somewhat reluctant ascent against a fast declining dollar. The market settled to trade either side of 2.1050 into the afternoon and stood at 2.1054 as the trade figures came over the tapes. The figures confounded recent press forecasts and sterling was marked up in two short hops to 2.1150. The pound saw light activity around this level and touched 2.1170 before closing at 2.1145. After the close heavy demand for pounds erupted from New York and sterling was dealt up to 2.1300. Forward margins narrowed over the day but finished little changed on yesterday's closes. Three months' cover cost 3 3/8% p.a. and the adverse covered differential was 1/16%.

Reflecting its sluggish earlier performance, the pound closed 1/2% lower against the French franc (9.19), 3/4% down on the deutschemark (3.95 1/4) and over 1% worse against the Swiss franc (3.56 3/8). The Swiss franc was again the star performer and the National Bank raked in $371 mn. as the franc advanced to 1.6852. The deutschemark was also in strong demand and the Bundesbank bought $101 mn. with the mark closing at 1.8690. Yesterday the Federal Reserve bought only $47 mn. against marks, all of which was financed by the Bundesbank. The mark's strength caused problems for its lesser European brethren. The Belgian franc bore the brunt in the snake though the Danish krone (5.3972) actually touched bottom at the close. The Belgians sold $5 mn. and marks worth $64 mn. Their franc closed at 30.03. The Dutch, too, sold marks equivalent to $19 mn. The French franc/deutschemark cross-rate continued to move out and touched 2.32 3/4 before closing at 2.3256 after sales by the Bank of France of $53 mn. of marks. On the divergence indicator, the Belgian franc was 86 and the Danish krone 77. The punt (2.0090) was 5 1/4% discount on sterling. The yen weakened to 219.95 at the close in Tokyo but recovered to 218.70 in London.

Gold strengthened into today's U.S.Treasury auction as the dollar weakened. Fixings were $279.25 and $280.30.

Operations:	Market	+ $89 mn.
	Ireland	+ 21
	Sundries	+ 5
		+ $115 mn.
	Overnight	+ $4 mn.

19th June 1979.

J.G.H.

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 20th June 1979

The realisation that distortions in the trade figures may yet conceal some unpleasant shocks caused some degree of uncertainty for sterling this morning. Eventually, however, the weakness of the dollar proved the telling point and sterling slowly regained and held yesterday's heights, despite a later recovery in the dollar. As a result, the ERI climbed from 68.2 to 68.6.

The pound fell almost a cent in New York yesterday as dealers focussed on the small print behind the trade figures. It closed there at 2.1225 and opened this morning at 2.1220. Initially, the uncertainty continued and sterling was marked back to 2.1172. Suddenly, however, the dollar was hit for six as yesterday's mood gripped the market again: sterling participated in the general advance and climbed steadily to 2.1280 before settling around 2.1250. Good buying interest was seen from a number of continental sources and the pound may well have risen higher were it not for the liquidation of a substantial long position in sterling. The dollar had already turned from its lows by the time New York returned, but early interest from that centre took the pound up through 2.13 before a two-way market set in around that level. Towards the close the dollar faltered again following an upward revision in first quarter GNP and sterling traded up to 2.1342 before closing at 2.1315. Three months' cover cost 3⅛% p.a. at the end of the day and sterling commanded an intrinsic premium of 1/16%.

Sterling gained ⅛% on the Swiss franc (3.56¾), ⅛% on the French franc (9.21½) and ⅛% on the deutschemark (3.97⅛) which bore the brunt of the day's official support operations. Following yesterday's sizeable intervention (to which $64mn. were added late in the day) the Swiss were relatively inactive today and took in only $31mn. as their franc appreciated to 1.6740 (after 1.6682). Its premium on the deutschemark continued to widen, now to over 10%. The Bundesbank, by contrast, redoubled their efforts, buying $180mn. as the mark rose to 1.8634 (after 1.8555). This followed Federal Reserve sales of deutschemark equivalent to $196mn. yesterday. The Belgian franc (29.87) propped up the snake for most of the day, though the Danish krone (5.3730) again closed at the foot of the band. The Danes sold $6mn. and the Belgians $22mn. worth of marks. On the divergence indicator, both currencies improved to 76. The Bank of France sold a further $39mn. of marks and the franc gained ⅛% on the mark, closing at just over 2.32. Against the dollar it was 4.32⅜. The punt (2.0270) was a steady 5⅛% discount on sterling. The yen closed at 219.15 in Tokyo, then advanced to 217.95 in London before closing at 218.82.

Following a firm U.S. Treasury auction (which produced an average price of $279.02 for gold in coin bar form), gold strengthened throughout the day, prompted by the dollar's weakness. Fixings were $280.70 and $281.35, but after the second session the metal failed to follow through a strong rally in silver and, after trading up to $282, came back on profit-taking to close at $281.25.

Operations:	Market	+$36mn.
	Ireland	+ 21
	Post Office (PSB G'teed)	+ 2
		+$59mn.

20th June 1979

JGH

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 20th June 1979

Profit-taking, then apprehension ahead of the May trade figures, took sterling down to 68.0 in effective terms on Tuesday morning; but the index returned to 68.6 as demand later revived. Oil prices and monetary developments weakened the dollar and official support was resumed. The EMS remained under strain.

Early commercial and professional selling pushed sterling down to 2.0937, over 1¼ cents below the London close on 13th June. The pressure was not sustained, however, and the pound closed higher at 2.1037 on Friday, the dollar having given ground in most centres. Weekend press comment suggesting an enormous trade deficit for May gave an uneasy time on Monday, although sterling was bought as the day wore on; the figures, bad as they were, came as a pleasant surprise on Tuesday afternoon, and sterling improved sharply against a sickly dollar to 2.13 in late trading and then further to 2.1342 on Wednesday, the best for nearly four years, before retreating to 2.1315 at the close. The other economic news - money supply up 1.2% to mid-May, retail prices, wages and earnings - was over-shadowed. The cost of cover stayed around 3⅛%, but euro-dollar rates out-stripped interbank sterling to leave the intrinsic premium in favour of London slightly lower at 1/16%.

The dollar fell in all main centres, and heavy official support resumed. Higher oil prices are now seen as bad for the dollar (whereas until recently many argued that they increase the demand for it for transactions purposes), so the forthcoming OPEC meeting was unsettling; US money supply rose a record amount, although special factors may have been at play; more US banks reduced prime rate; and various economic indicators suggested to some that the economy is more buoyant than they had thought. The Fed. themselves bought $990mn. in the market, entirely against marks, their first support since February. At one time the mark was as strong as 1.8555, but it eased back on Wednesday afternoon to close at 1.8634, an improvement of 2.4% on the week. The Bundesbank bought $260mn. in the market, and also a few Danish crowns, while making clear their determination to keep money tight. The mark remained top 2¼% currency in the expanded snake; the Belgian franc (29.87) and the Danish crown (5.3730), taking turns in bottom place, were frequently under pressure. The BNB sold $40mn. and $200mn. worth of marks; the Danes sold $65mn. and $80mn. worth, raised their discount rate 1% to 9% and announced austerity measures. Both these currencies became less divergent, however, recording only 76 on the index as other currencies weakened against the mark. The French franc (2.1% better against the dollar, closing at 4.3237, but as weak as 2.32¾ at one time against the mark) and the guilder (2.0465) also felt the draught; the French sold $90mn. worth of marks and the Dutch $40mn. worth of marks and a similar amount in dollars. The lira, while remaining top of the arrangement, fell to only 2½% above the mark, closing at 840. The Irish sold £16mn. and also a handful of dollars to keep their currency in touch with sterling; their pound closed at 2.0270, a 5⅛% discount. The Swiss franc gained 3¼% to 1.6740, despite massive support for the dollar ($650mn.) from the SNB. For once the yen was calm, improving ½% to 218.82 without support; the latest

balance of payments and inflation figures looked rather happier. The Canadians' intention to move their embassy in Israel to Jerusalem provoked a hostile Arab reaction which put their dollar under pressure; it weakened to 85.21 after 84.78. The Swedish crown received heavy ($230mn.) support. Sterling eased back against the major continental currencies this week, for example by 1¼% to 3.97¼ against the mark and by 1% to 9.21½ against the French franc.

Gold reflected the weaker dollar, gaining $4¾ to $281.35 over the week. The U.S. Treasury auctioned 750,000 ounces of low-grade gold on Tuesday at an average of $279.02 per fine ounce - the equivalent of about $279¾ in good delivery form. 2 million ounces were bid for.

21st June 1979.

P.A.B.

RATES, ETC.

10.15 a.m. 14th June		10.15 a.m. 21st June
2.1043	£/$	2.1310
68.5	Effective exchange rate index	68.6
3¼% p.a. disc	Forward 3-months	3% p.a. disc
10⅜%	Euro-$ 3-months	10⅝%
3/16% pre	I.B.Comparison	¼% pre
1.9095	$/DM	1.8638
4.01¼	£/DM	3.97⅛
9.29⅞	£/FF	9.23
220.27	$/Yen	218.92
$279.40	Gold	$280.65
1.7298	$/S.Fc.	1.6779
3.64	£/S.Fc.	3.57½

SECRET

FE440.07

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

~~Wednesday~~ Thursday 21st June 1979

Persistent buying carried sterling to 69.0 in effective terms at noon, the highest recorded on the present index; the 68.9 at the close represented a rise of 0.3 on the day. Despite news of the first quarter current account surplus, the dollar weakened further, especially in Switzerland where it was heavily sold. The Belgian and Danish currencies remained under pressure in the snake.

Sterling closed at 2.1315 in New York and opened quietly around that level in London. An early order from Eastern Europe to sell pounds against lire brought the rate briefly to 2.1288, but buyers soon asserted themselves and the pound advanced to 2.1475 in the late morning before receding to 2.1435 at noon. One or two continental banks were substantial buyers, and there was commercial interest too. In the afternoon some further sales on Dutch investment account were readily absorbed, and persistent buying, some of it possibly associated with gilt-edged purchases, carried the pound as high as 2.1490 against a sickly dollar before the rate eased to 2.1415 at the close. Early New Yorkers traded both ways. Three months' cover changed little at 3 1/16%; the intrinsic premium on sterling rose a touch to ⅛% after ¼%.

The pound softened against the Swiss franc (3.55⅛), but improved ⅛% against the mark (3.98) and ¼% against the French franc (9.24⅛). The strength of the Swiss franc, in the wake of a big buying order against dollars, was a feature of the day. It closed 1½ rappen better at 1.6597, the SNB offering only token resistance ($32mn.) to its rise. The Bundesbank gave the dollar even less support ($20mn., in contrast to the Fed's purchase of $411mn. against marks yesterday) as the mark gained ⅜% to 1.8584 after 1.8557. It remained top of the 2¼% band, closing 2⅛% above the Belgian franc (29.84, scoring 81 on the divergence index) which took over bottom place from the Danish krone (5.3572). The Belgians sold $17mn. worth of marks and the Danes $27mn. The French franc (4.31½) lost ground to the mark, and the Banque de France sold $50mn. worth of marks to protect the cross-rate. The Dutch also gave support. The Irish pound closed at 2.0312, a wider 5⅜% discount on sterling, the central bank having bought £5mn. The lira (838.87) slipped further to only 1⅜% above the mark. The yen had another quiet day, closing in London at 218.87, just a touch stronger than in Tokyo.

Gold reflected the weaker dollar, fixing at $280.60 and a near record $282.30. It later traded close to $283.

Operations:	Market	+$97mn.
	Canada	
	(o/a Nigeria)	- 21
	Sundries	- 1
		+$75mn.

21st June 1979.

P.A.B.

~~SECRET~~

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 22nd June 1979

The dollar took another battering today despite substantial support in some quarters. Indeed, perhaps for this very reason, attention was now turned on the once hapless yen, which turned in the day's best performance and in this, as in other areas recently, there were distinct signs of Middle East diversification. Sterling, though still firm, failed to keep pace with the front-runners and the ERI came back from yesterday's 68.9 to 68.6.

The pound closed firmer at 2.1460 yesterday in New York where the dollar was again weaker. This morning sterling began at 2.1425 and met a high volume of two-way business in the opening hour. The pound was traded down to 2.1408 but, as the dollar began to weaken elsewhere, sterling picked up quickly and touched 2.1470 before first signs of central bank support for the dollar brought a turn. Thereafter, sterling traded steadily through the day in a narrow band around 2.1450. A large selling order early this afternoon was readily absorbed but trading in sterling was otherwise relatively subdued and the pound closed at 2.1435. Three months' cover cost 3 1/8% p.a. and this produced interest parity on the covered comparison.

Sterling lost 1/4% to the deutschemark (3.97 1/8), 1/2% to the French franc (9.19 5/8) and 5/8% to the Swiss franc (3.53 1/8). The Swiss National Bank bought a further $164 mn. late yesterday before adding $314 mn. to this sum today. Their franc closed at 1.6472, over 11% premium on the deutschemark. The Bundesbank took in only $71 mn. today (following Federal Reserve purchases of $520 mn. for marks yesterday) and the mark advanced to 1.8526. The dollar's decline began in Paris with a large conversion order into French francs. The Bank of France took in $98 mn. in response to this but sold $35 mn. of marks to maintain the franc's improvement in the cross-rate. This closed at 2.31 5/8, while against the dollar the franc was 4.2905. The Dutch, too, sold $8 mn. of marks and the Danes lost $8 mn. and $11 mn. of marks. Their krone (5.3420) was at the tail of the snake throughout. The punt (2.0350) was at 5 3/8% discount on sterling. The yen closed at 217.80 in Tokyo and was relatively sluggish through the European morning. Later, however, it ran into speculative demand from Middle East and Swiss sources and this sparked further interest from New York and the Chicago I.M.M. The yen closed here at 215.50.

Gold was a little hesitant this morning, fixing at $281.95, but met strong demand once New York opened. The afternoon fixing set a record $283.45 and subsequently traded up to $284 before closing back at $282.

Operations:	Market	+ $12 mn.
	Government	- 37
	I.D.A.	+ 7
	Sundries	+ 3
		- $15 mn.

22nd June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 25th June 1979

The imminence of the O.P.E.C. meeting and forecasts of its likely outcome fuelled a further steep decline for the dollar today. Sterling, like the deutschemark and Swiss franc, featured as usual among the prime targets for foot-loose funds, though the yen again outdistanced the field after another late burst. Sterling's ERI rose to 68.9.

The pound closed lower at 2.1390 in New York on Friday with the dollar generally a little better. This morning sterling began at 2.1493 as the dollar was savaged by reports of a possible 20% price rise expected from the OPEC meeting, and was soon advancing rapidly as the dollar went into a tail-spin. 2.15 was quickly passed and 2.16 breached before mid-morning. Volume was very thin, however, and only later did any sizeable professional demand emerge. Sterling touched 2.1633, a new four-year high. The dollar staged a modest recovery this afternoon but the pound fluctuated comfortably around 2.16 before closing at 2.1606. Three months' cover cost 3 3/16% p.a. and sterling had an intrinsic discount of 1/16%.

The pound gained 1/2% on the Swiss franc (3.54 3/4) and 1/4% on the French franc (9.21 5/8) but was only fractionally firmer against the deutschemark (3.97 1/4). The Swiss again gave heavy support to the dollar, adding a further $50 mn. to their tally late on Friday and soaking up $467 mn. today. Their franc was 1.6423 at the close. The Bundesbank bought $125 mn. (following Federal Reserve sales of deutschemarks equivalent to $78 mn. on Friday) and the mark gained 3/4% to 1.8388. The French franc (4.2655) was allowed to weaken to 2.32 against the mark; the Bank of France merely swapped out $15 mn. The snake was relatively untroubled. The Danes and Belgians both sold marks equivalent to $4 mn. and $22 mn. respectively. The Danish krone (5.3030) closed at the bottom of the band. On the divergence indicator, the franc was 82 and the krone 79. The punt (2.0480) was at 5 1/2% discount on sterling. The yen closed at 215.30 in Tokyo. Late this afternoon further heavy transatlantic demand saw a rise to 212.95 before the close came at 213.25.

Gold set a new record of $284.50 at the morning fixing but failed to sustain its advance this afternoon when the fixing set a price of $283.85.

Operations:	Market	+ $70 mn.
	India	+ 11
	Iraq	+ 7
	Sundries	+ 10
		+ $98 mn.

25th June 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 26 June 1979

The dollar staged a strong technical recovery today, spurred by Blumenthal's timely announcement that the U.S. aims to achieve a sharp reduction in oil imports. Sterling retreated without any panic and suffered somewhat less than other major currencies. The ERI finished the day unchanged at 68.9, having posted a record 69.1 this morning.

The pound closed at 2.1584 in New York yesterday and opened at 2.1575 this morning. Good general demand for pounds took the rate to 2.1670 on the early exchanges - another four year high. At that juncture however, Blumenthal's comments hit the newswires and the dollar turned sharply. Sterling eased quickly, but without any problem, and had fallen over two cents before midday. Early this afternoon, the pound traded briefly down to 2.1315 but, with New York showing little interest, sterling staged a partial recovery over the rest of the day and closed at 2.1515. Forward margins widened, the three months to 3⅛% p.a. discount; this left an intrinsic discount of 1/4%.

The pound gained 3/4% against the Swiss franc (3.57 5/8) and nearly 1/4% on the deutschemark (3.98) but was barely changed against the French franc (9.21 3/4). The Bundesbank sold $50 mn. as the mark retreated to 1.8497. The Swiss sold $87 mn. (and swapped in $105 mn.) their franc came back to 1.6612. Yesterday the Federal Reserve bought $91 mn. against marks. The snake was again little troubled, the Danish krone (5.3310) again finishing at the bottom. The Danes sold $8 mn. of marks. The krone was 71 and the Belgian franc 81 on the divergence indicator. The punt (2.0365) was 5 5/8% discount on sterling. The yen closed at 215.60 in Tokyo and 215.70 in London.

Gold eased nervously in the face of the firmer dollar. Fixings were $281.90 and $281.45.

Operations:		
	Market	+ $20 mn.
	Ireland	+ 22
	Interest	+ 11
	I.D.A.	+ 10
	Sundries	- 8
		+ $55 mn.

27 June 1979
J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 27th June 1979

Judgement was suspended today pending the outcome of the OPEC meeting and the latest U.S. trade figures. Nonetheless, rumour was sufficient to reverse most of yesterday's rally for the dollar. Sterling traded comfortably in a relatively narrow range. The ERI rose slightly to 69.0.

The pound closed at 2.1447 yesterday in New York where the dollar continued to improve. This morning, however, the dollar opened easier and drifted down through the morning. Some evidence of diversification was still to be seen. Sterling opened at 2.1485, touched 2.1479 then advanced quickly, settling down around 2.1550 for the rest of the morning's trading. The pound was bid up to 2.1585 early this afternoon but, while the dollar continued to drift lower elsewhere, sterling marked time and eventually closed at 2.1560. Three months' cover cost 3 9/16% p.a. and the intrinsic discount for sterling was 5/16%.

The pound finished little changed against the Swiss franc (3.57⅜) and French franc (9.21⅜) and was only a touch easier against the deutschemark (3.97½). The Swiss bought $38mn. and swapped in $1,065mn. over the turn of the half-year as their franc firmed to 1.6587. Otherwise Central Banks were largely idle (the Dutch selling a mere $11mn.). The mark was 1.8437 and the French franc 4.2760. The Danish krone (5.3217) closed at the bottom of a well-stretched snake, though no intervention was necessary. The lire (832.95) was 3½% above the floor. The punt (2.03⅞) was at 5¾% discount on sterling. On the divergence indicator, the Danish krone was 76 and the Belgian franc 84. The yen closed at 216.40 in Tokyo and 216.30 in London.

Gold was subdued and advanced reluctantly against the dollar. Fixings were $281.00 and $281.80.

Operations:	Market		+$48mn.
	PSB (G'teed)		+28
	British Air	+25	
	Post Office	+3	
	Ireland		+22
	India		+11
	Australia		+7
	Sundries		-7
			+$109mn.
Overnight:	+32		

28th June 1979.

JGH

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 27th June 1979

Sterling remained in fine fettle, rising 0.4 in effective terms to 69.0 after 69.1 at times, the highest level since the present index was introduced. The dollar was heavily sold until it rallied on Tuesday, and substantial official support was given. Anxieties about oil explain much of its weakness and sterling's strength. The snake was a little more relaxed after earlier measures in Belgium and Denmark.

Persistent buying lifted sterling from 2.1315 at the London close on 20th June to 2.1490 on Thursday, although the rate subsequently retreated to 2.1435 on Friday evening. Professional and commercial interest was seen, and easily absorbed any selling. The dollar weakened further after the weekend, and sterling touched 2.1670 on Tuesday morning - the highest for nearly four years - before a sharp recovery in the dollar carried the rate back to 2.1315. A later spell of dollar weakness left it at 2.1560 at the London close on Wednesday. On balance, sterling gained slightly against the main continental currencies, closing at 3.97½ against the mark and 9.21⅞ against the French franc. The likelihood of a substantial further rise in oil prices and high interest rates lie behind sterling's strength; for the present, at least, these considerations outweigh anxieties about trade figures and inflation. An increase in the cost of forward cover to 3 9/16% tipped sterling to a 5/16% intrinsic discount on the usual 3 months' comparison.

The dollar came under heavy pressure around the weekend as the OPEC conference drew nearer, and official support was at a very high rate for a few days. As well as the prospect of a higher oil price, fears that oil producers will ask for payment in a basket of currencies encouraged selling; money supply figures (with only a small part of the previous week's sharp increase reversed) were also unsettling. Consumer prices in May rose 1.1%, rather more than expected. However, a timely prediction by Mr.Blumenthal that U.S. oil imports will fall later this year, together with the revelation that the Commerce Department expect a sharp drop in GNP this quarter, boosted the dollar on Tuesday, although it sagged again on Wednesday. The Fed. themselves bought $1,350mn., largely against marks. The Bundesbank intervened quite lightly, buying $170mn. net; the mark gained 1% to 1.8437. An increase in discount rate is talked of; the mark remained top of the 2¼% band in the expanded snake, with the Belgian franc (29.62) and the Danish krone (5.3217) taking turns at the bottom; pressure on them was somewhat eased after the various measures announced recently, and their central banks sold only $40mn. worth of marks and $35mn. and $20mn. worth of marks respectively. On Wednesday afternoon they recorded 84 and 76 on the divergence index; the mark scored only -33. The French franc improved 1⅛% to 4.2760 against the dollar, and crept back below 2.32 against the mark; the Banque de France bought $100mn., but sold $85mn. worth of marks to improve the cross-rate. The Dutch announced austerity measures, and Irish interest rates rose: the guilder closed at 2.0260 and the punt at 2.0387 (5¼% discount on sterling); the

Dutch sold $40mn. and $20mn. worth of marks and the Irish sold £50mn. net. The lira (832.95) remained overall head of the snake, but its lead over the mark narrowed to 1¼%. There is talk of easing exchange controls. For once, the central bank did not buy dollars. Outside the EMS, both the yen (1⅛% better at 216.30, after 212.95) and the Swiss franc (⅞% up on the dollar at 1.6587, after 1.6357), attracted considerable interest at times. Intervention by the Bank of Japan was negligible, but the SNB bought nearly $1bn. net and a further $1.2bn. on the swap to relieve the money market over the half-year. The Canadian dollar closed higher at 85.96; the central bank added $320mn. to the reserves.

The dollar's weakness raised the gold price to a record $284.50 at the fix on Monday morning. Subsequently the price fell back to show a rise of 45 cents to $281.80 over the week.

28th June 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
21st June		28th June
2.1310	£/$	2·1753
68.6	Effective exchange rate index	69·4
3⅜ p.a. disc	Forward 3-months	3½% p.a. disc.
10⅝⅜	Euro-$ 3-months	10 11/16%
¼⅜ pre	I.B.Comparison	¼% disc.
1.8638	$/DM	1·8364
3.97⅛	£/DM	3·99½
9.23	£/FF	9·24½
218.92	$/Yen	215·70
$280.65	Gold	$281·80
1.6779	$/S.Fc.	1·6507
3.57½	£/S.Fc.	3·59

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th June 1979

The dollar responded poorly to the announcement from O.P.E.C. overnight, but heavy support from the Bundesbank brought a re-appraisal and some recovery. Sterling was in good demand this morning, but found some sizeable sellers this afternoon. Nonetheless, the ERI closed at 69.4, another new high. Gold was heavily offered this afternoon.

The pound closed a cent higher at 2.1655 in New York yesterday after some keen demand. This morning it opened at 2.1702 and met further strong buying interest as the dollar sagged, advancing to 2.1765 - another four-year high. Sterling topped as the dollar turned and was marked back a cent in short order before steadying. This afternoon, with the dollar's recovery continuing, sterling ran into some large selling orders. 2.16 was tested several times - the rate slipping to 2.1603 at one stage - but this proved something of a barrier and when the dollar retreated again towards the close, sterling firmed to finish at 2.1684. The cost of three months' forward cover was 3½% p.a., leaving a covered differential of 3/16% against London.

The pound gained ⅛% against the Swiss franc (3.59⅛), ½% against the French franc (9.26¼) and ⅝% against the deutschemark (3.99⅞). The deutschemark was well bid this morning on rumours of an impending increase in Discount Rate, but suffered eventually from very heavy official support for the dollar. Following yesterday's sales of marks equivalent to $460mn. by the Federal Reserve, the Bundesbank today bought $370mn. The mark closed little changed at 1.8440 (after 1.8326). The Swiss franc closed a touch firmer at 1.65⅝ (but this after 1.6430). Yesterday, the Federal Reserve sold Swiss francs equivalent to $174mn. (the financing of which was shared with the Swiss), but today the Swiss took in only $3mn. The French franc, too, was slightly firmer at 4.2720 after purchases by the Bank of France of $45mn. and outward swaps of $40mn. The interest rate expectationsin Germany brought renewed problems for the Belgian franc and the snake closed more than fully-stretched. The Belgians sold $27mn. and $37mn. worth of marks. Their franc closed at 29.70 and posted 90 on the divergence indicator. The lira (833.15) was 3⅝% above the floor. The punt (2.0422) was at 6⅛% discount on sterling. The yen closed at 215.60 in Tokyo and 216.47 in London.

Gold fell sharply in New York yesterday, but recovered this morning to fix little changed at $281.30. This afternoon, selling mounted again, both from New York and elsewhere and, with massive amounts on offer at times, the later fixing was long and tortuous. Eventually, a price of $275.90 was fixed.

Operations:	Market	+$40mn.
	Interest	+ 26
	Ireland	+ 22
	India	+ 11
	Kenya	+ 5
	E.E.C.	- 28
	Sundries	+ 4
		+$80mn.

29 June 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th June 1979

The end of the half-year put a damper on any serious exchange market operations today. The dollar initially continued to appreciate but later turned back, especially against the deutschemark. Sterling generally followed the overall trend but seemed reluctant to move very far in either direction. The ERI finished at 69.5, another new high.

The pound closed higher at 2.1735 in New York yesterday, although the dollar was little changed elsewhere. This morning sterling opened at 2.1735 and immediately tended lower as the dollar improved. Trading took place down to 2.1640 before the dollar topped but volume was not significant and for much of the rest of the day, the pound was dealt in a narrow range around 2.1675. Towards the close, the dollar's slide began to gain momentum and sterling finished at 2.1715. After the close, New York and Chicago bid strongly for pounds and the rate hit another four-year high of 2.1810. Three months' forward cover cost 3 7/16% p.a. and this gave interest parity on the covered comparison.

Sterling gained ⅛% on the French franc (9.27⅞) and ⅛% on the Swiss franc (3.60⅛) but was unchanged on the deutschemark (3.99⅞). Central Bank intervention was modest, the Germans buying $20 mn., the Swiss $24 mn. and the Danes $8 mn. The deutschemark was 1.8414, the French franc 4.2725 and the Swiss franc 1.6597. The Danish krone (5.3097) finished at the bottom of the snake which was 2⅛% wide. However, the Belgians sold $25 mn. of marks, despite their overnight increase in interest rates. On the divergence indicator, the Belgian franc was 83. The lira (832.65) closed 3⅛% above the floor. The punt (2.0430) was 6¼% discount on sterling. The yen closed at 217 in Tokyo but weakened in London to 217.47.

Gold was weak again this morning and fixed at $276.45. This afternoon a recovery began and, having fixed at $277.50, the metal enjoyed a late rise to $280.50.

Operations:	Market	+ $34 mn.
	India	+ 11
	Post Office (PSB G'teed)	+ 5
		+ $50 mn.

The result for June is an increase of $538 mn. to a reserve total of $22,070 mn., after net public sector and other debt repayments of $63 mn. The overbought forward position increased by $510 mn. to $1,845 mn.

JGH

29th June 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd July 1979

Sterling stood out today, in an otherwise unexceptional exchange market, setting new high levels both against the dollar (on recent comparison) and on the ERI which closed at 70.1.

The pound closed quietly at 2.1780 in New York on Friday. This morning, the dollar opened slightly softer but gradually recovered some of its losses against all but the pound. Sterling began at 2.1830, touched 2.1808, then began to forge ahead on good general demand. 2.1886 was paid for pounds but a large selling order from the Continent kept the market in balance around 2.1850 until late in the morning when, with the order complete, sterling surged ahead to 2.1910. Early this afternoon, a Saudi promise to increase oil supplies brought a mark-up for the dollar. Sterling dipped to 2.1865 but soon recovered to trade through the rest of the day around 2.19 touching a new four-year high of 2.1936 before closing at 2.19. Three months' forward cover cost 3 5/16% p.a. and this produced interest parity on the covered comparison.

Sterling gained ⅜% on the Swiss franc (3.62⅝), ¼% on the French franc (9.35⅜) and ⅞% on the deutschemark (4.03¼). On Friday, the Federal Reserve sold deutschemarks equivalent to $103 mn. but today the Bundesbank bought only $3 mn. The deutschemark closed little changed at 1.8417, the Swiss franc was a touch firmer at 1.6560 and the French franc was fractionally harder at 4.27⅛. The snake was fairly relaxed throughout, closing at 2% in width with the Danish krone (5.30⅜) on the base. Nevertheless the Danes sold $15 mn. and the Belgians lost $31 mn.-worth of marks. On the divergence index both Belgian franc and Danish krone stood at 75. The lira (829.15) was 3⅜% off the floor. The punt (2.0522) was at 6¼% discount on sterling. The yen closed at 217¾ in Tokyo but weakened on selling from New York to close at 218.22 in London.

Gold continued Friday's late trend and hardened considerably ahead of the forthcoming IMF auction. Fixings were $282.20 and $282.50 but activity was no more than moderate.

Operations:	Market	+ $65 mn.
	Ireland	+ 22
	Iraq	+ 11
	Sundries	+ 4
		+$102 mn.
	Overnight	- $3 mn.

2nd July 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 3rd July 1979

Sterling was again very firm today, the more so with the dollar weakening towards the close. Mounting expectations of the pound's passing the $2.20 barrier were inevitably fulfilled shortly before the day's end. The ERI rose to a new record 70.4.

The pound closed at 2.1845 in New York but opened this morning at 2.1871. The morning saw good demand for sterling from the Continent with at least one large buying order against deutschemarks on customer investment account. Sterling was comfortably through 2.19 again by midday and this encouraged widespread expectations that the 2.20 level would soon be breached. New York returned as general sellers of dollars and the pound remained in favour. Much of the afternoon passed around 2.1975 but, as the dollar sagged again towards the close, sterling rose to touch 2.2010 before closing at 2.20. This level provoked a good deal of two-way business with London banks tending to sell long positions into good, fresh demand from the United States. Forward margins narrowed, especially in the longer dates. Three months' cover cost 3⅛% p.a. and sterling commanded a small intrinsic premium at the close.

The pound gained ⅝% against each of the Swiss franc (3.64¼) and French franc (9.41⅛) and ½% against the deutschemark (4.05⅛). The major Central Banks offered no support for the dollar. In the snake, the Danes sold very small amounts of exchange while the Belgians sold $58 mn. of marks. The Dutch sold $10 mn. and $9 mn. of marks as the guilder (2.0311) slipped down the snake. The Danish krone again finished on the base with the band 2¼% in width. On the divergence indicator, the Belgian franc was 76 and the Danish krone 72. The lira (829¼) was 3⅝% above the floor. The punt (2.0457) finished at 7½% discount on sterling. The yen closed at 218.15 in Tokyo and 218.57 in London.

Gold continued quietly firm, though failing to hold yesterday's levels. Fixings were $281.80 and $281.35.

Operations:	Market	+ $66 mn.
	India	+ 11
	Ireland	+ 6
	Sweden	+ 5
	Sundries	+ 6
		+ $94 mn.
	Overnight	+ $38 mn.

3rd July 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 4th July 1979

The anticipated peace of the American Independence Day holiday was disturbed from an early hour by very heavy and widespread demand for sterling. This was clearly on investment account, for the most part, and the Middle East flavour was again prominent at times. Heightened expectations of a $2.25 rate added speculative fuel to the fire, although sterling eased very quickly whenever demand dried up. The ERI set a new high of 71.1 at noon before finishing the day at 70.9.

The pound closed at 2.2097 in New York overnight and opened at 2.2112 this morning. The early exchanges were somewhat tentative but a couple of large buying orders kept the rate up and before long a burst of broad demand, with London and Middle East names prominent, had the pound rising briskly to 2.2185. A second strong incursion saw business up to 2.2220 but for sometime thereafter sterling traded stubbornly around this level. Later, however, a clutch of smaller, mainly Swiss professionals began buying and this provoked a final and massive wave of demand from the major professionals and the German portfolio-oriented banks. Sterling soared through to 2.2315 before consolidating around 2.23. The afternoon was quieter with the USA on holiday. Nonetheless the pound enjoyed one further burst of activity, rising to 2.2335 - a new four-year high - before the buying ceased and the rate fell in short order to 2.2220 before closing at 2.2235. Forward margins narrowed slightly, the three months' to 3 1/16% p.a. discount. Sterling commanded a small intrinsic premium at the close.

Sterling gained a further ⅝% on the Swiss franc (3.66⅞) and deutschemark (4.07⅞) and ¾% on the French franc (9.48⅛). The dollar was generally easier but only the Swiss gave heavy support, buying in $343 mn. as their franc firmed to 1.6499. The Bundesbank bought $60 mn. (following Federal Reserve purchases of $70 mn. for marks yesterday); the deutschemark advanced to 1.8345. Elsewhere the weaker snake currencies were fending for themselves, although the Danish krone (5.2850), which closed at the bottom of a 2¼-wide band, received no support. The Belgians sold $23 mn. and $79 mn.-worth of marks. The Dutch sold $32 mn. and $30 mn.-worth of marks as the guilder (2.0235) slipped to within ⅛% of the Danish krone. The French sold $59 mn.-worth of marks as their franc (4.2650) fell towards the middle of the band and eased to 2.32½ to the deutschemark. The lira (824.30) rose to 3⅞% above the floor. The punt (2.0592) closed at 8% discount on sterling. The yen closed at 217.55 in Tokyo and 216.72 in London.

Gold hardened in the wake of an uneventful IMF auction. Fixings were $283.30 and $283.50 and the market was not particularly active.

Operations:		
	Market	+ $159 mn.
	India	+ 11
	Sundries	+ 6
		+ $176 mn.

4th July 1979.
JGH

1979/27

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 4th July 1979

Higher oil prices, talk of a major new discovery in the North Sea, the Chancellor's support for a strong pound to counter inflation, and a rush to buy while high interest rates last, brought persistent and sometimes heavy demand for sterling which drove the effective index up 1.9 to 70.9 after 71.1, the strongest since early March 1976. The dollar weakened again. Although off the bottom, the Belgian franc remained uncomfortable in the snake despite another rise in interest rates.

The outcome of the OPEC meeting brought keen demand for pounds in New York on Wednesday night, where the rate advanced a cent from the London close of 2.1560. Some selling orders took the rate back near to 2.16 on Thursday, but thereafter it rose almost without interruption as sterling attracted keen interest. News of exhausted tap stocks may have helped, and the Chancellor's support for a strong pound for the sake of curbing inflation and reports of a significant oil find in the North Sea helped carry the rate as high as 2.2335 on Wednesday afternoon, the highest since June 1975, until it receded to close at 2.2235. Buying came from all quarters, and readily absorbed any profit-taking and commercial sales. Undoubtedly oil prices and supplies are the main reason, but high interest rates (which are widely expected to fall soon), make sterling an attractive home for funds. Bad news is quickly shrugged off. Sterling gained considerably on the main continental currencies, touching 4.10 against the mark (after quite a time in which the rate had hesitated to advance far beyond 4.00) before closing 2 1/2% stronger at 4.07 7/8; against the French franc it closed 2 3/4% higher at 9.48 1/8. A fall in the cost of forward cover to 3 1/16% helped turn a small covered discount into a premium of 1/16%.

The dollar fell in most other centres, despite support totalling $1,270 mn. On balance the outcome of the OPEC meeting was unsettling, although the higher price and a halving of the period for which Saudi Arabia allows credit create a one-shot increase in demand for dollars. The US monetary aggregates and trade figures cause some concern. The Fed themselves bought $170 mn. in the market against marks. The Bundesbank gave the dollar heavy support on one day, but then left the market largely to itself; they bought $460 mn. altogether as the mark gained 1/2% to 1.8345. The mark remained leading 2 1/4% currency in the snake, closing 2% above the Danish krone (5.28 1/2) at the bottom. The Belgians (who increased Lombard rate by 2% to 11%) supported their currency heavily, selling $50 mn. and $230 mn.-worth of marks; the Danes on the other hand did very little. These currencies scored 73 and 71 on the divergence index. The Dutch (2.0235) were concerned about the position of their currency in the snake, buying in $80 mn. worth, half against marks; and the French (4.26¼), although comfortable in the snake, bought $45 mn. but sold $60 mn.-worth of marks, with their eye on the cross-rate which closed at 2.32¼. The lira remained overall top of the snake, 3⅞% above the krone at 824.30. The central bank did not intervene. Outside the snake, the Swiss franc gained 1/2% to 1.6499, after official purchases of $390 mn. Unlike most other currencies, the yen eased back against the dollar, to 216.72; Japan is probably most vulnerable to oil price rises and shortages. There was no intervention. The Irish pound improved to 2.0592 but its discount against sterling rose to 8%. The Swedish crown received another $150 mn. of support.

Gold fell sharply, from $282 to $275, on Thursday afternoon, but subsequently recovered to $283.50 to show a gain of $1.70 over the week. The IMF auctioned 444,000 ozs. at an average of $281.52.

5th July 1979.

PAB

RATES, ETC.

10.15 a.m. 28th June		10.15 a.m. 5th July
2.1753	£/$	2·2520
69.4	Effective exchange rate index	71·6
3⅛ p.a. disc.	Forward 3-months	3 1/16 % p.a. disc.
10 11/16%	Euro-$ 3-months	10 11/16 %
⅛% disc.	I.B.Comparison	1/8% pre.
1.8364	$/DM	1·8237
3.99½	£/DM	4.10 3/4
9.24½	£/FF	9·55 1/8
215.70	$/Yen	215·45
$281.80	Gold	$286·20
1.6507	$/S.Fc.	1·6440
3.59	£/S.Fc.	3·70 1/4

SECRET

4. 7.79

FE 440.07

THE GOVERNORS' PRIVATE SECRETARY.

Copies to: Mr.McMahon
Mr.Sangster
Mr.Byatt

I attach a note to cover the period of the Deputy Governor's absence, as requested.

4th July 1979.
PAB

JCS 4/7

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
27TH JUNE to 11 A.M., 4TH JULY

Further oil price increases and high interest rates brought persistent buying of sterling from all quarters. The Chancellor's support for a strong pound and talk of a fresh discovery in the North Sea added to the pressure. From 68.9 at the close on 26th June, the effective index advanced to 71.2 this morning, the highest since early March 1976. Against the dollar, 2.20 was passed on Tuesday, and the rate stands at 2.2313, the strongest for four years. Having hovered around 4.00 for á while, the cross rate against the mark is now 4.10. A decrease in the cost of forward cover, to 2⅞%, has helped to produce a small (⅛%) intrinsic premium on the usual comparison.

Most main currencies improved against the dollar - a few rates are shown in the attached table. The Fed bought $720 mn. and the Bundesbank $400 mn.; otherwise dollar intervention, apart from our own, was modest. The Belgians raised interest rates yet again (2% on Lombard rate); this move backed by further intervention helped the franc. The Danish crown (5.29⅝) is bottom of the snake, 2⅛% below the mark.

Gold fell sharply on Thursday from $282 to $275, but has since recovered to $283.30. The IMF auctioned 444,000 ozs. last night at an average of $281.52.

Some take early on brought the end-June reserves to $22,070 mn., a rise of $538 mn., after debt repayments of $63 mn. The forward book increased by $510 mn. in the month to $1,845 mn. After further inflows ($150 mn. this morning alone), the figures for July stand at:-

$ mns.

spot reserves	forward book	total	
+ 140	+ 1,523	- 182	
	(end-June + 1,845)	(of which	
		market	+ 379
		Ireland	+ 50
		India	+ 33
		net debt repayments	- 356)

4th July 1979.
PAB

Main exchange rates	26th June close	4th July 11 a.m.
Against dollar		
Sterling	2.1515	2.2313
DM.	1.8497	1.8375
French franc	4.2835	4.2692
Swiss franc	1.6617	1.6503
Yen	215.70	216.90
Against sterling		
DM.	3.98	4.10
French franc	9.21¼	9.52⅝
Swiss franc	3.57⅝	3.68¼
Sterling ERI	68.9	71.2

FE400.07

SECRET

1979/27

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 4th July 1979

Higher oil prices, talk of a major new discovery in the North Sea, the Chancellor's support for a strong pound to counter inflation, and a rush to buy while high interest rates last, brought persistent and sometimes heavy demand for sterling which drove the effective index up 1.9 to 70.9 after 71.1, the strongest since early March 1976. The dollar weakened again. Although off the bottom, the Belgian franc remained uncomfortable in the snake despite another rise in interest rates.

The outcome of the OPEC meeting brought keen demand for pounds in New York on Wednesday night, where the rate advanced a cent from the London close of 2.1560. Some selling orders took the rate back near to 2.16 on Thursday, but thereafter it rose almost without interruption as sterling attracted keen interest. News of exhausted tap stocks may have helped, and the Chancellor's support for a strong pound for the sake of curbing inflation and reports of a significant oil find in the North Sea helped carry the rate as high as 2.2335 on Wednesday afternoon, the highest since June 1975, until it receded to close at 2.2235. Buying came from all quarters, and readily absorbed any profit-taking and commercial sales. Undoubtedly oil prices and supplies are the main reason, but high interest rates (which are widely expected to fall soon), make sterling an attractive home for funds. Bad news is quickly shrugged off. Sterling gained considerably on the main continental currencies, touching 4.10 against the mark (after quite a time in which the rate had hesitated to advance far beyond 4.00) before closing 2 1/2% stronger at 4.07 7/8; against the French franc it closed 2 3/4% higher at 9.48 1/8. A fall in the cost of forward cover to 3 1/16% helped turn a small covered discount into a premium of 1/16%.

The dollar fell in most other centres, despite support totalling $1,270 mn. On balance the outcome of the OPEC meeting was unsettling, although the higher price and a halving of the period for which Saudi Arabia allows credit create a one-shot increase in demand for dollars. The US monetary aggregates and trade figures cause some concern. The Fed themselves bought $170 mn. in the market against marks. The Bundesbank gave the dollar heavy support on one day, but then left the market largely to itself; they bought $460 mn. altogether as the mark gained 1/2% to 1.8345. The mark remained leading 2 1/4% currency in the snake, closing 2% above the Danish krone (5.28 1/2) at the bottom. The Belgians (who increased Lombard rate by 2% to 11%) supported their currency heavily, selling $50 mn. and $230 mn.-worth of marks; the Danes on the other hand did very little. These currencies scored 73 and 71 on the divergence index. The Dutch (2.0235) were concerned about the position of their currency in the snake, buying in $80 mn. worth, half against marks; and the French (4.26¼), although comfortable in the snake, bought $45 mn. but sold $60 mn.-worth of marks, with their eye on the cross-rate which closed at 2.32¾. The lira remained overall top of the snake, 3⅞% above the krone at 824.30. The central bank did not intervene. Outside the snake, the Swiss franc gained 1/2% to 1.6499, after official purchases of $390 mn. Unlike most other currencies, the yen eased back against the dollar, to 216.72; Japan is probably most vulnerable to oil price rises and shortages. There was no intervention. The Irish pound improved to 2.0592 but its discount against sterling rose to 8%. The Swedish crown received another $150 mn. of support.

Gold fell sharply, from $282 to $275, on Thursday afternoon, but subsequently recovered to $283.50 to show a gain of $1.70 over the week. The IMF auctioned 444,000 ozs. at an average of $281.52.

5th July 1979.

PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 5th July 1979

A somewhat frenetic day on the exchanges saw a further wild scramble for pounds this morning and a sharp and concomitant weakening in the dollar followed this afternoon by a vigorous recovery for the dollar (after heavy support) and some profit-taking in sterling. The ERI touched 71.4 at noon but closed at 71.2. Elsewhere, the weaker Europeans continued to prop their currencies and further increases in interest rates were announced. Gold soared to new record heights.

The pound began the morning at 2.2365 and was soon in demand both from domestic names and from one or two large professional interests. The rate was marked ahead inexorably, pausing inevitably around 2.25. Later in the morning some profit-taking set in and sterling fell a full cent from its best levels before stabilising. The unchanged Minimum Lending Rate (more so than the temporary release of Special Deposits) caused a little confusion and, while sterling was left little changed once the dust had settled, it was no less prone to profit-taking, which resumed once New York returned from holiday. The pound fell to 2.2270 at worst but recovered naturally and was thereafter subject to some wide and world swings. 2.2405 was seen again and 2.2305 thereafter before the close was struck at 2.2340. Forward sterling continued a modest improvement in line with softer sterling deposit rates. Three months' cover cost 2 15/16% p.a. and a small intrinsic premium for sterling persisted.

The pound gained a modest 1/8% against each of the French franc (9.49 1/8) and deutschemark (4.08 1/4) and 1/4% against the Swiss franc (3.68) which suffered again from very heavy support for the dollar by the National Bank. The Swiss added $51 mn. to their support late yesterday and bought in $318 mn. today. The franc firmed slightly to 1.6475. The Bundesbank took in $140 mn. as the mark rose to 1.8271. Elsewhere, the Belgian franc (29.31) closed at the foot of a 2% wide snake. The Belgians sold $28 mn. worth of marks. The French sold $48 mn. of marks to keep the DM. cross-rate at 2.3250. Against the dollar it was 4.24 7/8. The guilder (2.01 3/8) continued to slip towards the foot of the snake and the Dutch sold $15 mn. and $17 mn. of marks. They also raised Discount Rate by 1/2% to 7 1/2%. Even the Italians sold $55 mn. although the lira (821.45) closed at 3 3/4% from the floor. The punt (2.06 1/8) was at 8 3/8% discount on sterling. On the divergence indicator, the Belgian franc was 77. The yen closed at 216.10 in Tokyo and 216.65 in London.

Gold opened brightly around $285 and continued strongly to set new records at successive fixings. The levels were $286.75 and $288.25.

Operations:	Market	+ $158 mn.
	Interest	+ 5
	National Coal Board (PSB G'teed)	- 5
	Sundries	+ 2
		+ $160 mn.

5 July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 6th July 1979

Profit-taking took sterling down sharply this morning, and the rate dropped further in late afternoon on a rumour that exchange controls are to end. The effective index fell 0.3 from Thursday's close to 70.8, having opened at 71.3. After a weak start, the dollar gained on the day in most centres without support.

Having weakened against a better dollar in late trading on Thursday, sterling recovered to 2.23¼ in New York and opened around that level in London. At first it traded up to 2.24¼, although on little business; but profit-takers, at first professional but soon joined by others, drove the rate down steadily over the rest of the morning. 2.22½ was the low point, and, the sellers satisfied, sterling traded quietly between that level and 2.22¾ for most of the rest of the day. Just before the official close, however, it was rumoured that exchange control will be abolished this weekend, and the rate fell sharply to 2.2155 before recovering to close at 2.2182. The cost of forward cover edged up to 3% but the covered premium in favour of London remained 1/16%.

Sterling lost ground to the main continental currencies, falling about ⅛% against both the mark and the French franc, to 4.06¼ and 9.46 respectively. Although last night's US money supply figures were as expected flat (and the Fed bought a mere $11 mn.) the dollar was generally weaker this morning but strengthened during the afternoon perhaps helped by only modest growth in producer prices. Over the day, the mark lost about ⅛% to 1.8335, but remained comfortably top of the 2¼% band in the snake at 2 1/16% above the Belgian franc (29.43, and 75 on the divergence index). The Belgians sold $40 mn. and $12 mn.-worth of marks. The Danes gave their krone (5.2682) only a modicum of support. The guilder softened to 2.0210, without intervention; the French, however, although higher in the snake, sold $67 mn.-worth of marks. Their franc closed at 4.2647 (2.32% against the mark). The lira (823¼) remained in top place, 3⅞% above the Belgian franc. The Irish pound (2.0587) improved slightly to 7¼% discount against sterling. The central bank sold £5 mn. Outside the snake, the Swiss franc (⅓% down at 1.6555) and the yen (217.20 after a Tokyo close of 217) were quiet.

Gold set records, fixing at $290.20 and $290.25 on substantial turnover. It traded as high as $291.10 during the morning.

Operations:	Market	-	$13 mn.
	EEC	-	58
	India	+	22
	Interest	+	8
	Iran	+	5
	Sundries	+	.7
		-	$29 mn.
	Overnight	-	$13 mn.

6th July 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Monday, 9th July 1979

After a strong start, sterling fell back more than most currencies against a generally stronger dollar, though the selling never had much weight. The effective index declined 0.4 to 70.4. Energy concerns still dominated the exchanges, with President Carter's forthcoming statement now the focus of attention.

After a bumpy ride in New York, where the rate swung between 2.19¼ and 2.21¼, sterling closed for the weekend at 2.2080. The rate opened sharply higher this morning, at 2.2232, and quickly advanced to 2.22½; but it soon slipped back from these levels as the dollar advanced in most centres, to 2.2060 at noon. Early New Yorkers favoured the dollar, and scattered selling from various sources took sterling down to 2.1985. The wholesale price figures were perhaps a touch disappointing. The pound later recovered to 2.2055 before reacting to 2.2040 at the close. An increase in the cost of forward cover to 3 3/16% tipped the small premium in favour of London to a discount of 1/16%.

Sterling lost more ground against the main continental currencies - ⅛% (to 4.05¼) against the mark and ⅜% against the French franc (9.42½). However these currencies, like most others, weakened against the dollar which on the whole took heart from President Carter's deliberations at Camp David about energy policy. The likelihood of further interruption to Iranian supplies, and news that Iran will take payment for oil in other currencies, seemingly did the dollar no damage, and confirmation that Saudi Arabia will produce more gave it a lift in late trading. The mark fell ¼% to 1.8386, remaining top of the 2¼% band; at the other extreme, the Belgian franc closed 2% below it at 29.48 (74 on the index of divergence). The Belgians sold $20 mn.-worth of marks and $2 mn. The Danish crown (5.2870) was comparatively comfortable 1⅞% below the mark, no more divergent (at 62 on the index) than the guilder (2.0285). The French franc eased back to 4.2762; another $14 mn.-worth of official sales of marks left it near 2.32⅜ on the cross-rate. The Irish pound closed at 2.0477 (7⅜% discount against sterling). The lira (828.15) stayed top overall, 3½% above the Belgian franc. Outside the snake, the Swiss franc fell ⅜% to 1.6626 after $150 mn. of support - the only sizeable intervention of the day - whereas the yen was steady, closing at 217 in Tokyo and then at 217.22 in London.

The morning's gold fix at $290.25 shared Friday afternoon's record, but the price fell later when the dollar improved. The second fix was at $287.85.

Operations:		
	Market	- $11 mn.
	BIS	- 8
	Kuwait	+ 16
	India	+ 7
	PS Borrowing (Post Office)	+ 3
	Sundries	+ 4
		+ $11 mn.

9th July 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Tuesday 10th July 1979

Although first reactions were to sell pounds, sterling soon steadied and then advanced on good demand. The effective index gained 0.6 to 71.0. The dollar was little changed on balance, but the Belgian franc struggled in the snake and the French franc too, felt the mark's strength.

Having ended a quiet session in New York at 2.2065, sterling opened this morning at 2.2020 and fell to 2.1970 in early trading. This proved to be the low of the day; good buying, mostly by banks in London and on the Continent but with some commercial demand also, carried sterling to 2.2160 during the morning before the rate eased to 2.2140 at noon. The pound spent most of the afternoon on the upper slopes, closing near the peak at 2.2225. The banking and CGBR figures, announced simultaneously, had no effect on balance. A small increase in the cost of forward cover, to 3¼%, and slightly higher euro-dollar rates, increased the intrinsic discount to ⅛%.

Sterling gained on the main continental currencies, by ½% to 4.07½ against the mark and by over ¾% to 9.49⅞ against the French franc. The dollar, which had improved during late business in Europe yesterday, eased back in New York where the Fed. bought $33 mn., but traded steadily enough today; for choice, it improved during the morning but yielded ground in the afternoon. Compared with the official close yesterday, the mark gained ¼% to 1.8335 as the Bundesbank bought $80 mn. The Belgian franc (29.44) laboured at the bottom of the 2¼% band, remaining at 74 on the divergence index. The central bank sold $49 mn.-worth of marks. The guilder, although well off the bottom of the snake, scored second most (63) on the index after $5 mn. of support. The French again sold marks ($40 mn.) as the cross rate topped 2.33. Their franc closed at 4.2737 against the dollar. The lira (826.40) remained top of the snake, 3⅝% above the Belgian franc. The Irish pound (2.0587) eased to an 8% discount against sterling. Outside the snake, the Swiss franc closed little changed at 1.6613, and the yen ended another quiet day at 217.57, after 217.60 in Tokyo. The Canadian dollar was in some demand yesterday - the authorities added $91 mn. to reserves - but it eased to 86.32 today.

After $289.90 at this morning's fix, gold advanced to a record $290.50 at the second session.

Operations:	Market	+ $57 mn.
	India	+ 11
	P.S.Borrowing (Post Office)	+ 4
	Sundries	+ 3
		+ $75 mn.

10th July 1979.

P.A.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 11th July 1979

Sterling was boosted into a higher orbit by some good early buying orders, fuelled by the thought that yesterday's banking figures pointed to high interest rates continuing for some time. Profit-taking later on provided sufficient friction for a lower level to be established by the close. The dollar, following the decision not to decontrol oil prices, was only prevented from crash-landing by further retrogressive intervention. Nebulous statements from U.S. official sources kept markets inactive this afternoon. Sterling's ERI rose to 71.3.

Another quiet evening saw the pound close at 2.22 in New York yesterday. It opened a cent higher today after Far East demand and rose steadily as European buyers swarmed in to top out at 2.2445. It touched a low of 2.2295 in the profit-taking which then ensued, but rallied to close at 2.2365. Forward margins were unchanged but with Eurodollars easing, the covered differential turned into a 1/16% premium in London's favour.

On balance, sterling made small gains (under 1/4%) across the European board. The dollar required $95 mn. of support by the Fed. yesterday and $133 mn. by the Bundesbank today, all against deutschemarks. The deutschemark improved to 1.8245 but with the Belgian franc also better (at 29.25, divergence indicator 70), after the sale of deutschemarks equivalent to $54 mn, the EMS narrowed to just below 2%. The Danish and Dutch currencies remain close to the Belgian franc. The French franc was also supported by sales of German currency, equivalent to $98 mn.: the cross-rate closed at 2.33 1/4. The lira held its position 3 5/8% from the Belgians, at 821.35. The Swiss franc rose to 1.6521, the yen to 217.22 and the punt to 2.0637 (8 3/8% discount). The main feature elsewhere was the weakness of the Swedish krona in deutschemark terms: the Riksbank sold $76 mn. in total. Although their dollar price improved, to 4.2422, their crossrate against the deutschemark deteriorated from around 2.32 1/4 to 2.32 1/2.

Gold was steadier, although a new record fixing was set this morning at $290.60; the second fixing was $290.30.

Operations:-

Market	+ $58 mn.
B.I.S.	- 27
Nigeria	- 22
India	+ 11
Sundries	+ 3
	+ $23 mn.

11th June 1979.

D.A.H.B.

SECRET 1979/28

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 11th July 1979

Bouts of profit-taking failed to take the bounce out of sterling, which rose another 0.4 in effective terms to 71.3 after 71.4, the highest since March 1976. With energy questions still pressing, the dollar was mixed, remaining very nervous. The weaker snake currencies continued to toil.

Strong and widespread demand on Thursday morning carried sterling to 2.2540, the highest level for four years, over 3 cents above the close on 4th July. Profit-takers then had their turn, and sterling fell away, a rumour on Friday afternoon that exchange control would be abolished over the weekend carrying the pound back to 2.2182 at the close of business that day. After a lively session in New York - where the rate swung between 2.19¼ and 2.21¼ - sterling opened the new week at 2.2232, but again met profit-taking which took the rate below 2.20 at times. By mid-morning on Tuesday, however, the sellers seemed satisfied, and sterling was predominantly demanded between then and the end of the period. The rate closed at 2.2365 after 2.2445. Wholesale prices may have contributed to the selling on Monday, but the CGBR and banking statistics seemed to have no effect - perhaps they were read as ruling out an early fall in interest rates. Over the period, sterling gained only slightly against the mark, to 4.08, after 4.10½, but by ⅜% against the French franc (9.51⅝). Against the ECU, it rose from 1.6169 to 1.6180, some 6¾% above the notional central rate. With little change in the cost of forward cover (3⅛%) or interest rates, sterling remained at small intrinsic premium on the usual comparison.

The dollar put in a mixed performance in other centres, but again required substantial support ($¾bn. - now $6¾ bn. altogether in the last month). With U.S. money supply flat and producer prices rising only ½%, attention still focussed on one facet or another of the energy problem - further interruption to Iranian supplies, the form in which Iran will take payment, Saudi production, and the President's postponed statement on energy policy. For a time the dollar strengthened on balance, but what seemed to be presidential vacillation put it under strain. The prospect of higher interest rates in Germany and Japan did nothing to help. The Fed. bought $140 mn. against marks. Despite Bundesbank purchases of $330 mn. and sales of marks worth $480 mn. by other central banks in the snake, the mark improved ½% to 1.8245 and stayed top of the narrow band at 2% above the Belgian franc. The BNB sold another $40 mn. and $160 mn.-worth of marks but failed to buy comfort for long; however, their franc closed better at 70 on the divergence index. The guilder (2.0135, after $50 mn.-worth of support, mostly against marks, and a rise in bank rate) and a more lightly supported Danish krone (5.2512) also felt the draught, as did the French franc (4.25½). Indeed, the Banque de France sold $270 mn.-worth of marks as the cross-rate topped 2.33. The lira (821.35) remained overall head of the snake, at 3⅝% above the Belgian franc. The central bank were unaccustomed sellers of dollars ($60 mn.). The Irish pound closed at a discount of 8⅜% against sterling, the central bank having sold £13 mn. Outside the snake, the Swiss franc weakened a touch to 1.6521, the SNB buying $170 mn. net, and the yen eased back to 217.22. The Bank of Canada added $140 mn. to reserves, but the Swedes supported their currency both before and after their bank rate increase.

Gold rose to new heights. $290.60 on Wednesday morning was the best level at a fix, but the metal traded as high as $291½, gaining a net $6.80 to $290.30 over the week. Turnover was sometimes heavy.

12th July 1979.
P.A.B.

RATES, ETC.

10.15 a.m. 5th July		10.15 a.m. 12th July
2.2520	£/$	2.2266
71.6	Effective exchange rate index	71.0
3 1/16% p.a. disc.	Forward 3-months	3 1/8% p.a. disc.
10 11/16%	Euro-$ 3-months	10 11/16%
1/8% pre.	I.B.Comparison	1/8% pre.
1.8237	$/DM	1.8261
4.10 3/4	£/DM	4.06 5/8
9.55 1/8	£/FF	9.47 3/8
215.45	$/Yen	217.25
$286.20	Gold	$291.20
1.6440	$/S.Fc.	1.6540
3.70 1/4	£/S.Fc.	3.68 1/4

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 12 July 1979

The well-anticipated increase in German discount and Lombard rates, quickly followed by the Dutch and the French, made scarcely a ripple. Light profit taking caused sterling to ease from 71.3 to 71.1 in effective terms. The dollar continued to await President Carter's energy statement.

Like most other currencies, sterling fell back against the dollar in late trading yesterday, closing in New York at 2.2305. In London it opened at 2.2353, and traded to 2.2370 in early exchanges; but the profit-takers soon re-emerged and the rate fell quite quickly to 2.2265. Some commercial interest was shown, however, and the pound recaptured most of the ground lost, returning to 2.2335 at noon. Sterling traded narrowly a little below this level in a surprisingly quiet afternoon session, falling briefly to 2.2298 when the German and Dutch bank rates were increased, but recovering to 2.2320 before the close at 2.2310. An increase to 3¼% in the cost of forward cover tipped the small intrinsic premium to a 1/16% discount.

Against the mark sterling weakened only ½ pfennig, to 4.07½; indeed, it eased more, by ¼% to 9.49⅞, against the French franc. The Fed. gave the dollar a mere $14 mn. of support against the mark last night, and the Bundesbank did not intervene today. In mid-afternoon the mark was about ¼% stronger than it had been just before the increases in discount and lombard rates were announced, but it later subsided to close at 1.8263, slightly weaker than at the official London close yesterday though better than in New York and still just under 2% above the Belgian franc (29.28, and 70 on the divergence indicator). For once the Belgians did not intervene. The Dutch responded promptly to the German action by raising administered interest rates by ½%, having earlier sold $3 mn.; their guilder improved slightly thereafter to 2.0135. Although well up the 2¼% band, the French franc (4.2572) was buttressed by official sales of $49 mn.-worth of marks (as well as by a ⅝% increase in the rates at which the central bank discounts Treasury bills); the cross-rate improved slightly to 2.33⅛. The punt's discount against sterling widened further to 8⅝%; it closed at 2.0527. The lira (822) remained top of the expanded snake, a steady 3⅝% above the Belgian franc. Outside the EMS, the Swiss franc eased to 1.6555 and the yen concluded a quiet day at 217.15, having closed in Tokyo at 217½. The Swedes gave their krona another $35 mn. of support altogether.

Gold fixed twice at a record $290.75.

Operations:-

Market	- $14 mn.
India	+ 11
Iraq	+ 11
Government	+ 7
Crown Agents	- 5
Sundries	+ 7
	+ $17 mn.

12th July 1979

P.A.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 13th July 1979

Another spell of light selling took sterling down 0.1 in effective terms to 71.0. Otherwise the exchanges were quiet if slightly nervous ahead of President Carter's statement on energy policy.

Sterling weakened in late trading yesterday, closing in New York at 2.2240. It opened at 2.2265 this morning; went lower at first, to 2.2215; but then improved, trading up to 2.2286 in a quiet market, until the retail price figures brought a brief relapse. Scattered selling, some of it from New York, drove sterling to 2.2165 early this afternoon, but there was no weight behind it and the rate recovered to 2.2248 at the close. An increase in the cost of forward cover to 3 3/8% was matched by a slightly higher sterling interest rate leaving the intrinsic discount on the usual 3 months' comparison at 1/16%.

The pound lost ground on the Continent, about 1/4% to the mark (4.06½) and somewhat less to the French franc (9.48 3/4). The dollar was untouched by the latest money supply figures, but remained nervous ahead of President Carter's energy statement which is now expected on Sunday. The Fed. bought $30 mn. in New York, but dollar intervention in Europe was negligible. The mark weakened slightly this morning, then recovered to close little changed from yesterday at 1.8270. It remained top of the narrow band in the snake, 2 1/8% above the Belgian franc (29.35, and higher at 76 on the divergence index). The Belgians sold another $13 mn.-worth of marks. The guilder (2.0150) and the Danish krone (5.2647) survived the day without support, but the French spent $38 mn.-worth of marks before they closed early for Bastille Day. Their franc ended the day at 4.2647, over 2.33 3/8 against the mark, in the absence of its official champion this afternoon. The lira (824 1/2) eased to 3 1/2% above the Belgian franc; and the Irish pound's discount on sterling fell to 7 3/4%, the rate closing at 2.0642 after a small take for the reserves. Like the mark, the Swiss franc closed little changed at 1.6562. The yen hardened to 217.47 from 217.70 in Tokyo.

Fears that a poor harvest may force the Russians to sell gold brought down the price in an anxious market. The fixings were at $288.60 and $287.45.

Operations:

Nigeria	- $22 mn.
Sundries	+ 1
	- $21 mn.

13th July 1979.

P.A.B.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 16th July 1979

The market's response to President Carter's statement on energy was rather more muted than many had expected. Nevertheless the dollar gently drifted lower and the trend eventually gained some momentum. Sterling advanced in sympathy but without any significant demand until the trade figures which were well received and left the ERI closing at 71.3.

The pound closed higher at 2.23 on Friday in New York where the dollar was generally softer. This morning sterling began at 2.2287, touched 2.2272, then gradually crept ahead in response to the declining dollar. Volume was thin and serious demand of any size was sufficient to bring a spurt in the rate. Early this afternoon some sizeable Continental interest carried the pound strongly through to 2.2415 but by the time the trade figures were announced, sterling had relapsed to 2.2377. The figures were better than anticipated, and sterling was marked up immediately to 2.2410 and on to 2.2440 before closing at 2.2415. Three months' cover cost 3 5/16% p.a. and this gave interest parity on the covered comparison.

The pound gained ¼% against the Swiss franc (3.69⅛), and ⅜% against each of the French franc (9.51⅞) and deutschemark (4.08). The Bundesbank took in $50 mn. (following Federal Reserve purchases of $120 mn. for marks on Friday) and the deutschemark closed at 1.82. The French franc (4.2465) slipped past 2.33¼ on the cross-rate and the Bank of France sold $55 mn. of marks while the Bundesbank took in $7 mn. of French francs. Although the Danish krone (5.2455) closed at the bottom of the snake, the Belgian franc (29.17) felt the pressures throughout the day and the Belgians sold $21 mn. of marks in support. The lira (820.45) was 3⅝% above the floor. The punt (2.0792) was at 7⅛% discount on sterling. The Swiss franc firmed to 1.6467 and the yen to 216.90 (after 217.70 in Tokyo).

Gold set successive new records at each fixing with levels of $291.40 and $292.80.

Operations:	Market	+	$38 mn.
	Ireland	+	22
	France	+	21
	Iraq	+	11
	BIS	-	13
	Sundries	+	1
		+	$80 mn.
	Overnight	+	$54 mn.

16th July 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 17th July 1979

Sterling again rocketed skywards today with heavy demand especially from New York, with a prominent Middle East flavour. Elsewhere, the dollar remained weak but there were few other features. Gold set new records. Sterling's ERI closed at a new high of 72.1.

The pound was in strong demand in New York yesterday and closed at 2.2565. This morning it began at 2.2497 and soon recovered the overnight level as the dollar turned down again. Demand for sterling was reasonable and 2.2640 was paid but, once the market sensed official support for the dollar, rates turned tail and sterling ran into some commercial selling before setting around 2.2590 for the rest of the morning. With the return of New York, however, the pound moved ahead and strong demand once again emerged. Rumours of Middle East interest, following receipt of recent ore royalties, were rife. Sterling surged ahead to 2.2755 - a new four-year high - before closing at 2.2730. Three months' cover cost 3 1/16% p.a. and this left a small intrusion premium for sterling.

The pound gained 1/2% against the Swiss franc (3.70 3/4), 3/4% against the French franc (9.59 3/8) and 7/8% against the deutschemark (4.11 1/2) which, as often, bore the brunt of the dollar's official support. The Federal Reserve sold marks equivalent to $373 mn. yesterday and this morning the Bundesbank bought $50 mn. The Fed. returned to the fray from an early hour. The month advanced to 1.8104, the Swiss franc to 1.6312 and the French franc to 4.2207. The Bank of France sold a further $30 mn. worth of marks and the franc improved against the mark to 2.44 1/8. Otherwise the snake went untroubled and the Danish Krone (5.2122) and deutschemark spanned a 2%-wide band at the close. The lira (816 3/8) remained around 3 1/2% above the floor. The punt (2.0892) was at 8 3/4% discount on sterling. In Tokyo, the yen closed at 216.80 and in London at 216.25.

Gold opened very strongly and, despite some later profit-taking, set a new record fixing level of $296.50 this morning. The New York market opened very weakly, with talk of massive liquidation orders in the wings. The price held up well, however, and was fixed this afternoon at $296.30. Later still, the metal was bid sharply higher and touched $298.75 just before the close.

Operations:	Market	+	$96 mn.
	FRB o/h India	-	23
	Bangladesh	-	29
	Government	-	11
	Sundries	-	1
		+	578 mn.

17th July 1979.
JGH

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 18 July 1979

Sterling was again in heavy demand today following widespread rumours that the Saudis had been buying pounds on a large scale. The relaxations in Exchange Control came as no surprise and had little immediate effect on the rate. The dollar was disturbed by the offers of resignation from the Carter cabinet but was held steady by official support. Gold broke the $300 barrier. Sterling's ERI closed at 72.1 after 72.3.

The pound closed at 2.2750 in New York yesterday as the dollar weakened on the political news. This morning the dollar's trend continued and sterling began at 2.2852, quickly forging ahead on strong demand which had a marked Middle East flavour. The pound soared to 2.2945, notwithstanding that the reappearance of European Central Bank support for the dollar stemmed its general decline. This afternoon was much quieter. New York showed little interest, indicating perhaps that the recent bout of diversification may have halted. Sterling drifted lower on little business and, when a strong rumour of Exchange Control relaxations preceded the announcement, dipped to 2.2770. The announcement itself had little effect and the pound closed at 2.2805. The cost of three months' forward cover fell to 2 15/16% leaving sterling still with a small intrinsic premium.

The pound gained 1/8% on the Swiss franc (3.71 3/8) but was barely changed against the French franc (9.59) or deutschemark (4.11 3/4). These all closed firmer, though below best levels, against the dollar at 1.6285, 4.2050 and 1.8053 respectively. The deutschemark briefly breached 1.80 at one stage. Following Federal Reserve purchases of $350 mn. for marks yesterday, the Bundesbank bought $170 mn. today and the Swiss added $70 mn. to their reserves. The snake slimmed considerably to 1 5/8% in width, the Danish krone (5.18) remaining on the base. The lira (811.65) was 3 3/8% above the floor. The punt (2.09) stood at 9 1/8% discount on sterling. The yen closed at 215.80 in Tokyo but attracted a considerable flow of funds during European hours and closed here at 213.42.

Gold finally reached the predicted $300 level, opening above that price and fixing at a record $303.85 this morning. Inevitably, profit-taking set in and, after fixing at $302.15 this afternoon, the metal closed barely above $300.

Operations:	Market	+ $97 mn.
	FRB o/a India	+ 23
	Kuwait	+ 9
	Crown Agents	- 16
		+$113 mn.

/Overnight: +$5 mn./

J.G.H.
18th July 1979.

SECRET

1979/30

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 18th July 1979

After a quiet start, sterling gained sharply after the weekend, to close 0.8 higher in effective terms at 72.1 after 72.3, the highest since early 1976. President Carter's policy statement did nothing for the dollar, and subsequent news of senior resignations sent it lower in most centres.

At first sterling drifted down from the London close of 2.2365 on 11th July. Some profits were taken, the dollar was generally a touch firmer, and sterling yielded a little on the news of higher interest rates on the continent and the latest increase in UK retail prices. The rate touched 2.2215 on Friday before closing at 2.2248. After President Carter's policy statement, sterling firmed against a weaker dollar, and then hardened further on the UK trade figures published on Monday afternoon. The following day, the pound came back into strong demand, apparently from the Middle East, and gained 3 cents; and when the news broke that the President's senior colleagues were resigning, sterling roared ahead, touching 2.2945 on Wednesday morning, the highest since June 1975. Rumours of exchange control relaxations took the rate back to 2.2770 during the afternoon, but the pound recovered after the announcement to close at 2.2805. Sterling gave ground to the main continental currencies before the weekend, but more than recaptured it later, closing 7/8% stronger against the mark (at 4.11 3/4 after 4.13 5/8) and 3/4% up on the French franc (9.59). It improved 5/8% against the ECU to 1.6277, 7 3/8% above the notional central rate. Although euro-dollar rates edged up, a fall in the cost of forward cover to 2 15/16% left the the intrinsic premium on the usual three months' comparison at 1/16%.

At first the dollar was quiet, though nervous, ahead of President Carter's long-awaited policy statement. The biggish increase in US money supply was generally discounted. First reactions to the President's wide-ranging statement were to mark the dollar down, on the grounds that there was nothing to improve its immediate prospects, and sizeable support was given, mainly by the Fed. The news late on Tuesday that all the President's senior colleagues had tendered their resignations put the dollar into brisk retreat. Altogether the Fed. bought $1.3 bn., mostly as usual against marks. For their part, the Bundesbank bought $290 mn., and also a handful of French francs. The mark gained 1% to 1.8053, mainly on the dollar's general weakness, the anticipated increases in discount and Lombard rates on 12th July having little immediate effect. It remained top of the 2 1/4% band in the snake, 1 5/8% above the Danish crown (5.1802) which took over bottom seat from a convalescent Belgian franc (28.82). The Belgians sold $40 mn.-worth of marks, but it was the French franc (4.20 1/2 against the dollar, and usually over 2.33 against the mark) which felt the chill - the Banque de France spent $170 mn.-worth of marks, and raised the rates at which they discount Treasury bills by 5/8%. The Dutch were the others to increase administered interest rates. The lira remained overall top of the snake at 811.65, 3 3/8% above the Danish crown, after purchases of $30 mn. for the reserves; and the Irish pound cruised along, closing at 2.09, the discount on sterling rising to 9 1/8%, after some creaming. Outside the snake, the Swiss bought a modest $50 mn. net to contain the improvement in their franc to 1 1/2% (at 1.6285); and the yen finally threw off its sloth to gain 1 3/4% to 213.42. The Swedish crown remained weak.

Although stories of a poor Soviet grain harvest (and the consequent likelihood of gold sales to pay for imports) had given gold

an uncomfortable day on Friday, the price soon passed the $300 mark to fix on Wednesday morning at $303.85. The afternoon price of $302.15 showed a gain of $11.85 on the week. The US Treasury auctioned 750,000 ozs. of low-grade bars at an average of $296.44 per ounce, equivalent to about $297¼ in good delivery form.

19th July 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
12th July		19th July
2.2266	£/$	2.2855
71.0	Effective exchange rate index	72.3
3 1/8% p.a. disc.	Forward 3-months	2 7/8% p.a. disc.
10 11/16%	Euro-$ 3-months	10 15/16%
1/8% pre.	I.B.Comparison	1/16% pre.
1.8261	$/DM	1.8060
4.06 5/8	£/DM	4.12 3/4
9.47 3/8	£/FF	9.61 3/8
217.25	$/Yen	214.82
$291.20	Gold	$300.00
1.6540	$/S.Fc.	1.6322
3.68 1/4	£/S.Fc.	3.73

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19 July 1979

Sterling was again the sole feature in an otherwise unusually featureless market. Further strong demand from the US and Middle East carried the pound to new high levels. The ERI closed at 72.8.

The pound was bid back up to 2.2940 in New York yesterday. This morning the pound opened at 2.2877 and, having touched 2.29, began to ease back in little volume, eventually finding a bottom at 2.2820 late in the morning. Early this afternoon, a sizeable buying order from the Middle East took sterling up quickly through 2.29 and, when New York returned, further substantial demand was generated. The pound advanced steadily and set a new four-year high of 2.3040 just before closing at 2.3005. Afterwards, rumours of an increase in the US Discount Rate sent sterling lower. Forward margins continued to narrow slightly. Three months' cover cost 2 13/16% pa. and this gave sterling an intrinsic premium of 1/4% on the covered comparison.

The pound gained 7/8% on the deutschemark (4.15 1/4), nearly 1% on the French franc (9.68) and slightly over 1% on the Swiss franc (3.75 1/4). The dollar had a better day, opening firmer and drifting quietly back to yesterday's levels. No support was given in Europe, although the Federal Reserve yesterday bought a further $386 mn. against deutschemarks. The deutschemark was unchanged at 1.8053 and the French and Swiss francs were each a shade easier at 4.2080 and 1.6314 respectively. The snake was again very relaxed. The Belgian franc (28.86) fell to the bottom of the band which was 1 5/8% in width. The lira (813.55) slipped to within 3 1/8% of the floor. The punt (2.0922) stood at almost 10% discount on sterling. The yen closed at 214.90 in Tokyo and 215.05 in London.

Gold was quiet and drifted lower. Fixings were $300.10 and $299.15.

Operations:

Market	+	$74 mn.
FRB o/a India	+	23
Iraq	+	18
Interest	+	5
Bangladesh	-	11
Sundries	+	1
	+	$110 mn.

20 July 1979.

J.G.H.

~~SECRET~~

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 20th July 1979

A quiet end to the week was little disturbed even by a ½% increase in the U.S.Discount Rate to 10%. The dollar closed slightly firmer as a result and sterling retreated in an orderly market. The ERI closed at 72.3.

The pound closed at 2.2880 in New York yesterday. This morning it opened at 2.2927 and touched 2.2957 on the opening exchanges. Thereafter, however, the underlying trend was clearly softer, even if the rate see-sawed quite widely at times. For much of the day sterling traded comfortably around 2.2850 but, following the increase in U.S.Discount Rate, it fell immediately to 2.28 and eased off thereafter to close at 2.2745, the day's lowest level. Three months' cover again cost 2 13/16% p.a. leaving sterling with an intrinsic premium of 3/16%.

The pound lost 3/8% to each of the deutschemark (4.13 5/8), Swiss franc (3.73 3/4) and French franc (9.64 5/8). These all closed 3/4% lower against the dollar at 1.8187, 1.6435 and 4.24 1/8 respectively. No support for the dollar was given in Europe, although the Federal Reserve were reportedly buying the dollar following the Discount Rate increase. The French sold $22 mn.-worth of marks and the Dutch lost $30 mn. and $6 mn.-worth of marks as their currencies slipped down the snake. The Belgian franc (29.07) was again on the base and the band was 1 5/8% wide at the close. The lira (818.50) was 3 1/4% above the floor, after sales by the Banca d'Italia of $45 mn. The punt (2.07 7/8)) stood at 9 3/8% discount on sterling. The yen closed at 216.00 in Tokyo and 217.02 in London.

Gold was again quiet and a little softer. Fixings were $298.50 and $298.75.

Operations:

Market	- $1 mn.
BIS o/a Nigeria	- 46
South Africa	- 11
Government	- 10
Germany	+ 27
FRB o/a India	+ 23
Post Office (PSB G'teed)	+ 5
Sundries	+ 5
	- $8 mn.
Overnight	+$11

20th July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 23rd July 1979

After some good two-way business this morning, sterling lit up again this afternoon, despite a dollar which revived swiftly from depressed opening levels. Gold set new records. Sterlings ERI advanced to a new high 73.0.

The pound closed at 2.2825 on Friday in New York where some modest demand was evident. This morning sterling began at 2.2902 and touched 2.2940 on some early interest from Switzerland and the Far East. However, when one or two commercial sellers came to market, the rate slipped quickly and touched 2.2863 before stabilising. The rest of the morning saw balanced two-way business but European appetite for pounds was whetted this afternoon even before New York returned. The Chicago IMM and New York banks added fuel to the fire and with European interest remaining strong until late in the day, sterling hit 2.3045 before closing at 2.3025. Three months cover cost 2 11/16% p.a. and sterling commanded an intrinsic premium of 3/16%.

The pound gained 1/2% against the Swiss franc (3.75 3/4), 3/4% against the French franc (9.71 7/8) and nearly 7/8% against the deutsche-mark (4.17). The Bundesbank bought $20 mn. and the mark closed firmer at 1.8110 (after 1.8084). The Swiss franc was 1.6323 and the French franc 4.2210. The French sold $1 mn. and $11 mn. worth of marks. The Danish krone (5.1992) closed at the foot of the snake which was 1 11/16% in width. The lira (815.05) was 3 3/8% above the floor. The punt (2.0960) stood at 9 7/8% discount on sterling. The yen closed at 214.75 in Tokyo following the 1% increase in Bank Rate to 5 1/4%, and at 215.50 in London.

Gold was fixed at $303.60 and $304.90 - the latter a new record. The fixings were active but the market was otherwise not very convincing, despite a closing level around $305.

Operations:

Market	+ $141 mn.
FRB o/a India	+ 23
Interest	+ 7
BIS o/a Nigeria	- 46
New Zealand	- 11
	+ $114 mn.

Overnight	+ $81 mn.

23rd July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 24th July 1979

Sterling was again in heavy demand today, with the impetus coming once more from European sources. Profit-taking was seen at times but this was easily absorbed and the ERI finished the day at a new high 73.6.

The pound closed at 2.3107 in New York yesterday after heavy and persistent American demand which erupted following Miller's latest speech. This morning it opened at 2.3125 and this proved the day's lowest level since a wave of strong, general demand quickly pushed the rate up to 2.3190. Some sizeable profit-taking emerged at this level but fresh buyers were not found wanting and when a major Scandinavian professional came in as a buyer, the pound advanced strongly again to 2.3248 at best. This afternoon saw further two-way business around the higher levels. Buyers predominated again and the pound touched 2.3250 more than once before closing at 2.3235. Three months' cover again cost 2 11/16% p.a. leaving an intrinsic premium for sterling of 3/16%.

The pound gained 5/8% against the French franc (9.78 1/4) and 7/8% against each of the Swiss franc (3.79 1/4) and deutschemark (4.20 1/2). Yesterday the Federal Reserve bought $324 mn. against marks but the Bundesbank today took in only $20 mn. The mark and Swiss franc were barely changed at 1.8095 and 1.6323 respectively. The Swiss swapped in $100 mn. The French franc firmed a little to 4.2105. The snake widened to 1 7/8% with the Danish krone (5.2057) still at the foot of the band. The lira (813.25) was nearly 3 3/4% off the floor; the Italians sold $56 mn. The punt (2.0910) was at 11 1/8% discount on sterling. The yen closed at 213.95 in Tokyo and 214.55 in London.

Gold fixed at a new high this morning of $306.50 having traded up to $307.50 earlier. Profit-taking set in this afternoon as the dollar improved and the price was fixed at $305.25.

Operations:	Market	+ $185 mn.
	India	+ 23
	Interest	+ 5
	Government	- 17
	Sundries	+ 4
		+ $200 mn.

24th July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Wednesday 25th July 1979

The dollar staged a mild technical rally today, supported by heightened expectations of a significant speech by President Carter and by Volcker's appointment as Chairman of the Federal Reserve Board. Sterling was well traded in both directions and looked a little soft this morning. By the close, however, the ERI was unchanged at 73.6 and the pound proved to have withstood the dollar's advance as well as most.

Sterling closed little changed in New York at 2.3245 yesterday, having earlier fallen back on news of the electricity supply workers' threatened action. This morning it opened at 2.3260 and saw some good two-way business on the opening exchanges with 2.3270 paid for pounds at one time. Eventually, with the dollar firming generally, sellers of sterling gradually gained the upper hand and the pound retreated in rapid but orderly fashion to 2.3115 before steadying. Continental interest throughout seemed rather thin. Early this afternoon, a burst of buying interest took sterling to 2.3195 but this level bought out one or two large sellers from Europe and for a time an interesting war of nerves prevailed. New York, however, tipped the balance in sterling's favour and the rate crested 2.32 again and remained steady around that level through the afternoon, closing at 2.3200. Three months' cover again cost 2 11/16% p.a. and sterling's intrinsic premium shaded slightly to 1/8%.

Sterling closed 1/4% better against both the deutschemark (4.21½) and French franc (9.80¾) and 3/8% higher against the Swiss franc (3.80⅝). These all finished near the day's worst levels against the dollar at 1.8154, 4.2275 and 1.6406 respectively. The Swiss swapped in $50 mn. but there was no other intervention. Yesterday, the Federal Reserve had soaked up a further $325 mn. against deutschemarks. The snake slimmed to 1 11/16% in width with the Belgian franc (29.02) closing barely above the Danish krone (5.2110) at the tail. The lira (815.95) was 3 7/16% above the floor, the Italians buying $5 mn. The punt (2.08 7/8) stood at 10% discount on sterling. In Tokyo the yen closed at 214.75 and in London at 215.20.

Gold retreated further from yesterday's highs as the dollar continued to firm. Fixings were $303.00 and $303.35.

Operations:

Market	+	$13 mn.
National Coal Board (PSB G'teed)	+	81
India	+	23
Kuwait	+	12
Interest	+	7
Germany o/a Nigeria	-	23
Sundries	-	2
	+	$111 mn.

25th July 1979.

J.G.H.

SECRET 1979/32

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 25th July 1979

Widespread buying caused sterling to rise a further 1.5 in effective terms to 73.6, the highest since autumn 1975. Heavy support helped a queasy dollar to improve in most centres. The snake remained relaxed.

Buying in New York lifted sterling over 1 1/4 cents from the London close of 2.2805 on 18th July, and further interest on Thursday carried the rate above 2.30. Orderly profit-taking and some commercial selling brought a retreat to 2.2745 by Friday evening; but buyers returned in force after the weekend to sweep the pound up to 2.3275 on Tuesday evening, the highest since early June 1975, before further light profit-taking and a general improvement in the dollar brought it back to 2.32 at the close on Wednesday. Substantial amounts were creamed into the reserves. The buying was widespread; some of the money may have been destined for the gilt-edged market. Interest rates, oil, and most aspects of government's economic policy combine to make sterling attractive. Money supply figures had no effect; the threat of disruption from the power workers caused only a hiccough; and the market shrugged aside business complaints that sterling is overvalued. The pound gained handsomely against the main continental currencies, for example by 2 1/4% against both the mark (4.21 1/4) and the French franc (9.80 3/4). The rate against the ECU improved from 1.6277 to 1.6583, some 9% above the notional central rate. Euro-dollars hardened in sympathy with U.S. rates, but the cost of forward cover shrank to 2 11/16% leaving sterling at a slightly enhanced intrinsic premium of 1/8% on the usual comparison.

Disquiet about the Administration's grip on events and the shock of senior dismissals - notably the replacement of Mr.Blumenthal by Mr.Miller at the Treasury, and the gap left at the Fed. until Mr.Volcker's appointment - made the dollar distinctly uneasy, although on balance it struggled up in most centres after heavy support. Some biting valedictory remarks by Mr.Blumenthal did not improve the tone. Economic news was mixed. Money supply grew fast again, but the Fed. responded with a 1/2% increase in discount rate; and preliminary figures suggested a sharp fall in economic activity in the second quarter. No fresh support for the dollar was drummed up, though many expected an announcement. The Fed. bought $1,040 mn. in the market, entirely against marks. The Bundesbank bought a mere $40 mn., press reports nothwithstanding. The mark eased 1/2% to 1.8154, but remained easily top of the 2 1/4% band in a relaxed snake, 1 5/8% above the Danish krone (5.2110) which alternated in bottom place with the Belgian franc (29.02). For once the Belgians did not support their franc; indeed the only significant intervention in snake currencies came from the French, who sold $30 mn.-worth of marks. Their franc closed at 4.22 3/4, little changed at 2.32 7/8 against the mark. Another unsuccessful attempt to form a government may have contributed to the lira's fall to 815.95, after $100 mn. of support, but it remained overall top of the snake, 3 1/2% above the krone. The Irish pound eased to 2.0887, a 10% discount on sterling. As with the Bundesbank, many observers wrongly believed that the SNB were active in the market: in fact they did nothing as the Swiss franc softened to 1.6406. Outside Europe, the Japanese and the Canadians increased discount rate, by 1% and 1/2% respectively, but their currencies drifted back nevertheless to 215.20 and 85.84. The Swedish crown remained weak.

Gold fell below $300 at first; it then advanced strongly to fix at a record $306 1/2 on Tuesday morning, having traded at $307 1/2. However, the metal fell back on a rumour that the U.S. Treasury will increase gold sales, fixing on Wednesday afternoon at $303.35, a gain of $1.20 on the week.

26th July 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
19th. July		26th. July
2.2855	£/$	2.3343
72.3	Effective exchange rate index	74.0
2 7/8% p.a. disc.	Forward 3-months	2 5/8% p.a. disc.
10 15/16%	Euro-$ 3-months	11 1/8%
1/16% pre.	I.B.Comparison	1/4% pre.
1.8060	$/DM	1.8124
4.12 3/4	£/DM	4.23
9.61 3/8	£/FF	9.85 7/8
214.82	$/Yen	214.60
$300.00	Gold	$306 1/2
1.6322	$/S.Fc.	1.6403
3.73	£/S.Fc.	3.82 7/8

~~SECRET~~

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 26th July 1979

Sterling again met good two-way interest today but buyers once more prevailed and new four-year high levels were set, notwithstanding that the dollar's technical recovery continued. The ERI rose to 74.0.

The pound closed at 2.3240 in New York yesterday and opened at 2.3250 this morning. Substantial demand was seen in the early exchanges, both from outright professionals and from the major portfolio-oriented Continental banks. At the same time, the liquidation of a large and sour bear position was rumoured. Sterling advanced quickly through 2.33 and later continued, to a new recent high of 2.3360. The better dollar eventually brought a turn for the pound and with commercial sellers around, the rate retreated to 2.3263. This afternoon, the market was less active. Americans appeared to be small sellers of sterling and commercial offerings were still in evidence. Nonetheless, this was well absorbed and, despite continuing firmness in the dollar, sterling traded comfortably around 2.33 before closing at 2.3290. Forward margins widened, the three months' to 2 7/8% p.a. discount. As a result, sterling's intrinsic premium was all but eliminated.

Sterling gained 5/8% on the French franc (9.86 3/4) and 3/4% on each of the Swiss franc (3.83 3/8) and deutschemark (4.24 1/4). These all eased further against the dollar to 4.2365, 1.6460 and 1.8216 respectively. The Swiss swapped in $200 mn. over the end of the month. The snake continued relaxed with the Danish krone (5.2317) at the foot of a 1 3/4% wide band. The Italians sold $3½ mn. The lira (816 1/4) advanced to 3 13/16% above the krone. The punt (2.0730) fell sharply to 11% discount on sterling. The yen closed at 215.02 in London, having earlier finished at 214.35 in Tokyo.

Gold opened very firmly but eased back as the dollar improved. Fixings were $307.00, a new record, and $305.20.

Operations:-

Market	+	$171 mn.
FRB o/a India	+	23
Interest	+	8
FRB o/a Nigeria	-	42
Government	-	11
Sundries	-	2
	+	$147 mn.

26th July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 27th July 1979

Sterling mirrored the dollar's movements for much of the day, although both this morning and this evening it looked distinctly soft when sellers were around. The ERI retreated from 74.0 to 73.5.

The pound closed at 2.3220 in New York but opened in line with London closing levels at 2.3290 this morning. Two-way business again characterised the early exchanges but, with the dollar firming from somewhat depressed levels, sellers soon gained the upper hand and the pound came back quite sharply to 2.3190. The later morning was quieter and as the dollar turned, sterling recovered to 2.3242. Later this afternoon, however, London and New York banks began squaring long positions before the weekend and the rate again fell away sharply to 2.3142 before closing at 2.3145. Later still, business was seen down to 2.31. Forward margins widened again, the three months' to 2 15/16% discount, giving an adverse covered differential of 1/16%.

The pound fell by 5/8% against the French franc (9.80 1/8), 3/4% against the deutschemark (4.21) and nearly 7/8% against the Swiss franc (3.80 1/8). These were all little changed against the dollar at 4.2350, 1.8190 and 1.6423 respectively. The Swiss swapped in $210 mn. but there was no support given to the dollar by the European Central Banks. Yesterday, the Federal Reserve had bought $216 mn. against marks to boost the dollar's recovery. The snake was 1 3/4% wide at the finish with the Belgian franc (29.11) just pipping the Danish krone (5.2255) into last place. The lira (816 3/8) was 3 11/16% off the floor. The Italians sold $13 mn. The punt (2.06 7/8) stood at 10 5/8% discount on sterling. The yen closed at 215.45 in Tokyo and 215.25 in London.

Gold traded steadily and without feature. Fixings were $305.40 and $305.80.

Operations:		
	Market	- $1 mn.
	E.E.C.	- 25
	Electricity Council (PSB repayment)	- 10
	France	- 9
	Government	- 8
	India	+ 23
	Interest	+ 19
	Sundries	- 4
		- $15 mn.

27th July 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

(Monday, 30th July 1979)

The dollar rallied strongly today, in part on end-month considerations, and partly in response to Volcker's firm support for his currency. Sterling alone stood up to the dollar's advance and the ERI improved to 73.8.

Having closed higher at 2.3215 in New York on Friday, the pound opened at 2.3195 this morning. The early exchanges were not very active and a trend was slow to develop. Sterling and the dollar both eased at first, the pound to 2.3160 before recovering as swiftly to 2.3220. The dollar then began a gradual rally and sterling dipped in salute, though never falling far below 2.32. The pound remained around that level through the afternoon despite the continuing strength of the dollar and only late in the day did it slip to close at 2.3177. Forward sterling margins, however, widened sharply as inter-bank deposit rates hardened. Three months' cover cost 3 1/4% p.a. and the adverse covered differential rose to 1/2%.

The pound gained 1/2% on the French franc (9.85), 7/8% on the deutschemark (4.24½) and a full 1% on the Swiss franc (3.84). These all weakened substantially against the dollar to 4.25, 1.8313 and 1.6564 respectively. Their relatively disparate performances were difficult to explain; the Swiss, however, reacted by selling $27 mn. worth of deutschemarks (as well as swapping in $130 mn.) The snake remained relaxed, closing at 1 11/16% in width with the Danish Kroner (5.2572) firmly on the bottom. The lire (819.05) was nearly 4% off the floor. The punt (2.0557) stood at over 11 1/4% discount on sterling. The yen closed at 216.20 in Tokyo but later eased to finish at 217.15 in London.

Gold had an active day. Having fixed at $304.65 this morning, the metal encountered heavy selling from New York this afternoon and another lengthy fix eventually set a level of $301.40. Later still the price was quoted down to $297 3/4.

Operations:	Market	+ $15 mn.
	India	+ 23
	Interest	+ 6
	Sundries	+ 4
		+ $48 mn.

Overnight: - $30 mn.

J.G.Hill

30 July 1979.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 31st July 1979

Sterling plummeted today - by 2⅛% against the dollar and almost as much on the ERI - as end-month squaring mounted into an avalanche and few, if any, willing buyers were found to take the strain. The dollar drew comfort from this and remained very firm. Sterling's ERI fell from 73.8 to 72.1.

The pound was heavily offered in the United States yesterday, chiefly by the Chicago IMM, and fell from 2.3177 at the London close to 2.2872 before closing at 2.2900. The first hour this morning was very nervous. Sterling opened at 2.2885, touched 2.2940 as overnight profit-taking orders were executed, but then sold off sharply as Continentals came in to test the new levels. The pound fell to 2.2790 before steadying and this brought out a large commercial buyer who acted as a useful prop and restored some order and calm. The news that Kuwait was to reduce its oil production also applied some modest pressure to the dollar and consequent relief for sterling. Once American markets reopened, however, the pound was immediately under pressure once more. Chicago was again prominent, New York banks were outright forward sellers and at least one major European was a large seller. For a wild half-hour sterling was a one-way market as pounds were passed on at any price. The rate fell to 2.25 before turning and thereafter swung widely and nervously between that level and 2.2650 before closing at 2.2595. Later still sterling was sold down to 2.24. Forward margins continued to widen. Three months' cover cost 3½% p.a. at the finish and sterling's intrinsic discount rose to 7/16%.

The pound gave up 2¼% to the French franc (9.63⅛) and 2⅜% to each of the Swiss franc (3.75) and deutschemark (4.14½). These all continued to give ground to the dollar, closing at 4.2625, 1.6595 and 1.8345 respectively. The Bundesbank sold $60 mn. late yesterday but were idle today. The Swiss, however, sold $65 mn. and swapped in $75 mn. while the French swapped out $40 mn. At the bottom of the snake the Danish krone (5.28⅞) weakened so that the band was 2⅛% in width at the day's end and the lira (821.05) 4 5/16% above the floor. The Italians took in $65 mn. The punt (2.0460) recovered to 9½% discount on sterling. The yen closed at 216.90 in Tokyo and 216.77 in London.

Gold was heavily sold in New York yesterday and fell further this morning before fixing at $295.35. There was some recovery this afternoon and the later fix set a level of $296.45.

Operations:	Market	- $53 mn.
	Saudi Arabia	+ 34
	Post Office (PSB G'teed)	+ 5
	Sundries	- 14
		- $28 mn.
	Overnight	- $18 mn.

The result for July is an increase of $1,429 mn. to a reserve level of $23,499 mn. after net public sector and IMF debt repayments of $276 mn. The ECU swap contributed $349 mn. (purely the effect of valuation). The overbought forward position was reduced by $286 mn. to $1,559 mn. but this was more than accounted for by the forward leg of the ECU swap.

JGH

31st July 1979.
JGH

SECRET

1979/33

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 31st July 1979

Sterling started very strongly, the 74.0 in effective terms on Thursday being the highest for nearly four years; but there was an abrupt change after the weekend, when the index fell to 71.6 in a disorderly market before recovering to 72.4 for a net fall of 1.2 in the week. The dollar was in better shape than recently.

Sterling was in strong demand on Thursday, reaching 2.3360, a fresh 4-year high and over 1½ cents above the previous close, before softening as positions were squared off ahead of the weekend. For most of Monday there was no hint of the storm that was to come: sterling eased back against a firmer dollar, but gained on most other currencies. Late on, however, the pound came heavily on offer from America, losing 3 cents before closing in New York on Monday night at 2.29. It opened around that level on Tuesday; eased back over the morning in a light but nervous market; and then fell abruptly again in the early afternoon when Americans returned to the fray. At times there were no buyers in sight. The London close was taken at 2.2595 - a fall of nearly 6 cents in 24 hours. The news that BP's assets in Nigeria are to be taken over, combined with an earlier rumour that Nigeria is a heavy seller of sterling, put the pound under further pressure in New York, where the rate fell briefly to 2.23. By Wednesday morning, however, the market had regained its nerve, and sterling traded mostly between 2.24½ and 2.25½ in two-way business until renewed buying interest took it to 2.2735 at the close. There was no economic news to explain the earlier sharp correction, although a gloomy CBI Survey and some private forecasts of a lower exchange rate may have helped tip the balance. Otherwise, it seems that sterling, having risen furthest, was most vulnerable to an improvement in the dollar and to end-month squaring-off. Despite gains early in the period, the pound fell against the main continental currencies, for example by 1⅛% to 4.15¾ against the mark and by 1⅛% to 9.66 against the French franc. The ECU improved from 1.6583 to 1.6397, leaving sterling at an 8% premium on its notional central rate. With the cost of cover rising to 3⅛%, sterling returned to a small ⅛% discount on the usual comparison.

The dollar had its best week for some time. Mr.Volcker's appointment, and his various pronouncements since, have given the market quiet satisfaction, and both money and trade figures were better than their predecessors. Most major banks increased prime rate to 11½%. Only on Thursday did the Fed support the dollar; their net intervention in the week was a mere $200 mn., mostly as usual against marks. (Altogether in July they bought $2.9 bn., out of $4.8 bn. of total support for the dollar.) The Bundesbank were sellers of dollars ($60 mn.) as the mark fell ⅜% to 1.8288. It remained head of the 2¼% band in a tighter-stretched snake, 2% above the Danish krone (5.26⅝ and by some way the most divergent currency at 73 on the index). The French franc eased to 4.2490, improving to 2.32¼ against the mark, without intervention. The Belgian franc (29.25) was well off the bottom of the parity grid, and the guilder (2.0079) remained comfortable. Despite chronic political uncertainty, the lira (819.20) stayed overall top, closing 4⅛% above the krone. The Bank of Italy bought $70 mn. The Irish pound (2.0687) came under some pressure, possibly occasioned by sterling's fall. The central bank sold $30 mn. and £8 mn. net; their pound's discount on sterling narrowed to 9%. Outside the snake, the Swiss franc weakened 1% to 1.6570 after $110 mn. of support, some of it a sale of marks. The SNB bought dollars on the swap to ease their money market. The yen fell back to 216.05.

Like sterling, gold reached its zenith on Thursday, fixing at $307, only to suffer a sharp setback after the weekend. On Wednesday afternoon the price fixed at $290.10 to show a net fall of $13½ over the period. Turnover was sometimes heavy. The IMF auctioned 444,000 ozs. at an average of $289.59.

2nd August 1979.
PAB

RATES, ETC.

10.15 a.m. 26th July		10.15 a.m. 2nd August
2.3343	£/$	2.2710
74.0	Effective exchange rate index	72.3
2⅜% p.a. disc.	Forward 3-months	3 1/16% p.a. disc.
11⅛⅛	Euro-$ 3-months	11⅛⅛
⅛⅛ pre.	I.B.Comparison	parity
1.8124	$/DM	1.8245
4.23	£/DM	4.14⅜
9.85⅞	£/FF	9.63¾
214.60	$/Yen	216.15
$306½	Gold	$292
1.6403	$/S.Fc.	1.6531
3.82⅞	£/S.Fc.	3.75⅜

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Wednesday, 1st August 1979

After a somewhat nervous morning in which no firm trend developed, sterling rebounded strongly this afternoon when Americans returned to cover yesterday's short positions. The dollar was generally easier in response to sterling's recovery. The ERI, which had fallen to 71.6 by noon, closed at 72.4.

The pound was traded as low as 2.23 in New York yesterday, following news of Nigerian plans to nationalise BP's local interests, but recovered to close at 2.2465. This morning it opened nervously at 2.2560, dropped quickly to 2.2480 but soon defined a trading range within those parameters. A reasonable level of two-way activity developed and sterling traded comfortably for a while. Sellers eventually predominated, however, and, with the market now very thin, the pound hovered nervously around 2.2445 for an uneasy spell until any would-be marauders had retreated. The outlook brightened as soon as New York reopened. The pound was marked up quickly to 2.26 as the more nimble squared their short positions while profit was still to be had. With sellers now absent, the movement snowballed and demand - still predominantly American - mounted. Sterling advanced strongly to 2.2755 at which level further, keen two-way trading developed and the rate eased back to close at 2.2735. Forward margins narrowed as the pound improved. Three months' cover cost 3¼% p.a. and the adverse covered differential was reduced to ⅛%.

Sterling recovered ¼% against each of the French franc (9.66) and deutschemark (4.15¼) and ½% against the Swiss franc (3.76¼). The latter was only a shade better against the dollar (1.6570) but the deutschemark (1.8288) and French franc (4.2490) made up rather more lost ground. The Danish krone (5.26⅝) retained bottom spot in the snake - which was 2% wide at the close - and the Danes sold $15 mn. in support. The Italians bought $50 mn. with the lira (819.20) closing 4⅛% above the krone. The punt (2.06⅞) stood at 9% discount on sterling. The yen firmed to 216.05 in London, having closed at 216.95 in Tokyo.

Gold was again very weak, opening and closing below $290 on continuing bearish sentiment from the USA. In between, the price was fixed at $290.95 and $290.10. Conditions were quite active.

Operations:	Market	+ $45 mn.
	FRB o/a India	+ 23
	Post Office (PSB G'teed)	+ 14
	Iraq	+ 11
	Sierra Leone	+ 5
	Sundries	+ 1
		+ $99 mn.
	Overnight	- $18 mn.

Jgh

1st August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd August 1979

Sterling enjoyed a much more relaxed and comfortable session today with volume more modest and better-balanced throughout. The dollar was little changed. Sterling's ERI eased back to 72.2.

The pound closed at 2.2562 yesterday in New York, where sellers gained the upper hand in a thin market. This morning sterling began at 2.2637 and met sufficient early demand from professional jobbers to create a modest rally. 2.2715 was paid more than once and the pound settled down to trade comfortably through the morning around 2.2675. Returning Americans brought a better dollar and sterling eased back gradually in sympathy. For a while in mid-afternoon some nervousness re-emerged and, with a few sellers in a thin and unreceptive market, the pound was offered down to 2.2590. The tide turned, however, when a commercial buyer emerged - unusually for the hour of the day - from the Middle East and sterling recovered in style to close at 2.2677. Forward margins narrowed, the three months' to 3⅛% p.a. discount. The adverse covered differential was 1/16%.

The pound gave up ¼% to each of the Swiss franc (3.75¼), French franc (9.63¼) and deutschemark (4.14¼). These were all hardly changed against the dollar at 1.6566, 4.2480 and 1.8285 respectively. The Swiss, however, sold $50 mn. in support of their franc and swapped in $450 mn. In the snake, the Danes sold $35 mn. as their krone (5.2707) slipped to 2⅛% from the mark. On the divergence indicator the krone fell to 78. The lira (819) closed 4¼% above the krone and the Italians took in a further $20 mn. The punt (2.0595) stood at 9 3/16% discount on sterling. The yen closed at 216.40 in Tokyo and 216.55 in London.

Gold remained very uncertain. After a modest rally to $293 this morning, the price was fixed at $292.85 but the metal was sold again this afternoon and was fixed at $291.50. Later still American selling took the price below $290 again. Fears of forced Russian sales continue to provide a bearish influence.

Operations:

Market	+ $9 mn.
National Water Council (PSB G'teed)	+ 49
Saudi Arabia	+ 23
FRB o/a India	+ 23
Iraq	+ 11
Interest	+ 5
Bangladesh	- 7
Botswana	- 5
Sundries	+ 2
	+$110 mn.

Overnight +$16 mn.

2nd August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 3rd August 1979

A quiet end to an active week found sterling trading comfortably again. Yesterday's reserve announcement seemed to provide some buoyancy this morning but, as the dollar firmed, sterling eased back in response. The ERI rose to 72.4, after 72.6 this morning.

The pound closed at 2.2770 in New York yesterday but opened back at 2.2707 this morning. Bullish sentiment prevailed on the opening exchanges and sterling was swept up to 2.2812. The July reserves were no doubt a contributing factor. Thereafter, however, volume was more restrained. Scattered profit-taking brought a gradual turn and a commercial seller in London, though well absorbed, took the rate down through 2.27. The afternoon saw a similar pattern, though in a minor key, and the pound touched 2.2675 before closing at 2.2710. Three months' cover cost 3 1/16% p.a. and the intrinsic discount was 1/16%.

The pound gained ⅛% on each of the Swiss franc (3.77¼) and French franc (9.67⅜) and nearly ½% on the deutschemark (4.16⅝). These all lost ground to the dollar, closing at 1.6610, 4.2595 and 1.8346 respectively. The Swiss sold $90 mn. and swapped in $145 mn. The Danish krone (5.2827) remained at the tail of a snake still 2% in width; the Danes sold $24 mn. On the divergence indicator the krone was 76. The lira (820½) was 4 5/16% above the floor and the Italians took in a further $56 mn. The punt (2.0520) was at 9⅝% discount on sterling. The yen closed at 216.87 in Tokyo and 216.85 in London.

Gold remained very weak and uncertain. Fixings were $288.50 and $286.50.

Operations:		
	Market	- $9 mn.
	India	+ 23
	Ireland	+ 23
	Post Office (PSB G'teed)	+ 20
	Sundries	+ 6
		+$63 mn.

3rd August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 6th August 1979

The pound sold off sharply again this afternoon following a disappointing Wholesale Price Index. The dollar eased slightly as funds moved onto the Continent. Sterling's ERI fell from 72.4 to 71.5. Gold was very weak.

The pound closed at 2.2685 on Friday in New York and opened at 2.2740 this morning. After a quiet start, a little Swiss selling took the rate back to 2.27 and, after some good two-way business at that level, sterling settled down to trade very quietly around 2.27 for the rest of the morning. A slightly softer time prevailed ahead of the WPI announcement but persistent selling erupted once the news had been digested. New York joined in and sterling fell, quite sharply at times, to 2.2440 before closing uncertainly at 2.2460. Later, business was seen down to 2.2385. Forward margins widened and three months' cover cost 3 3/16% p.a. at the close. Sterling's intrinsic discount was ⅛%.

The pound lost 1⅜% to each of the Swiss franc (3.72), French franc (9.54⅝) and deutschemark (4.11). The Swiss swapped in $455mn., but no other intervention was reported by the major Central Banks. The Danish krone (5.28⅜) continued at the bottom of the snake which was 2¼% wide for most of the day but closed fully-stretched. As a result, the krone finished at 80 on the divergence indicator. The Danes sold $14mn. By contrast, the lira (819.67) was almost 4½% above the floor of the band and the Italians took in a further $38mn. The punt (2.0525) stood at 8⅝% discount on sterling. The yen closed at 216.40 in Tokyo and 216.37 in London.

After fixing at $287.00 this morning, gold was sold down nervously this afternoon, turning only during an active fixing, which set a level of $282.70.

Operations:	Market	-$ 78mn.
	BIS o/a Nigeria	- 45mn.
	Sundries	+ 2mn.
		-$121mn.

7th August 1979.

JGH

PP

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 7th August 1979

Another sorry day for sterling saw the currency widely sold both before the monthly banking statistics and again later in the day. The dollar was again very steady. Sterling's ERI fell from 71.5 to 70.5.

The pound closed at 2.2440 in New York yesterday and opened at 2.2458 this morning, touching 2.2462 on the early exchanges. German banks soon came in to sell pounds and sterling began to move back. A large commercial offering in London added to the pound's discomfort and the rate fell quickly to 2.2315 before stabilising around 2.2350. Late in the morning, some of the earlier jobbers returned to take a profit and sterling crested 2.24 again. Early this afternoon, however, sterling was well offered in expectation of unpalatable banking figures and fell to 2.2245. The figures themselves proved better than expected and the pound rebounded to 2.2320. Sellers, however, returned, with Americans now involved too, and sterling crumbled again in a very poor market which found little resistance. The pound suffered an almost continuous slide down to 2.2125 before closing at 2.2130. Forward margins widened in sympathy with the weaker pound. Three months' cover cost 3 9/16% p.a. and the adverse covered differential moved out to 7/16%.

Sterling lost 1⅜% to the Swiss franc (3.66¾) and 1½% to each of the French franc (9.40½) and deutschemark (4.05). All these were barely changed against the dollar at 1.6572, 4.2485 and 1.8302 respectively. The Swiss sold $20 mn. The Danish krone (5.2780) continued at the foot of the snake which closed at 2⅛% in width. On the divergence indicator the krone was 78. The Danes sold $39 mn. The lira (819¾) closed 4⅛% above the floor, the Italians having purchased $65 mn. The punt (2.0532) stood at 7⅛% discount on sterling. The yen closed at 216.45 in Tokyo and five points dearer in London.

After opening firmer, gold slipped again and was fixed at $282.50. This afternoon, it rallied again and was fixed at $285.10.

Operations:	Market	- $81 mn.
	Crown Agents	- 19
	Malta	- 5
	India	+ 22
	Saudi Arabia	+ 11
	Sundries	+ 5
		+ $67 mn.

7th August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 8th August 1979

There was further selling pressure on the pound today but of less force than in the last two days. Just before the close, the upward revision (contained in the Economic Progress Report) of the Treasury's estimate of the benefits of North Sea oil caused sterling to regain almost all its earlier lost terrain - though markets were by then very thin. The ERI improved to 70.6.

In New York last night, the pound recovered a little to close at 2.2240. After opening quietly in London this morning at 2.2215 and easing to 2.2150, it recovered temporarily to 2.2230 but substantive selling orders then reappeared (possibly on overnight press comment relating to yesterday's performance) and the rate fell to 2.2095 before settling back at 2.2150 by midday. Desultory selling continued this afternoon with a low of 2.2035 being recorded before the news flash relating to North Sea oil. In London the rate closed at 2.2170 but there was later dealing above 2.22. The cost of three months' cover narrowed to 3 3/16% p.a. and the covered differential to ⅛% against London.

Against other European currencies sterling made small net gains: to 4.05¾ in Germany, 3.67¼ in Switzerland and 9.42⅛ in France. The dollar, in contrast to sterling, had a rather quiet day and finished a wafer weaker. The EMS was 2 3/16% wide between the deutschemark (1.8298) and the Danish krone (5.27¾, divergence indicator 80); the lira, at 819¼, was 4⅛% away from the krone. The Italians bought $60 mn. The French franc closed at 4.2495 after purchases by the Bank of France of $30 mn. and deutschemarks worth $26 mn. The punt ended at 2.0540 (about 8% discount), the Swiss franc 1.6565 and the yen 216.52.

Gold was in good demand again, fixing at $287.10 and $289, with later trading around $291.

Operations:	Market	-	$20 mn.
	EEC	-	50
	Ireland	+	22
	Sundries	-	2
		-	$50 mn.

8th August 1979.

DAHB

SECRET 1979/34

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 8th August 1979

After a quiet start to the week, the wholesale price figures set off a further bout of selling which pushed sterling's effective rate index down to 70.5 on Tuesday. It later recovered to 70.6, a fall of 1.8 in the week. Trading was sometimes thin and disorderly. Otherwise the exchanges were quiet, although the Danish krone remained under pressure in the snake.

Sterling was steady before the weekend, easing just ¼ cent to 2.2710 between the London close on 1st August and Friday night, having touched 2.2812 at one time on Friday. The big increase in reserves announced on Thursday afternoon had surprised the market and - although more than one lesson could be drawn from it - appeared to contribute to the firmer tone. The dollar itself was improving, and sterling regained some of the ground lost to other major currencies the previous Monday and Tuesday. However, the wholesale price statistics shattered the calm on Monday afternoon, and sterling fell 3 cents; and anticipation of poor banking statistics brought another sharp fall early on Tuesday afternoon. In fact the figures were much better than expected, but sterling remained on offer, falling to 2.2035 at one time on Wednesday, until the publication of new estimates of the benefits from North Sea oil brought a recovery to 2.2170. At times the rate had crumbled on very little business. Sterling declined across the board, for example by about 2½% to 4.05¾ and 9.42⅛ against the mark and the French franc. The ECU rate eased to 1.5969, a 5⅝% premium on the notional central rate. However, the cost of forward cover was little changed at 3 3/16%, leaving a ⅛% discount on the usual 3-months' comparison.

The dollar was little changed elsewhere. The Fed did not intervene. Despite the possibility of an OPEC meeting next month, the tone is quite firm. The mark was steady at 1.8298, the Bundesbank selling $130 mn. to cover capital exports; it remained easily the strongest 2¼% currency in a well-stretched snake, closing 2 3/16% above the Danish krone (5.27¾ and 80 on the divergence index). The Danes sold $130 mn. No other currency in the arrangement was under pressure, the French franc for example holding around 4.2495 against the dollar (2.32¼ against the mark). The Bank of France added $30 mn. and an equivalent amount of marks to their reserves. The Irish pound softened to 2.0540 after a net $20 mn.-worth of support, half of it achieved by sales of sterling against which it closed at a narrower discount. The lira (819½) remained overall head of the snake, at 4¼% above the krone; the Bank of Italy bought $240 mn. Outside the EMS, the Swiss franc was little changed at 1.6565 after $170 mn. of support. The SNB bought $1.1 bn. on the swap to relieve their money market. The yen traded quietly to 216.52.

Gold was weak for a time, apparently on fears of forced Russian sales, fixing at low at $282½ on Tuesday morning. The price then rallied to $289 on Wednesday afternoon, a fall of barely $1 over the period. Turnover was heavy.

9th August 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
2nd August		9th August
2.2710	£/$	2.2234
72.3	Effective exchange rate index	70.7
3 1/16% p.a. disc.	Forward 3-months	3 1/16% p.a. disc.
11⅛%	Euro-$ 3-months	11 1/16%
parity	I.B.Comparison	1/16% disc.
1.8245	$/DM	1.8254
4.14⅛	£/DM	4.05⅞
9.63¾	£/FF	9.43⅜
216.15	$/Yen	216.35
$292	Gold	$292.60
1.6531	$/S.Fc.	1.6535
3.75⅛	£/S.Fc.	3.67⅞

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th August 1979

Disappointing US producer price figures put the dollar under a cloud and caused sterling to brighten in contrast. The ERI improved 0.5 to 71.1.

Fresh Treasury forecasts of the benefits of North Sea oil put some life into sterling in late trading last night, and the pound closed comfortably in New York at 2.2260. The firm tone was maintained in early trading today, when the rate briefly topped 2.23, but light professional selling, reinforced later in the morning by the sizeable commercial order, took the shine off sterling which touched 2.22 just before noon. However, a larger-than-expected rise in US producer prices revived interest in pounds, and sterling rose steadily during the afternoon to close at 2.2365, the best level of the day. The cost of forward cover eased back to 3%, eliminating the small intrinsic discount.

Sterling gained modestly against continental currencies, closing at 4.07¾ against the mark and at 9.48⅜ against the French franc. The dollar weakened across the board in the afternoon, after the US price figures came out. The mark closed about ¼ pfennig stronger at 1.8230, remaining top of the 2¼% band at 2 1/16% above the Danish krone (5.2520, and down to 72 on the divergence indicator). The Bundesbank bought $14 mn.; the Danes sold $20 mn. The lira closed 4⅛% above the krone at 816.95, allowing the central bank to buy another $50 mn. The French franc gained ⅛% to 4.2405, and the Irish pound rose to 2.0642, a 7⅛% discount on sterling. Outside the snake, the Swiss franc hardened to 1.6499. The yen closed at 216.35 in Tokyo and at 216 in London.

Gold continued its spirited recovery, fixing at $292¾ and $297.10 in active sessions. The price has risen over $14½ since Tuesday morning.

Operations:	Market	+	$39 mn.
	Iraq	+	11
	BIS	+	7
	Interest	+	5
	Sundries	-	2
		+	$60 mn.
	Overnight	+	$7 mn.

9th August 1979.
PAB

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FE 4410.07

10. 8.79

COVERING SECRET

THE GOVERNORS' PRIVATE SECRETARY.

Copies to: Mr.McMahon
Mr.Sangster
Mr.Byatt

Sen. 13/8.

DEVELOPMENTS IN THE FOREIGN EXCHANGE AND GOLD MARKETS DURING THE DEPUTY GOVERNOR'S ABSENCE

I attach a brief note as requested.

10th August 1979.
PAB

(71.5). Market views span a wide range - in contrast to a couple of

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
30TH JULY - 10TH AUGUST 1979

Sterling fell sharply between the London close on 30th July and the opening on 1st August (from 2.3177 to 2.2480, having touched 2.23 in New York on Tuesday night); and again in the first half of this week (from 2.2710 to 2.2035 at one time on 8th August). Overall, the fall in effective terms was about 4½% to 70.6. There was no obvious reason for the first spell of pressure, which seemingly started in Chicago; the second was triggered by a 2¼% increase in wholesale prices. At times the market was thin and disorderly. We gave about $300 mn. of support in these periods of pressure. Otherwise, the market was calm, and indeed sterling was in some demand after publication of another 1.1% rise in US wholesale prices on 9th August. Then, and on other occasions, we bought dollars. The large July reserve increase (published on 2nd August) probably helped sterling, and the Treasury's EPR article on the benefits of North Sea oil (8th August) certainly did, but the banking figures (7th August) were seemingly ignored. At the close to-day, sterling is back to 2.2495 (71.5). Market views span a wide range - in contrast to a couple of weeks ago when few talked of a fall in the rate. Sterling's weakness has not been reflected in the cost of forward cover, which remains around 3%, giving approximate interest parity on the usual comparison. Table 1 summarises EEA transactions.

The pound lost ground to the main continental currencies, which were a little stronger against the dollar. However, sterling apart, the exchanges were pretty quiet until the US wholesale price figures came out. Dollar support diminished. The Danish krone was in trouble at the bottom of the snake (at times 80 on the divergence indicator). Table 2 shows main exchange rates and intervention.

Gold led an exciting life. Having, like sterling, reached its zenith of $307 on 26th July, it dropped all the way to $282½ on 7th August on fears of forced Russian sales, before rising even more steeply to $303¾ this afternoon.

10th August 1979.
PAB

SECRET

TABLE 1

$ mns.

EEA TRANSACTIONS

The result for July was an increase in the reserves of 1,429 to 23,499 after net public sector and IMF debt repayments of 276. The gold/ECU swap contributed 349 (purely the effect of valuation). The overbought forward position was reduced by 286 to 1,559, but this was more than accounted for by the forward leg of the EMCF swap.

For August, the figures at the close today were:

spot reserves	overbought forward position	total*
- 156	+ 1,293	- 422

*of which

Market	- 85
India	+ 114
SAMA	+ 68
Ireland	+ 45
Iraq	+ 34
Nigeria	- 77
EEC	- 50
Debt repayments	-184

SECRET

TABLE 2

EXCHANGE RATES

	close 27. 7.79	close 10. 8.79
against dollar		
sterling	2.3145	2.2495
DM	1.8190	1.8220
Swiss franc	1.6423	1.6455
French franc	4.2350	4.2437
yen	215.25	215.98
against sterling		
DM	4.21	4.09⅞
French franc	9.80¼	9.54⅝
sterling ERI	73.5	71.5

Intervention

Switzerland	- $255 (and - $27 worth of DM)
Italy	+ $404
Germany	- $87
Denmark	- $163

G+Fc
FE440.07

SECRET

10. 8.79

MR. McMAHON.

Copies to: Mr.Sangster
Mr.Byatt

Foreign Exchange and Gold Markets during your absence

I attach a copy of a note prepared for the Deputy Governor. Since Mr.Sangster is sending you a separate note, I hope that this will suffice. You will find two versions of the second table, the first as sent to the Deputy Governor, and the second amended to cover the period of your own absence.

10th August 1979.
PAB

CBM 13/8'

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
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10th August 1979.
PAB

CWM 13/8'

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[Au cent to the Dty Governor]

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DM	4.21	4.09⅞
French franc	9.80¼	9.54⅝
sterling ERI	73.5	71.5

Intervention

Switzerland	- $255 (and - $27 worth of DM)
Italy	+ $404
Germany	- $87
Denmark	- $163

TABLE 2

EXCHANGE RATES

	close 20. 7.79	close 10. 8.79
against dollar		
sterling *	2.2745	2.2495
DM	1.8187	1.8220
Swiss franc	1.6435	1.6455
French franc	4.2412	4.2437
yen	217.02	215.98
against sterling		
DM	4.13⅝	4.09⅞
French franc	9.64⅝	9.54⅛
sterling ERI *	72.3	71.5

*Highest of period: 2.3360, 74.0 (26th July)

Lowest of period: 2.2035 (8th August), 70.5 (7th August)

Intervention

Switzerland	- $255 (and -$27 worth of DM)
Italy	+ $309
Germany	- $47
Denmark	- $161

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 10th August 1979

Between a quiet aubade and a reedy nocturne the pound played a merry tune to end the week on a high note. A Dutch bank was instrumental in orchestrating demand on a large scale for outright sterling six months' forward on behalf of a customer. The dollar was pitched lower by disappointing money figures. Sterling's ERI rose to 71.5.

In New York, the pound remained firm last night, closing at 2.2365 (after 2.2385). With the accompaniment of small Far East support, the opening level in London today was 2.2405 but as trading faded away the rate drifted to 2.2357 before the first notes of the Dutch order (for £75 mn.) were heard. It was executed in several parts in different centres and the rate improved steadily to a high of 2.2570 before trading entered a minor key, sterling closing at 2.2495. Although the cost of forward cover remained at 3%, Eurodollars had a bid tendency and a covered differential against London emerged again, at ⅛% p.a.

In Europe the pound gained everywhere, by about ½%: against the deutschemark it rose to 4.09⅞, against the Swiss franc to 3.70⅛ and in Paris to 9.54⅝. The dollar was supported in Germany to the extent of $88 mn., the deutschemark ending more or less where it opened, at 1.8220, after 1.8176 this morning. The Danish krone (5.2447; divergence indicator 71) was 1 15/16% away, the lira being 4⅛% distant from the krone at 816. The French spent deutschemarks equivalent to $36 mn. as their franc eased to 4.24⅛. The Swiss franc finished at 1.6455, the punt at 2.0697 (8% discount). The yen was steady at 215.98.

Gold attracted staccato demand and rose to $302.80 and $303.75 at the fixings.

Operations:			
	Market	+	$94 mn.
	Nigeria	-	22
	Interest	+	7
	Sundries	+	2
		+	$81 mn.

10th August 1979.
DAHB

DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th August 1979

Sterling faded after a bright start, closing 0.3 lower in effective terms at 71.2 after 71.6 this morning. The dollar in contrast improved as the day went on.

The pound ended a quiet session in New York at 2.2472, and opened this morning in London at 2.2531 against an easier dollar. Early continental buyers took the rate to 2.2570, but sterling then drifted back to 2.2498 before 2.2531 at noon. The tone changed after lunch, perhaps as the market began to focus on the retail price figures due out later this week, and nervous selling from North America (some of it thought to be on the IMM) and Europe took the rate down 2 cents to 2.2332 before a slight recovery to 2.2358 at the close. The cost of forward cover rose to 3 1/16%, widening the discount on the usual comparison to ¼%.

Sterling lost ground on the continent, closing ⅛% lower against the mark (4.08¼) and the French franc (9.50⅞). In Switzerland it fell to 3.69¼. The dollar, which the Fed had supported to the tune of $249 mn. on Friday, opened lower in Europe today but went on to gain in most centres. Over the day, the mark fell back to 1.8261, the Bundesbank having bought $30 mn. early on. It remained top of the 2¼% band in the snake, 2 1/16% above the Danish krone (5.2607 and 73 on the divergence indicator). The Danes sold $15 mn. The French franc (4.2530) moved alongside the mark; the central bank sold $6 mn.-worth of marks to keep the cross-rate around 2.3290. The lira eased to 817.60, 4⅛% above the krone. The Irish pound closed at 2.0585, a slightly narrower discount on sterling. The central bank sold £7 mn. and $3 mn. Elsewhere, the Swiss franc eased to 1.6516 and the yen to 216.55, having closed in Tokyo at 216.15.

Gold magnified the dollar's movements, fixing at $304.10 this morning and subsequently at $298.75 in heavy turnover.

Operations:	Market	- $49 mn.
	Post Office (PSB G'teed)	+ 16
	Interest	+ 11
	Bangladesh	- 9
		- $31 mn.
	Overnight	- $7 mn.

13th August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 14th August 1979

Sterling was firmer today, closing unchanged at 71.2 in effective terms after 71.0 this morning. Expectations of tighter monetary policy brought demand for the dollar.

Like most other currencies, sterling eased back in New York, to close at 2.2330. It opened in London this morning at 2.2298, and soon met professional selling from the Continent which took the rate below 2.22¼. Good two-way business then developed: and renewed demand from the Netherlands helped the rate to drift up to 2.2283 at noon. Early selling from New York drove it back to 2.22 after lunch but buyers showed themselves again, some of them perhaps turning earlier sales, and the pound rose to 2.2346 before closing just below the best at 2.2335. One large commercial buyer of pounds against marks appeared shortly after lunch. The cost of forward cover eased to 2 15/16%, reducing the intrinsic discount on sterling on the usual comparison to 3/16%.

Sterling improved slightly on the Continent, to 4.09 against the mark and 9.51¾ against the French franc. The dollar closed some way below its best levels of the afternoon, but still managed to show gains on the day as many dealers looked forward to tighter monetary policy after today's FOMC meeting. The mark fell ¼% to 1.8315, remaining top of the 2¼% band in the snake at 2 3/16% above the Danish krone (5.2827, and at 74 on the divergence index). The Danes sold $8 mn. The lira closed 4 7/16% above the krone at 819¼, the central bank having bought $57 mn. The Dutch sold $10 mn. The French franc softened to 4.2615 in quiet holiday trading; the Irish pound closed at 2.0567 at an unchanged discount of just under 8% against sterling. Outside the snake, the Swiss franc went lower to 1.6569 after $40 mn. of support, and the yen closed at around 216¾ both in Tokyo and later in London.

Gold was again very volatile, fixing at $293 and $292 before topping $297 in late trading.

Operations:	Market	+ $47 mn.
	Sundries	+ 4
		+ $51 mn.

14th August 1979.
PAB

SECRET
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MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday,15th August 1979

Sterling was in good demand again, at least until clear signs of tighter monetary policy switched attention to the dollar. The ERI closed unchanged at 71.2 after 71.3 at noon.

Having closed at 2.2365 in New York, sterling opened to-day at 2.2322 and traded down to 2.2307 before renewed buying interest from the Continent brought a recovery to 2.2415 in the late morning. Buyers returned in some force during the early afternoon, led by one East European, and the pound advanced to 2.2471 before profit-taking brought an orderly retreat to 2.2320 at the close. The cost of cover fell to 2⅜%, eliminating the intrinsic discount on sterling despite higher euro-dollar rates.

Sterling gained a touch on the mark, to 4.09¼, but was unchanged in France at 9.51¼. After a slightly weaker start, the dollar gained across the board this afternoon when it became clear that the Fed. have tightened monetary policy following yesterday's FOMC meeting. Some major banks raised prime rate to 12%. The mark closed at 1.8336 (after 1.8285), remaining top of the narrow band in the snake at 2% above the Danish krone (5.2812, and 73 on the divergence indicator). The Danes sold $6 mn. The Assumption Day holiday made for quiet trading in many continental currencies. The French franc closed at 4.2637 and the lira, overall top of the snake, at 818.60, 4⅓% above the krone. The Irish pound improved slightly to 2.0577, a 7¾% discount on sterling. The Swiss franc eased to 1.6590; the yen closed at 216¼ in Tokyo and later at 216.90 in London.

Gold fixed at $300¼ and $301.85 on heavy turnover, but later fell back in untidy trading.

Operations:	Market	+ $23 mn.
	Post Office (PS borrowing)	+ 4
	Nigeria	- 45
	Ghana	- 10
	Sundries	+ 1
		- $27 mn.

15th August 1979.
PAB

SECRET

1979/35

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 15th August 1979

Apart from a nervous spell after the weekend, sterling was firm and at times in good demand, rising 0.6 in effective terms to 71.2 after 71.6. The dollar began badly, but later firmed as interest rates rose. The Danish crown was again uncomfortable in the snake.

Fresh Treasury forecasts of the effect of North Sea oil continued to benefit sterling in late trading on 8th August, and the rate closed in New York at 2.2260, nearly 1 cent above the official London close. The pound advanced further against a weak dollar on Thursday and Friday and was also bought for its own sake, reaching 2.2570 before closing for the weekend at 2.2495. After a bright opening on Monday, however, sterling felt the chill wind of professional selling; the forthcoming retail price figures were causing anxiety, and the rate touched 2.22 at one time on Tuesday. The clouds then parted and sterling was soon basking again in general favour, as buyers from Europe and the Middle East returned and earlier sellers hurried to close out their positions. The rate closed on Wednesday at 2.2320 after 2.2471. Average earnings had no effect. Sterling recovered more ground on the Continent, closing around 1% better against the mark (4.09¼) and the French franc (9.51⅛). Against the ECU it improved to 1.6186, a 6⅞% premium on the notional central rate. Although euro-dollar rates edged up, the cost of forward cover shrank to 2⅝%, eliminating the intrinsic discount on the usual comparison.

Disappointing producer price and money figures on Thursday renewed pressure on the dollar, and the Fed gave $250 mn. of support on Friday. Thereafter the prospect and then the actuality of higher interest rates (it became clear on Wednesday that the target interest rate on Federal funds had increased, and some banks raised their prime rates to 12%) restored the dollar's strength, and on balance it gained over the period. The mark closed ¼% weaker at 1.8336, after net purchases of $50 mn. It remained top of the 2¼% band in the snake, 2% above the Danish krone (5.2812, and 73 on the divergence indicator) which received $90 mn. of support. The French franc eased to 4.26⅜; the central bank sold some marks. The lira closed better at 818.60, staying overall head of the snake 4½% above the krone; the central bank bought $150 mn. The Feast of the Assumption made for quiet trading in these currencies on Tuesday and Wednesday. The Irish pound's discount on sterling was little changed at 7⅛%; the dollar rate closed at 2.0577. The currency received about $20 mn.-worth of support, mostly in the form of sales of sterling. Outside the snake, the Swiss franc eased to 1.6590 after $40 mn. of support, and the yen traded quietly and steadily to 216.90 despite poorer trade returns and forecasts.

Gold continued its erratic course, rising $12.85 to $301.85 over the week after $292 on Tuesday afternoon. Turnover was heavy.

16th August 1979.
PAB

RATES, ETC.

10.15 a.m. 9th August		10.15 a.m. 16th August
2.2234	£/$	2.2400
70.7	Effective exchange rate index	71.4
3 1/16% p.a. disc.	Forward 3-months	2⅝% p.a. disc.
11 1/16%	Euro-$ 3-months	11½%
1/16% disc.	I.B.Comparison	parity
1.8254	$/DM	1.8310
4.05⅞	£/DM	4.10⅛
9.43⅜	£/FF	9.55⅝
216.35	$/Yen	217.15
$292.60	Gold	$298.30
1.6535	$/S.Fc.	1.6568
3.67⅝	£/S.Fc.	3.71⅛

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 16th August 1979

After a steady start, the pound weakened during the afternoon to close at 71.0 in effective terms, a fall of 0.2 on the day. The dollar shed yesterday's gains in most continental centres.

Like other currencies, sterling closed better in New York, at 2.2410. Early trading today was very quiet, with sterling shading up from the opening 2.2357 to 2.2422 on the back of some buying from the Continent. The prospect of the money figures discouraged buyers, however, and sterling eased back to 2.23 before rising to just over 2.23½ before the figures came out. They were quite well received, and the rate touched 2.2370 in mid-afternoon; but then the bears returned, and sterling retreated to close at 2.2265. There was no clear reason for the selling, which appeared to come from both Europe and America. The weaker tone was not reflected in the cost of cover, which fell to 2 9/16%, leaving sterling at interest parity. There was no further rise in eurodollar rates.

Sterling weakened on the Continent, closing ½% down against both the mark (4.07¼) and the French franc (9.47⅞). The dollar was generally weaker today, after yesterday's interest-rate-induced gains. The mark more than recovered the terrain yielded, closing at 1.8293, 2 3/16% above the Danish krone (5.2767, and back at 76 on the divergence indicator). The Danes sold another $15 mn. The French franc improved to 4.25¼ (2.32¼ against the mark). The lira remained atop the snake, 4⅜% above the krone at 819½; the central bank bought $43 mn. The Irish pound remained at a 7⅛% discount against sterling, closing at 2.0557. The Swiss franc hardened a touch to 1.6559, while the yen traded quietly to 217.02 after 217.55 in Tokyo.

Gold had a welcome respite, fixing at $296½ and $297.85 in less active conditions.

Operations:	Market	- $22 mn.
	Ireland	+ 22
	Saudi Arabia	+ 22
	India	+ 11
	Iraq	+ 11
	Post Office (PS borrowing)	+ 7
	Sundries	+ 7
		+ $58 mn.
	Overnight	- $31 mn.

16th August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 17th August 1979

Last night's increase in Fed discount rate improved the dollar's appearance, and sterling lost rather more ground than other currencies. The ERI fell 0.3 to 70.7 after 70.6.

The increase in US discount rate to 10½% strengthened the dollar in New York, and sterling closed there nearly 1½ cents lower at 2.2120. It opened this morning at 2.2127, and traded up to 2.2185 before easing back on the retail price figures to 2.2155. New York's opening brought some interest in pounds, pushing the rate to a high of 2.2255; but the news that regulation of some domestic oil prices in the USA will be ended brought a sharp fall to 2.2095 until the market had second thoughts and took the rate back to 2.2165 at the close, 1 cent down on the day. Trading was generally light. The cost of forward cover eased further to 2½%, but a small rise in euro-dollar rates brought a 1/16% intrinsic discount on sterling on the usual comparison.

The pound yielded ⅛% to the mark and the French franc, to 4.06⅛ and 9.45⅛. It closed at 3.67⅝ in Switzerland. The dollar opened better in most centres, and on balance gained over the day, helped by the signature of the bill to free some domestic oil prices. The mark weakened ½ pfennig to 1.8341, remaining top of the narrow band in the snake at 2% above the Danish krone (5.2815, and 75 on the divergence indicator, after $57 mn. of support). The French franc eased back to 4.26½, and the lira to 818½, 4½% above the krone. The Italians bought $58 mn. The Irish pound closed at 2.0532, 7⅜% discount on sterling. The Swiss franc ended the day at 1.6587 and the yen at 217.32, after 217.55 in Tokyo.

Gold fixed at $298.70 and $300.55.

Operations:	Market	+	$5 mn.
	Interest	+	7
	Botswana	-	18
	Government	-	11
	Sundries	-	3
		-	$20 mn.

Overnight - $2 mn.

17th August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 20th August 1979

The trade figures provided the only colour on a quiet and featureless day. The result for July was much better than expected and sterling, having started nervously, rose sharply. The ERI gained 0.2 over the day to 70.9, after 70.4 this morning.

Having closed at 2.2122 in New York on Friday, sterling opened this morning at 2.2115 and soon traded down to 2.2070 in a nervous market ahead of this afternoon's trade figures. Although still apprehensive, the market moved the rate up to 2.2150 later in the morning, but it stood well below that level, at 2.2105, when the figures were published in mid-afternoon. Sterling leapt over 1¼ cents to 2.2235, since the result for the latest month at least exceeded expectations; fell back briefly in reaction; but then improved again to 2.2240 before closing at 2.2237. There was never much volume. An increase in the cost of forward cover to 2⅝% widened the intrinsic discount on the usual comparison to 3/16%.

Sterling inched higher on the Continent, to 4.07¼ against the mark and 9.47¼ in Paris. The dollar was slightly easier against the mark (1.8315) and the French franc (4.2620), but in general very little changed. The mark remained head of the 2¼% band in the snake, 2⅛% above the Danish krone (5.2805). The lira (818.85) closed 4½% above the krone. The Banca d'Italia bought another $35 mn. The Irish pound stood at 2.0510, a wider 7¼% discount on sterling. Outside the snake, the Swiss franc softened to 1.6596 ($5 mn. of support) and the yen closed at 217.40 in Tokyo and at 217.34 in London.

Gold was as quiet a market as foreign exchange. The fixings were at $299.10 and $298¾ in light turnover.

Operations:	Saudi Arabia	+	$22 mn.
	Interest	+	13
	Iraq	+	11
	Devon CC (PS borrowing)	+	7
	Sundries	-	5
		+	$48 mn.

20th August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 21st August 1979

Only a spell of selling this afternoon disturbed sterling's peace. The ERI fell by 0.3 to 70.6. Other currencies were quiet, but gold rose sharply in late trading.

In New York sterling failed to hold the gains of yesterday afternoon, and closed at 2.2145. It opened this morning at 2.2177, but there was very little business and the rate idled between 2.21½ and 2.22 until lunchtime. One substantial but unidentified seller broke the calm of the August afternoon, leaving the market slightly uneasy. Sterling closed at 2.2125 after 2.2115. The cost of forward cover eased to 2 7/16%, but there was no further rise in euro-dollars and the intrinsic discount on sterling narrowed to 1/16%.

Sterling slipped back on the Continent, to 4.05¼ against the mark and 9.43⅜ in Paris. The dollar was steady in most centres. The mark closed at 1.8322 after a 0.7% rise in wholesale prices, still top of the 2¼% band in the snake at 2% above the Danish krone (5.2767 and 72 on the divergence indicator). The French franc receded to 4.2632; the lira, on the other hand, improved slightly to 818⅜, another $27 mn. having been taken into the reserves. The Irish pound was supported to the tune of £9 mn. before closing at 2.0532, a 7¼% discount on sterling. The Swiss franc closed at 1.6584 and the yen at 217.65, the same as in Tokyo. The Canadian dollar firmed on expectations of a rise in bank rate.

Gold fixed at $298.90 and $300½, before rising to $305½ in hectic trading late in the afternoon.

Operations:	Market	+ $7 mn.
	Iraq	+ 22
	Sundries	+ 4
		+ $33 mn.

21st August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 22 August 1979

The pound traded quietly within a narrow range, closing 0.2 up in effective terms at 70.8. The yen and the Swiss franc, on the other hand, came on offer. Gold broke records in heavy turnover.

Sterling closed at 2.2170 in New York, opened at that level in London, and traded steadily through the day between there and 2.2200, closing at 2.2183. There were no features. The cost of cover fell further to 2 1/8%, leaving sterling at an intrinsic premium of 3/16% on the usual comparison.

The pound made modest gains on the Continent, closing at 4.06 1/4 against the mark and at 9.45 1/4 in Paris. The dollar was slightly easier in these centres, the mark hardening to 1.8313 and the French franc to 4.2607. The Danish krone (5.2782, and 74 on the divergence indicator) was a rather tight 2 1/8% below the mark in the snake, but the other EMS currencies were comfortable. The Irish pound closed at 2.0562, a 7 1/4% discount on sterling. The lira improved to 817 1/2, 4 5/8% above the krone; the Banca d'Italia bought another $52 mn. However, there was more action outside the snake. It took $100 mn. of support to hold the Swiss franc around 90.60 against the mark - it closed at 1.6586 against the dollar. The yen was also under considerable pressure, closing over 3/4% lower at 219.45 after 219.77.

Gold rose sharply in very active trading. The price touched $312 outside the fixings, which were at $311 1/2 ($4 1/2 above the previous record) and $311. Yesterday the U.S. Treasury auctioned 750,000 ozs. in coin bars at an average of $301.08, equivalent to about $301 3/4 per oz. in good delivery form. Dresdner Bank bought 96% of it.

Operations:-

Market	+ $32 mn.
Interest	+ 6 mn.
Sundries	- 3 mn.
	+ $35 mn.

Overnight + $22 mn.

22 August 1979

P.A.B.

SECRET 1979/36

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 22nd August 1979

Sterling yielded a little ground before the weekend, probably in anticipation of Monday's trade figures, but thereafter was firm for the most part. The effective index fell 0.4 to 70.8 after 70.4 on Monday morning. Higher interest rates helped to keep the dollar steady, but the yen and the Swiss franc met late selling.

Sterling was firmer at first, closing at 2.2410 in New York on Wednesday night and shading up to 2.2422 in European trading on Thursday. Although the money figures were quite well received, sterling met some selling later that day and, this time in line with other currencies, fell further on news of the increase in Fed. discount rate. 2.2083 was seen on Friday morning, and 2.2095 later in the day, although the rpi and tpi figures had not been unsettling. The usual reaction brought some improvement, and the trade figures - much better than expected for the latest month at least - caused sterling to be marked up to 2.2240 shortly before the close on Monday. Thereafter, apart from a time on Tuesday afternoon, when a large seller appeared, sterling traded quietly, ending the period at 2.2183. Another crop of gloomy forecasts for the economy had little effect. The pound lost ground on the Continent, closing 3/4% lower at 4.06 1/4 against the mark and at 9.45 1/4 in Paris. The rate against the ECU fell to 1.6074 with sterling at a 6 1/4% premium on the notional central rate. Euro-dollar rates rose further, but the cost of cover shrank to 2 1/8% leaving sterling at a 3/16% premium on the usual comparison.

The dollar kept its firm tone for the most part, helped by a 1/2% increase in Fed discount rate (to 10 1/2%) and perhaps by signature of the bill to free some domestic oil prices. More banks increased prime rate. The Fed. did not intervene in the market. Despite an unaccustomed 0.7% rise in German wholesale prices, the mark hardened to 1.8313, remaining head of the 2 1/4% band in the snake 2 1/8% above the Danish krone (5.2782 and 74 on the divergence index). The Danes sold $70 mn. Otherwise the EMS currencies were untroubled, though the Irish sold nearly £10 mn. as their pound eased to 2.0562 (7 1/4% discount on sterling). The French franc improved a touch to 4.2607. The lira closed at 817 1/2, 4 5/8% above the krone; the Banca d'Italia bought another $220 mn. Outside the snake, the Swiss franc and the yen traded comfortably until both met selling pressure on Wednesday. The SNB spent $100 mn. to hold their rate at 1.6586 (90.60 against the mark); the yen fell nearly 1 1/4% to 219.45. Japanese trade figures have worsened rather sharply. The Canadian dollar was mixed, the central bank adding $140 mn. to reserves on balance. An increase in bank rate is widely expected.

Gold began quietly, only to be swept up to a record $311 1/2 in hectic trading on Wednesday morning. It touched $312 outside the fix. Over the week it rose $9.15 to $311. The U.S. Treasury auctioned 750,000 ozs. of low quality metal at an average price of $301.08, equivalent to about $301 3/4 per oz. in good delivery form.

23rd August 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
16th August		23rd August
2.2400	£/$	2.2335
71.4	Effective exchange rate index	71.3
2⅝% p.a. disc.	Forward 3-months	2⅛% p.a. disc.
11½%	Euro-$ 3-months	11 13/16%
parity	I.B.Comparison	1/16% pre
1.8310	$/DM	1.8300
4.10⅛	£/DM	4.08¾
9.55⅝	£/FF	9.51½
217.15	$/Yen	219.25
$298.30	Gold	$309.85
1.6568	$/S.Fc.	1.6566
3.71⅛	£/S.Fc.	3.70

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 23rd August 1979

Sterling sustained its higher overnight level until modest selling depressed the rate. Over the day, the effective index increased 0.2 to 71.0 after 71.2 this morning. Markets were generally quiet.

Buying from Chicago caused sterling to rise to 2.2305 at the close in New York, and the rate opened yet higher, at 2.2323, and soon traded up to 2.2340 on modest buying interest. Sterling eased back to 2.2316 at noon. Some selling pressure developed in mid-afternoon, at first from the Continent, and subsequently from New York too, and the rate fell to 2.2247 before closing at 2.2262. The cost of cover fell again to 2%, but a rise in euro-dollars cut the intrinsic premium on sterling to 1/16%.

Sterling gained about ¼% on the Continent, to 4.07½ against the mark and 9.48⅛ against the French franc. On the whole the dollar was a fraction weaker on the day. The mark closed slightly stronger at 1.8303; the Bundesbank's decision to restrict access to Lombard credit had no apparent effect on the rate. The mark remained top of the 2¼% band in the snake, 2 1/16% above the Danish krone (5.2727, and at 75 just on the threshold of divergence). Other snake currencies were comfortable enough, the French franc at 4.2593 and the lira 4½% above the krone at 817.65. The Italians bought another $34 mn. The Irish pound closed at 2.0602, a 7½% discount on sterling. The Swiss franc had an easier day, ending at 1.6571 (90½ against the mark) without support; but the yen improved only slightly from yesterday's levels, closing at 218.90 in Tokyo and subsequently 219.15 here.

Gold remained high, though trading was much steadier and less frenzied than yesterday. Fixings were at $309.60 and $310.05.

Operations:	Market	+ $8 mn.
	Post Office (PS Borrowing)	+ 15
	Interest	+ 10
	Sundries	- 1
		+ $32 mn.

23rd August 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 24th August 1979

The pound ended the week on a firm note, helped by some late demand in advance of the long weekend. The ERI rose to 71.2. Elsewhere the dollar was easier after the latest CPI increase. The gold rush continued.

In New York yesterday sterling closed at 2.2275. After an opening quotation in London this morning of 2.2260 it eased in extremely quiet conditions to 2.2234 in mid-morning. As buying activity picked up during the afternoon, the rate topped out at 2.2368 before closing at 2.2335. Forward margins narrowed further, to 1 13/16% p.a. for three months, leading to a rise in the covered premium (in London's favour) to 3/16%.

Sterling gained further ground in Europe, rising to 4.08⅛ in Germany, 9.50¾ in France and 3.69¼ in Switzerland. The deutschemark strengthened to 1.8274 and the Danish krone to 5.2662 (still at 75 on the divergence indicator) leaving the system 2 1/16% wide. The Germans bought $25 mn. The cross-rate between the deutschemark and French franc threatened the 2.33 level and the Bank of France sold $19 mn. of German currency, the franc closing at 4.2570/2.3295. The lira firmed up to 816.90, the punt to 2.0620 (7⅛% discount) and the Swiss franc to 1.6536. The Japanese intervened for the first time in two months, selling $44 mn. in Tokyo, where the yen closed at 219.30. It was little changed in London tonight at 219.22.

Successive record fixing prices were set for gold in London. After trading up to $315.50 this morning it was fixed at $314.70. Although easing later, it then clung to silver's lining as the white metal breached 1,000 cents an ounce for the first time: and the price for the yellow metal at the second fixing was $314.75.

Operations:	Market	+ $26 mn.
	NCB (PSB)	+ 75
	Interest	+ 7
	Ghana	- 7
	Sundries	- 5
		+ $96 mn.
	Overnight	+ $18 mn.

24th August 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 28th August 1979

Sterling provided the only focus of attention on the exchanges today with some good demand emerging this afternoon. The dollar was only slightly better overall but gold advanced further. Sterling's ERI rose from 71.2 on Friday to 71.9.

The pound met modest interest yesterday afternoon from Europe and the US and eventually closed in New York at 2.2440. This morning it opened at 2.2421 and touched 2.2410 on the opening exchanges before picking up in the wake of some small European demand and settling around 2.2450 for the morning. Early this afternoon the buying interest was resumed, though now on a heavier scale, with European - and especially Swiss - professionals prominent. New York reinforced the trend and 2.2525 was paid for pounds on more than one occasion. The increase in several US banks' prime rates took the steam out of the movement and sterling closed comfortably at 2.2510. Three months' cover cost 1¼% p.a. and sterling commanded an intrinsic premium of ⅛%.

Since Friday the pound has gained 1⅛% against both the Swiss franc (3.73⅛) and French franc (9.61) and ⅞% against the deutschemark (4.12). The Bundesbank today swapped out $1 bn. for a month. The deutschemark closed at 1.8298. The Swiss franc eased to 1.65⅞ and the Swiss sold $90 mn. and swapped in $100 mn. The French sold $24 mn. and $25 mn.-worth of marks. Their franc finished at 4.2683 to the dollar (after 4.2725) and 2.3325 to the mark. The Danish krone (5.2722) was at the tail of the snake which was 2 1/16% in width. The punt (2.0565) was at 8⅝% discount on sterling. The yen closed at 220.65 in Tokyo and 220.50 in London. The Japanese sold $72 mn. yesterday and $68 mn. today.

Gold was again fixed at record levels with $316.20 and $316.75 set at the two fixings. The price came off towards the close.

Operations:	Market	+ $48 mn.
	Government	- 10
	Crown Agents	- 9
	Sundries	+ 3
		+ $32 mn.

jgh

28th August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th August 1979

Sterling followed yesterday's pattern today with a quiet morning giving way to good buying interest this afternoon. The yen and Swiss franc remained under pressure. Sterling's ERI rose to 72.1.

The pound was marked down in New York yesterday following release of the US trade figures which bettered expectations. Having closed there at 2.2435, it opened this morning at 2.2485 and traded quietly through the morning, touching 2.2466 at worst. As yesterday, the early afternoon produced a burst of broad-based buying and sterling was pushed quickly up through 2.25. Americans joined the fray and the pound touched 2.2580 before a general advance in the dollar brought a relapse to 2.2560 at the close. Eurodollar rates opened sharply higher, following yesterday's round of Prime Rate increases, but closed below best levels. Forward margins narrowed in response and three months' cover cost 1 9/16% p.a. leaving an intrinsic premium for sterling of ⅛%.

Sterling gained ⅛% on the French franc (9.62½), ¼% on the deutschemark (4.13) and ⅜% on the Swiss franc (3.75). The Swiss franc, though easing to 1.6625 only, was evidently under some pressure. The Swiss National Bank sold $240 mn. and swapped in $650 mn., abandoning their erstwhile support level of 90.60 to the mark. The French franc picked up following announcement of the new fiscal package, closing slightly better at 4.2655. The deutschemark (1.8309) and Danish krone (5.2772) spanned a snake which closed at 2⅛% in width. The Bundesbank swapped out $1 bn. The Belgian franc earlier touched 75 on the divergence indicator and the Belgians responded by selling $14 mn.-worth of marks. The lira (817⅞) stood 4½% above the floor; the Italians took in $17 mn. The punt (2.05⅜) was at 9% discount on sterling. The yen continued unwanted, closing in Tokyo at 221.45. The Japanese sold $42 mn. In London, the yen fell below 222 before closing at 221.80.

Gold moved erratically. At times yesterday's record levels were again tested but profit-taking seemed to restrain any futher advance. Fixings were $314.05 and $315.20.

Operations:	Market	+ $39 mn.
	Interest	+ 39
	Iraq	+ 11
	Sundries	+ 5
		+ $94 mn.

29th August 1979.
JGH

SECRET 1979/37

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 29th August 1979

Although exchange markets were generally quiet with the approach of the month-end, some steady demand for sterling was evinced throughout much of the period and the ERI rose from 70.8 to 72.1.

Having finished last week at 2.2183 the pound began on Thursday at 2.2323 and ran into some early demand before selling that afternoon took the rate back to 2.2247. Friday was quiet for the most part, but some late demand ahead of the long weekend in London took the pound as high as 2.2368. Sterling found modest demand from overseas on Monday but the buying interest mounted on Tuesday afternoon and 2.2525 was paid. The pattern was repeated on Wednesday with good, broad-based interest seen in the afternoon. The pound touched 2.2580 before closing at 2.2560. On the Continent, sterling gained 1⅝% against the mark (4.13) and 1¼% against the French franc (9.62½). The rate against the ECU rose to 1.6290, a 7½% premium on the notional central rate. Eurodollar rates rose sharply following a further tightening in US monetary policy which provoked another round of prime rate increases. Forward margins adjusted for the most part and three months' cover cost 1 9/16% p.a. at the close leaving sterling with an intrinsic premium of ⅛%.

Despite higher interest rates, the dollar was little changed on the Continent but the yen continued under some pressure falling over 1% to 221.80 and inciting official support for the first time in two months. Political problems added to the uncertainty. The Japanese sold $275 mn. overall. The deutschemark closed little changed at 1.8309, still at the head of the 2¼% band in the snake and 2⅛% above the Danish krone (5.2772). The Bundesbank bought $25 mn. Both the krone and the Belgian franc crossed the divergence threshold at times and the Belgians sold some deutschemarks to redress the balance. The lira finished the week at 817⅞, 4½% above the floor of the band. The Italians took in $90 mn. After weakening at first, the French franc recovered to 4.2655 following the announcement of a fiscal package on Wednesday. Overall the French sold $75 mn.-worth of deutschemarks and nearly $40 mn. The punt closed little different at 2.05⅜ (9% discount on sterling). Elsewhere, the Swiss franc eased slightly to 1.6625 but only after the Swiss had sold $380 mn. in support.

Gold continued very firm, aided now by the strength of silver. Record fixing prices were set on Friday and again on Tuesday ($316.75) and the price was fixed on Wednesday afternoon at $315.20 for a rise of over $4.

30th August 1979.

JGH

RATES, ETC.

10.15 a.m.		10.15 a.m.
23rd August		30th August
2.2335	£/$	2.2512
71.3	Effective exchange rate index	72.0
2⅛% p.a. disc.	Forward 3-months	1⅛% p.a. disc.
11 13/16%	Euro-$ 3-months	12 5/16%
1/16% pre	I.B.Comparison	1/16% pre
1.8300	$/DM	1.8304
4.08¼	£/DM	4.12
9.51½	£/FF	9.60⅞
219.25	$/Yen	221.50
$309.85	Gold	$319.20
1.6566	$/S.Fc.	1.6617
3.70	£/S.Fc.	3.74⅛

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29. 8.79

The Governor has seen

THE GOVERNORS' PRIVATE SECRETARY

JB 3/9

DEVELOPMENTS IN THE FOREIGN EXCHANGE AND GOLD MARKETS DURING THE GOVERNOR'S ABSENCE

I attach a brief note as requested.

DAHB

29th August 1979.

D.A.H.B.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
17 August - 29 August

Having closed on the 16th at 2.2265 (ERI 71.0), sterling lost ground at first: the dollar was firmer in response to a rise (to 10½%) in the Fed discount rate. July retail prices (17 August) and trade figures (20 August) were better than expected. Apprehension before the release of the latter brought a low for the period of 2.2070 but it jumped by over 1¼ cents after the announcement, to close at 2.2237. The pound firmed in rather thin markets, the pressure of demand at times requiring some smoothing intervention. There was a further improvement in overseas markets during the Bank Holiday and it stood at 2.2410 when London reopened on the 28th. Continental demand, notably from Switzerland, then pushed sterling higher to a close of 2.2510 (ERI 71.9). It opened a little lower this morning against a dollar strengthened slightly by the US trade figures which showed a deficit of only $1.1 billion for July. The rise in US interest rates has reduced the cost of forward cover from 2½% to 1½%, but the covered comparison remains close to parity. Table 1 summarises EEA transactions.

Sterling was firmer in terms of the other main currencies, which were generally steady against the dollar, although the yen dropped sharply after a long period of stability, forcing the Japanese to intervene for the first time since June. The Danish krone remained at the bottom of the EMS. Table 2 shows the main exchange rates and intervention.

Gold was traded very actively. The US Treasury auctioned 750,000 ounces on 21st at an average price of around $302. The price soared the next day to $311.50. The highest fixing (also a record) was $316.75 on the 28th.

29 August 1979.

TABLE 2

	close 16.8.79	10.00 a.m. 29.8.79
$ against		
£	2.2265	2.2473
DM	1.8293	1.8323
Swiss franc	1.6559	1.6613
French franc	4.2575	4.2725
Yen	217.02	221.60
£ against		
DM	4.07¼	4.12⅛
French franc	9.47⅞	9.60⅛
Yen	483¼	498½
£ ERI	71.0	71.9

Intervention

Italy	+	246	
Switzerland	-	245	
Japan	-	184	
UK	+	162	
Sweden	-	89	
France	-	38	(and - $77 worth of DM)

TABLE 1

$ mns.

EEA TRANSACTIONS

Dealing for August has not finished. The figures for August so far at yesterday's close were:

Spot reserves	Overbought forward position	Total*
- 215	+ 1,657	- 117

* of which

Market	+	37	
SAMA	+	112	
India	+	102	
Iraq	+	77	
Ireland	+	67	
Nigeria	-	111	(o/w -45 by BIS)
EEC	-	50	
Botswana	-	32	
Debt repayments	-	49	(o/w - 125 German offset)

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 30th August 1979

In a scrappy and difficult session, both sterling and the dollar came under some selling pressure to-day. Various reasons were cited: the inexorable rise in the gold price; rumours of an impending revaluation of the deutschemark; and the possibility of the removal of negative interest in Switzerland. By the close, the dollar was above its worst and sterling had made up a good deal of the ground lost earlier. The ERI fell from 72.1 to 71.8.

The pound closed at 2.2560 in New York yesterday and began at 2.2530 this morning. The early trends were mixed but sterling tended better on balance and touched 2.2555 at one stage. In mid-morning, commercial and professional selling in a thin market took the pound lower and for a while the tone was nervous and soft. However, a subsequent fall in the dollar (which strongly suggested liquidation of long positions in sterling against the European currencies and the yen) brought some recovery to over 2.25. Around midday, the pound was again sold out of Scandinavia, falling sharply to 2.2440. American sellers later joined in and, while there were temporary rallies as the dollar continued to decline, the nervousness continued for much of the afternoon. Business was again seen down to 2.2440. Late in the day, however, transatlantic short-covering brought a sharp rally and the rate touched 2.2520 before closing at 2.2515. Three months' cover cost 1¼% p.a. and, with eurodollar rates softening, sterling's intrinsic premium rose to ¼%.

Sterling lost ½% to the French franc (9.57½), ⅝% to the deutschemark (4.10½) and ¾% to the Swiss Franc (3.72⅛). The Swiss sold a further $80 mn. today, as well as $10 mn.-worth of Dutch guilders, and their franc rebounded strongly to 1.6536. The deutschemark was 1.8233, the Bundesbank buying $25 mn. The French, however, sold $11 mn.-worth of marks as the DM cross-rate moved out to 2.33¼ (after 2.33⅛). Against the dollar, the franc improved to 4.2522. The Belgian franc (29.25) and Danish krone (5.2582) finished on the divergence indicator at 76 and 77 respectively. The Belgians sold $19 mn. and $43 mn.-worth of marks: the Danes lost $21 mn. and $14 mn.-worth of marks. The krone remained at the tail of the snake which was 2⅛% in width. The guilder (1.9976) firmed appreciably and the Dutch took in $10 mn. and $8 mn. of marks. The Italians, too, bought $60 mn. with the lira (816.60) 4 5/16% above the floor. The punt (2.0617) was a little under 8½% discount on sterling. The Irish sold $23 mn. and sterling equivalent to $18 mn. The Japanese lost a further $49 mn. in New York yesterday and sold $268 mn. this morning in Tokyo to effect a close of 221.70. In Europe, the yen performed as well as any and bettered 219 before closing at 219.72.

Gold remained in strong demand, with keen Middle East interest suspected. Records were set at each fixing with levels of $318.65 and $319.15 and the metal later traded to $320.

Operations:	Market	- $22 mn.
	Iran	+ 15
	Post Office (PSB G'teed)	+ 11
	Interest	+ 7
	Botswana	- 7
	Sundries	- 7
		- $3 mn.

30th August 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 31st August 1979

End-week, end-month and an impending holiday in the United States combined to give both dollar and pound a quiet time today with both finishing modestly better. The snake, however, was well-stretched and both the Belgian and Danish currencies were under some pressure. Sterling ERI rose to 71.9.

The pound closed at 2.2520 in New York yesterday and opened at 2.2498, touching 2.2528 on the early exchanges. The morning was very quiet. Sterling traded down to 2.2462 and back up to opening levels by the afternoon when some modest demand in a thin market saw business up to 2.2555. Thereafter the market was dull and the pound closed at 2.2545. Forward margins widened, the three months' to 1 15/16% p.a. discount; the intrinsic premium was 3/16%.

Sterling regained ¼% in Paris (9.59½) and Frankfurt (4.11½) and ⅜% in Switzerland (3.73½). With rumours of EMS realignment abroad, the Danish krone (5.2682) was a full 2¼% from the deutschemark (1.8252) for most of the day. The Danes sold $19 mn. and $86 mn.-worth of deutschemarks while the Bundesbank bought $30 mn. and $3 mn.-worth of kroner. The krone closed at 80 on the divergence indicator. The Belgian franc (29.29) also suffered a speculative attack and the Belgians shelled out marks worth $57 mn. The French, too, sold $24 mn. as their franc eased to 4.2557. The lira (816¼) was 4½% above the floor. The punt (2.0615) stood at just over 8½% discount on sterling. Elsewhere the Swiss franc softened to 1.6566; the Swiss sold $20 mn., $11 mn.-worth of marks and $10 mn.-worth of guilders. The yen closed at 220.05 in Tokyo and 220.60 in London.

Having fixed somewhat lower this morning at $317.75, gold had a very difficult session this afternoon as the silver price was marked dow sharply in New York. The yellow metal was eventually fixed at $315.10 but closed in London some $2 higher.

Operations:	Market	+ $4 mn.
	Government	+ 5
	Ghana	- 6
	Sundries	+ 1
		+ $4 mn.
	Overnight	+ $7 mn.

The result for August is a reserve loss of $194 mn. to a level of $23,305 mn. This is struck after net new public sector borrowing of $77 mn., and a repayment of $127 mn. under the German offset agreement. The overbought forward position was increased by $173 mn. to $1,732 mn.

31st August 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 3rd September 1979

No hostilities broke out in the exchange markets today, the American Labor Day holiday helping the afternoon's peace along. Sterling retreated a little on balance, causing the ERI to slip back to 71.8.

There was some demand for pounds in New York on Friday evening, the rate rising to close the month at 2.2585. The new week began in London at 2.2530 but conditions were extremely quiet. After a low of 2.2469 this morning, sterling closed at 2.2489. The cost of three months' cover edged up to 2% and the covered comparison was at parity.

In Europe, the pound lost Friday's gains to close against the deutschemark at 4.10½, the French franc at 9.56⅝ and the Swiss franc at 3.72½. There was little easing of tension in the EMS, the Danish krone (5.26½) ending 2 3/16% away from the deutschemark (1.8253), with a divergence indicator of 79. It was the Belgians who intervened, however, selling German currency worth $37 mn.: their franc closed at 29.25. The French sold $9 mn. of deutschemarks, their franc ending a touch firmer at 4.2541. The Swiss franc closed at 1.6559, the lira at 816.65 and the punt at 2.06 (8¾% discount). The Japanese spent $6 mn. this morning in Tokyo, the yen closing at 221.10.

Frantic dealing in gold brought new records at the successive fixings of $319.30 and $322.90. It closed yet higher, at $323.25.

Operations:	Market	+ $4 mn.
	Interest	+ 17
	EEC	- 5
		+ $16 mn.

3rd September 1979.
DAHB

DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Tuesday, 4th September 1979

The tone of the Trades Union Congress occasioned a swift bear raid on sterling early this morning and sentiment was soft for much of the day. There was little activity, however, once the sellers had departed and the ERI, having fallen to 71.4 this morning, remained at that level throughout. Gold set new records.

Sterling opened today a cent cheaper than yesterday's close after Swiss professionals unloaded pounds in the Far East. Others joined the movement, once London opened, and sterling fell to 2.2343 before short-covering finally brought some respite. Most dealers seemed to be focussing on the TUC but the fear of a sizeable increase in the Banking figures was doubtless also abroad. Sterling settled around 2.2375 and began to climb through 2.24 once New York returned from holiday. The Banking statistics induced some momentary nervousness but the August Reserves, published immediately after, restored calm and the pound saw 2.2410 before closing quietly at 2.2377. Forward margins widened this morning as sterling weakened but recovered to close unchanged. Three months' cover cost 2% p.a. and this produced interest parity on the covered comparison.

Sterling gave up ½% to both the Swiss franc (3.70⅝) and the French franc (9.51½) and ⅜% to the deutschemark (4.08⅛). The mark was a little better against the dollar at 1.8240 while the French franc (4.2520) was a shade easier and the Swiss franc (1.6560) barely changed. The Swiss, however, sold $215 mn. and $11 mn.-worth of marks, keeping the key cross-rate almost rigid around 0.9080 to the mark. The Danish krone (5.26⅝) closed at the full 2⅛% distance from the mark but the Danes suffered little pressure during the day, selling only $10 mn. The Belgians, too, sold $16 mn.-worth of marks and the French $16 mn.-worth. The krone finished at 77 on the divergence indicator. The lira (817) was 4⅜% above the floor. The punt (2.0620) was at 7⅞% discount on sterling. The Japanese gave $108 mn. of support to the yen in Tokyo. It closed there at 221.40 and in London at 220.95.

Gold set new records at each fixing with levels of $323.90 and $325; it finished the day around the latter level. Earlier this morning, business was seen up to $325½ but this level evidently proved a stumbling-block.

Operations: Market - $19 mn.
Sundries + 5
- $14 mn.

4th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 5th September 1979

Despite another turn in the interest rate screw in the USA yesterday, the dollar eased back to-day. Sterling seemed reluctant to join the trend at first but buyers later appeared to ensure a better close. The ERI edged up to 71.5. Gold moved sharply higher again.

The pound closed quietly in New York at 2.2389 and began to-day as quietly at 2.2355. The dollar soon began to drift off but sterling showed little movement and seemed becalmed around 2.2375 for a while. Some interest eventually appeared from the Continent and sterling advanced to 2.2455. New York returned as small buyers of pounds but the rate gained nothing more and as conditions slackened sterling relapsed to 2.2396 before closing at 2.2425. Forward margins narrowed as eurodollars hardened in the wake of the Federal Reserve's latest increase in the Federal Funds rate. Three months' cover cost 1 11/16% p.a. and the adverse covered differential was 1/16%.

Sterling firmed fractionally against each of the Swiss franc (3.70¼), French franc (9.52⅛) and deutschemark (4.08¼). These were all firmer on the dollar at 1.6533, 4.2460 and 1.8202 respectively. The Swiss sold $155 mn. - a factor which continues to disturb the market - and $33 mn.-worth of marks, while swapping in $210 mn. The cross-rate was held tightly around the closing SF 0.9083 to the DM. The French, too, kept the DM cross-rate steady around 2.3325 by selling marks equivalent to $22 mn. The Bundesbank bought $20 mn. The Danish krone (5.2567) remained at the foot of a fully-stretched snake, the Danes expending $27 mn. and $17 mn. - worth of marks. The Belgians, too, sold marks worth $25 mn. On the divergence indicator the krone finished at 76 and the Belgian franc at 77. The lira (815 1/8) was almost 4 1/2% above the krone. The punt (206 5/8) was at 7 7/8% discount on sterling. The Japanese sold a further $92 mn. in Tokyo this morning and the yen closed at 221.75. In London it firmed to 221.38.

Gold moved sharply higher this morning to set a new record fixing level of $329.25. This afternoon the price topped $330 briefly but determined selling around the higher levels brought the price back to $329 at the fix.

Operations:	Market	+ $19 mn.
	Post Office (PSB G'teed)	+ 10
	Interest	+ 5
		+ $34 mn.
	Overnight	+ $5 mn.

5th September 1979.
JGH

SECRET

1979/38

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 5th September 1979

In an unexceptional week, interrupted by an American holiday, both sterling and the dollar have met selling at times. The Swiss franc and yen, too, have continued soft and the snake has experienced incipient pressures as the EMS review approaches. Sterling's ERI fell from 72.1 to 71.5.

The pound ended last week at 2.2560 and began on Thursday at 2.2530. Some long positions in sterling against the yen and European currencies were liquidated that morning and the pound declined nervously to 2.2440. Bear covering brought some respite and on a quiet Friday sterling recovered to 2.2550 with 2.2585 later paid in New York. Monday was quiet with American markets closed and sterling fluctuated around 2.25. On Tuesday, however, the minatory tone of the Trades Union Congress sparked a swift and savage selling raid and the pound fell in short order to 2.2343. The Banking figures were unhelpful, though largely discounted, but the August reserves announcement was well taken. Some modest demand was induced on Wednesday as the dollar fell back and sterling touched 2.2455 before finishing the week at 2.2425. The pound gave up over 1% in Paris (9.52⅛) and 1⅛% in Frankfurt (4.08¼); the rate against the ECU fell to 1.6140, a 6⅝% premium on the notional central rate. Eurodollar rates hardened again on Wednesday following yet another tightening in monetary policy by the Federal Reserve the previous day. Forward margins narrowed in consequence but, with the cost of 3 months' cover at 1 11/16% p.a., the covered differential moved from ⅛% in London's favour to 1/16% against London.

The dollar lost ground on Thursday but with the Federal Reserve moving promptly to intervene (almost $400 mn. in all purchased against deutschemarks) it then passed most of the week nervously steady. Central bank support sales, especially by the Swiss, were a disquieting factor and on Wednesday, despite the higher interest rates, the dollar moved yet lower. The Swiss sold $480 mn. and additionally spent $20 mn.-worth of Dutch guilders and $50 mn. of deutschemarks. Their franc improved to 1.6533 but their operations were clearly directed at the mark and the cross-rate was kept very steady, closing at SF 0.9083. The deutschemark itself advanced to 1.8202, retaining hegemony in the snake. The Bundesbank bought $75 mn. but sold over $100 mn. in cover of capital exports. The Danish krone (5.2567) was at the foot of the band throughout and from Friday onwards the snake was often fully stretched. The Danes sold $75 mn. and over $100 mn.-worth of marks and the Germans bought a small amount of kroner. The Belgian franc (29.22) was also under attack and the Belgians shelled out $20 mn. and $75 mn. of marks. Both the Belgian franc and the Danish krone were at or beyond the divergence threshold at times, the latter for most of the period. The krone closed at 76 on the indicator and the Belgian franc at 77. The guilder (1.9989) proved relatively firm on Thursday and the Dutch took in exchange in a small way. The French, however, were at pains to keep the cross-rate with the mark around 2.33¼ and sold $35 mn. and $50 mn. of marks to achieve this. Their franc closed at 2.33⅛ to the mark and 4.2460 to the dollar. The lira finished at 815⅛, 4½% above the floor. The Italians took in almost $100 mn. The punt firmed to 2.06⅝ (7⅞% discount on sterling). The Irish sold $50 mn. and sterling worth around $20 mn. Elsewhere the yen steadied somewhat on Thursday after substantial official support in Tokyo but softened again after the weekend. Overall the Bank of Japan sold $475 mn. and the yen closed only slightly firmer at 221.38.

With only a pause for consolidation on Friday, gold advanced inexorably to $330 on Wednesday in advance of the IMF Auction. This level provoked a good deal of profit-taking and the week's final fixing set a level of $329, a rise of nearly $14 on the week. In the morning the metal was fixed at a new record level of $329.25. Movements in the silver price continued to be a leading factor. On Wednesday the IMF auctioned 444,000 ounces of gold at an average price of $333.24.

6th September 1979.
JGH

RATES, ETC.

10.15 a.m.		10.00 a.m.
30. 8.79		6. 9.79
2.2512	£/$	2.2495
72.0	Effective exchange rate index	71.6
1¼% p.a. disc.	Forward 3-months	1⅝% p.a. disc.
12 5/16%	Euro-$ 3-months	12½%
1/16% pre.	I.B.Comparison	=
1.8304	$/DM	1.8125
4.12	£/DM	4.07¾
9.60⅞	£/FF	9.51⅛
221.50	$/Yen	220.60
$319.20	Gold	$341.50
1.6617	$/S.Fc.	1.6448
3.74⅛	£/S.Fc.	3.70

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 6th September 1979

German selling of sterling for deutschemarks brought pressure on the pound and dollar today although both had recovered some ground by the close. Pressures on the snake mounted still further. Sterling's ERI closed unchanged at 71.5.

The pound closed better in New York yesterday at 2.2474. This morning it began at 2.2455 and rose to 2.2520 on the opening exchanges in the face of a drifting dollar. Later, however, as the dollar's decline gathered pace, sterling too eased off. German banks were seen to be selling pounds for marks, probably on commercial account. The pound fell nervously to 2.2425 before stabilising - possibly as the Bundesbank moved to support the dollar. By this afternoon sterling had regained the 2.2450 level and the later session passed quietly with the close at 2.2465. Three months' cover cost 1⅝% p.a. and this produced interest parity on the covered comparison.

The pound gave up ¼% to each of the French franc (9.50⅛) and deutschemark (4.07⅜) and lost ½% to the Swiss franc (3.69). The Swiss gave no support today as their currency reobunded to 1.6423 against the dollar and 0.9056 against the mark. The deutschemark itself reached 1.8102 before closing at 1.8133. Yesterday the Federal Reserve bought $202 mn. against marks. Today, the Bundesbank bought $55 mn. and $46 mn.-worth of Danish kroner. The krone was the full 2¼% from the mark throughout, closing at 5.23⅝ and 79 on the divergence indicator. The Danes sold $12 mn. and $94 mn.-worth of marks. The Belgians sold $158 mn.-worth of marks to keep their currency within the divergence threshold. The French spent marks equivalent to $59 mn. to effect a close of 2.33¼ to the mark. Against the dollar their franc was 4.2292. The lira (812½) finished 4⅜% above the floor. The punt (2.07⅜) stood at 7¼% discount on sterling. The yen closed in Tokyo at 220.75 and in London at 220.95.

Following a successful IMF auction yesterday which produced an average price of $333.24, gold took off again this morning and reached a new high of $343 before fixing at $340.85, another record. This afternoon the price collapsed and, after fixing at $335.50, closed in London at $331. Later in New York business was seen as low as $322.

Operations:	Interest	+ $13 mn.
	Sundries	+ 4
		+ $17 mn.

6th September 1979.
JGH

FE440.07

THE GOVERNORS' PRIVATE SECRETARY

Sept '79.

DEVELOPMENTS IN THE FOREIGN EXCHANGE AND GOLD MARKETS DURING THE DEPUTY GOVERNOR'S ABSENCE

I attach a brief note as requested.

7th September 1979.

D.A.H.B.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

3rd - 7th September

Having closed the month of August at 2.2585 (ERI 71.9), sterling opened the new month at 2.2530 and in very quiet trading moved up slightly in the absence of New York in the afternoon for the Labor Day holiday. Heavy selling by Swiss banks in the Far East early on the 4th and later in early trading in London brought sterling sharply down to 2.2343 mainly on fears of the TUC Conference and the July banking figures. In the event the latter had little effect; and the entry of New York and publication of the August reserve figures gave support to sterling which closed at 2.2377 (ERI 71.4). The weakening of the U.S.dollar on the 5th was the only feature in a dull market and sterling rose with the other currencies to close at 2.2425 (ERI 715); but on the 6th, sterling, after rising to 2.2520, weakened to close at 2.2465 as German banks sold sterling for marks apparently on commercial account. Sterling opened little changed this morning in very quiet markets. The rise in U.S. interest rates on the 4th reduced the cost of three - month forward cover from 2% to 1 11/16%, but the covered comparison remains close to parity. Table 1 summarises EEA transactions.

Although on the 5th sterling firmed marginally in terms of the other main currencies, it weakened overall with the dollar. The Swiss sold dollars heavily to maintain their franc against the deutschemark. The Japanese Yen was steadier; and the Danish krone remained at the bottom of the snake followed by the Belgian franc, both supported by considerable sales of marks. The French continued to intervene to support the franc/mark rate. Table 2 shows the main exchange rates and intervention.

Gold was traded very actively with very heavy turnover at the morning fixing on the 5th. Its price rose to a record 340.85 at the following morning's fix (after business at $343) but a reaction set in and it was fixed at 329.15 this afternoon.

7th September 1979.

TABLE 1

$ mns.

EEA TRANSACTIONS

Dealing for the first week of September has not finished.

The figures for September so far at yesterday's close were:

Spot reserves	Overbought forward position	Total*
+ 11	+ 1,319	- 401

* of which

Market	- 3
Iran	+ 15

TABLE 2

	close 31.8.79	11.00 a.m. 7.9.79
$ against		
£	2.2545	2.2465
DM	1.8252	1.8121
Swiss franc	1.6566	1.6377
French franc	4.2557	4.2285
Yen	220.60	221.22
£ against		
DM	4.11½	4.07 1/16
French franc	9 .59 7/16	9.49 15/16
Yen	497 5/16	497
£ ERI	71.9	71.5

Intervention

Italy	+ 32
Switzerland	- 401 (and - $49 worth of DM)
Japan	- 206
U.K	- 3
Sweden	- 96
France	- (and - $96 worth of DM)

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 7th September 1979

On an otherwise dull day, the dollar finished the week in poor shape following further increases in US prime rates. Sterling closed near the day's best levels, although the ERI was unchanged at 71.5. The snake continued perplexed.

The pound closed at 2.2495 in New York yesterday and began the morning at 2.2477. The day was fairly featureless. Sterling dipped to 2.2435 this morning and recovered as quickly to 2.2495. This afternoon business was effected up to 2.2515 and sterling closed at 2.25. Forward margins narrowed in response to yet firmer eurodollar rates. Three months' cover cost 1⅛% and the covered differential was 1/16% against London.

Sterling was barely changed against the deutschemark (4.07⅛) and French franc (9.51) but lost ⅝% to a very firm Swiss franc (3.66⅝). The Swiss franc wss again unsupported and closed at 1.6295 to the dollar and 0.90 to the mark. The deutschemark advanced to 1.8106, the Bundesbank buying $30 mn. Yesterday the Federal Reserve took in $401 mn. against marks. The Belgian franc (29.09) and Danish krone (5.23⅛) closed at 75 and 77 respectively on the divergence indicator and both were heavily supported again. The Belgians sold marks equivalent to $47 mn. and the Danes spent $25 mn. and $127 mn.-worth of marks. The Germans took in $56 mn.-worth of Danish kroner. The French, too, sold $14 mn. of marks and let the DM cross-rate ease towards 2.33½. Against the dollar the French franc firmed to 4.2265. The lira (812.42) was 4⅛% above the floor. The punt (2.0767) stood at 7¾% discount on sterling. The yen closed at 220.85 in Tokyo and five points cheaper in London.

Gold was again a chaotic market with wide and random fluctuations in the price the order of the day. Fixings were $331.15 and $329.15.

Operations:	Market	+ $11 mn.
	Nigeria	- 45
	Sundries	+ 1
		- $33 mn.

7th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th September 1979

The new week began on a dull note. The dollar started easier then held the lower levels comfortably throughout the day. Sterling enjoyed a quiet and steady morning but was marked down this afternoon even though the Wholesale Price Index was quite well taken. The ERI fell from 71.5 to 71.3.

The pound closed quietly at 2.2475 in New York on Friday. Opening this morning at 2.2501 it advanced to 2.2520 on the early exchanges before settling back to find a trading level for the morning at a little under 2.25. The Wholesale Price Index proved better than some had expected but New York returned as small sellers of sterling and, in an otherwise thin market, the pound fell quickly to 2.2450 before settling again to close quietly at 2.2466. Forward margins widened slightly, the three months' to 1 7/16% p.a. discount. This gave interest parity on the covered differential.

Sterling lost ⅜% to the deutschemark (4.05⅝) and French franc (9.47⅛) and fell ½% against the now buoyant Swiss franc (3.64¾). The Federal Reserve bought $220 mn. on Swiss account on Friday but the Swiss did not intervene today and their franc advanced to 1.6236 with the DM cross-rate falling through 0.90. For their own account, the US authorities took in $235 mn. against deutschemarks, while the Germans bought a modest $30 mn. today. The mark firmed to 1.8053. The snake was almost fully-stretched throughout but the Danish krone (5.2107) at the bottom required no support. The Belgians, however, sold $74 mn.-worth of marks as their franc moved nearer the bottom of the band; it closed at 75 on the divergence indicator. The French, too, sold marks equivalent to $93 mn., holding the cross-rate with the mark at 2.33½. Against the dollar, the franc firmed to 4.2153. The lira's premium continued to narrow and, at 811¼, it closed a little over 4% above the Danish krone. The punt (2.0820) stood at 7⅛% discount on sterling. The yen closed at 220.25 in Tokyo and 220.57 in London.

Gold rallied strongly in New York late on Friday and opened considerably firmer as a result this morning. Thereafter, however, dealings were somewhat lacklustre and the price moved within a narrow range throughout the day. Fixings were $336.40 and $336.30.

Operations:	Market	- $1 mn.
	Interest	+ 8
		+ $7 mn.

JGH

10th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 11th September 1979

Most exchange markets continued in the doldrums today with little significant movement in rates. Sterling was a little soft this morning but later staged a modest recovery. The ERI closed unchanged at 71.3 after dipping to 71.2 this morning.

The pound closed at 2.2455 in New York yesterday. This morning, however, it was sold in the Far East by local banks and the opening level in London was 2.2390. Sterling drifted to 2.2383 on the opening exchanges but these levels prompted some cheap buying interest and 2.2440 was paid for pounds shortly after. Thereafter, the pound traded without feature around 2.2425, finishing the day at 2.2419. Three months' forward cover cost 1½% p.a. and interest parity still prevailed on the usual comparison.

Sterling gained a shade only on the French franc (9.47⅝) but was ⅛% better on the deutschemark (4.06⅛) and ⅛% firmer against the Swiss franc (3.66). Central banks were rather less active. The Federal Reserve bought $45 mn. for deutschemarks yesterday and the Bundesbank took in only $9 mn. today. The deutschemark eased to 1.8113. The Swiss purchased $26 mn. late yesterday but were idle today. Their franc weakened to 1.6323 against the dollar and 0.90⅛ to the mark. The French franc closed lower on the dollar at 4.2270 but improved to 2.33⅜ to the mark. The snake was rather less anguished than of late, though closing fully-stretched with the Danish krone (5.2290) in last place. The Danes sold $9 mn.-worth of marks and the Bundesbank bought $6 mn.-worth of kroner. The Belgians spent marks worth $55 mn. On the divergence indicator, the Belgian franc finished at 75 and the Danish krone at 77. The lira (813.30) closed 4⅛% above the base. The punt (2.07⅞) was at 7¼% discount on sterling. The yen weakened further to 221.10 in Tokyo and to 221.40 in London.

Gold was generally firmer. After an indecisive morning, with the fixing level at $338.65, the price advanced more surely this afternoon. The later fixing was $339.50 and $340 was breached again towards the end of the day.

Operations:	Market	- $1 mn.
	Ireland	+ 22
	Sundries	+ 7
		+ $28 mn.
	Overnight	- $31 mn.

11th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th September 1979

Today's was a much more active session, with diversification out of sterling into deutschemarks and Swiss francs the favoured pastime. As the vehicle currency, the dollar wilted in consequence. Sterling's ERI declined from 71.3 to 70.6.

The pound met sizeable commercial selling in New York yesterday and touched 2.2295 before finishing at 2.2315, over a cent down on the London close. This morning sterling opened at 2.2350 and met early selling pressure in London and the Far East, falling to 2.2305. Two-way business soon developed, however, and, with Paris a good buyer, sterling regained 2.2342. Thereafter sellers predominated with orders - for deutschemarks in particular - on both commercial and investment account. Sterling fell to 2.2262, steadied for a while around 2.2275, but turned again to breach 2.2250 before midday. New York came in as a heavy seller of pounds and the rate was knocked quite sharply down to 2.2175. One or two cheap buyers, however, emerged in the late afternoon and, with attention now on the weakening dollar, sterling steadied, touching 2.2220 before the close was struck at 2.2195. Forward margins widened, the three months to 1¼% p.a. discount. The covered differential was 3/16% against London.

Sterling lost 1% to the French franc (9.38) and 1⅛% to each of the deutschemark (4.01½) and Swiss franc (3.61¾). The French franc struggled to keep pace and the authorities sold $37 mn. to effect a close little changed at 4.22⅝. They also spent $71 mn.-worth of marks, while letting the cross-rate rise from 2.33½ to 2.33⅝. The Bundesbank bought $24 mn. (yesterday the Federal Reserve had taken in only $10 mn. against marks with the dollar performing rather better) and the mark closed a little firmer overall at 1.8089 (after 1.8060), with Chase Manhattan's increase in Prime Rate to 13% providing a boost for the dollar towards the close. The Swiss were idle, apart from swapping in $50 mn. for a month, and their franc hardened rather more to 1.6293. The snake was stretched for much of the day, though by the close the Danish krone (5.2172) was only 2 3/16% from the mark. The Danes sold $26 mn.-worth of marks and the Germans bought $53 mn.-worth of kroner. The Belgians, too, lost $63 mn.-worth of marks and their franc finished at 76 on the divergence indicator. The lira (813.30) slipped to only 3⅞% above the floor and the punt (2.07½) improved to 6⅛% discount on sterling. The yen weakened to 222.35 in Tokyo, where the Japanese sold $35 mn., and closed in London at 222.16.

Gold was a little easier in a still active market. Fixings were $336.95 and $337.10.

Operations:	Market	- $39 mn.
	Saudi Arabia	+ 34
	Iraq	+ 18
	IDA	+ 5
	Sundries	+ 4
		+ $22 mn.

12th September 1979.
JGH

SECRET 1979/39

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 12th September 1979

Industrial news caused sterling to be sold after the weekend, bringing a fall of 0.9 to 70.6 in effective terms. The dollar weakened in most centres despite substantial official support and yet higher interest rates. Persistent talk of a realignment of exchange rates kept the pressure on the weaker snake participants and compelled heavy intervention.

From 2.2425 at the London close on 5th September, sterling advanced at first against a dollar which was generally in poor shape, touching 2.2520 on Thursday. The market was quiet and the mood cautious. The pound brushed 2.2520 again on Monday morning, but then eased back despite acceptable wholesale price figures. Tuesday was a quiet day in London, but sterling came under pressure in New York, where it fell 1 cent, and the selling continued on Wednesday when the rate fell to 2.2175 before closing at 2.2195. Some of the selling on Tuesday night was on the Chicago exchange. General concern about the industrial situation seems to be the cause. The pound lost ground on the Continent, weakening 1½% or more against the mark (4.01½) and in Paris (9.38). The rate against the ECU went to 1.5938, a 5½% premium on the notional central rate. Sterling's softness was not reflected in the forward discount, which rose only to 1¼%; the intrinsic discount edged up to 3/16%.

The dollar fell in most centres, despite substantial official support and further increases in prime rates. Altogether, the Fed bought $910 mn. against marks, mostly on Thursday and Friday when a sharper-than-expected increase in domestic prices upset the market and again on Wednesday. The Bundesbank for their part, bought only a modest $120 mn. as the mark improved ⅝% to 1.8089. It remained leading 2¼% currency in the snake, closing 2 3/16% above the Danish crown (5.2172, and 73 on the divergence indicator, after 79) which was under continuous pressure as devaluation talk gained ground. The central bank sold $30 mn. and $260 mn.-worth of marks; the Bundesbank helped by buying $160 mn.-worth of crowns. The French franc also felt the mark's strength, closing at 4.22⅝ against the dollar and 2.33⅝ against the mark after official sales of $240 mn.-worth of marks. The Belgian franc, though not bottom of the snake, crossed its divergence threshold, and the central bank sold $400 mn.-worth of marks in support. All these currencies were affected by talk of a realignment. The other snake currencies were more comfortable. The lira closed overall top at 813.30, 3⅞% above the crown, without intervention, and the Irish pound improved to 2.0752, a 6⅛% discount on sterling. Outside the snake, a recovery in the Swiss franc to 1.6293 enabled the SNB to buy in $270 mn., but the yen weakened to 222.16 after $40 mn. of support. Oil finds and a rise in bank rate strengthened the Canadian dollar, allowing the central bank to add $210 mn. to reserves.

Gold rose sharply in a fevered trading, to $343 at one time on Thursday. Over the week the price increased $8.10 to $337.10. The $340.85 on Thursday morning set a record for the fix.

13th September 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
6. 9.79		13. 9.79
2.2495	£/$	2.2190
71.6	Effective exchange rate index	70.6
1⅝% p.a. disc.	Forward 3-months	1⅝% p.a. disc.
12½%	Euro-$ 3-months	12¾%
=	I.B.Comparison	¼% disc.
1.8125	$/DM	1.8086
4.07¾	£/DM	4.01⅛
9.51⅛	£/FF	9.37⅝
220.60	$/Yen	222.50
$341.50	Gold	$335.10
1.6448	$/S.Fc.	1.6313
3.70	£/S.Fc.	3.62

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 13th September 1979

Heavy selling of sterling concluded a difficult day in which the ERI fell 0.3 to 70.3. The dollar steadied after a queasy start to show net gains in most centres. The EMS remained under severe strain.

Having closed steady in New York at 2.22¼, sterling opened nearly 1 cent lower this morning, at 2.2135, under the weight of selling in the Far East. On balance the rate rose in early trading as some London banks showed an interest to buy; but the tone was uneasy and the pound could not hold a mid-morning rate of 2.2215. The news of a 65% wage claim from the miners renewed selling pressure, and sterling fell quite sharply to 2.2060 before the official close was taken at 2.2074. Some continental banks were prominent early on; during the afternoon New Yorkers seemed keener to lighten their sterling holdings. Further selling took the rate below 2.20¼ in late trading. The money and industrial production figures had little effect. The cost of cover remained at 1 11/16%, however, leaving the intrinsic discount at 3/16%.

Sterling lost ground on the Continent, closing lower against the mark (4.00) and in Paris (9.34). The Fed yesterday bought $229mn. against marks,and today, after an unsteady start, the dollar improved in most centres. The mark closed ¼ pfennig weaker at 1.8123, without however bringing the weaker snake participants any relief. The Danish crown closed 2⅛% below it at 5.2322 (76 on the divergence indicator), compelling the central bank to sell $137mn. worth of marks. The Bundesbank helped by buying $88mn. worth of crowns. The French franc eased to 4.2313 (2.33½ against the mark), after official sales of $26mn. and $75mn. worth of marks. The Belgians also felt the draught, selling $40mn. worth of marks. The lira's lead in the snake widened to 4 1/16% above the crown; it closed at 814.35. Outside the snake, the Swiss contented themselves with swapping in $300mn. - their franc fell ⅛% to 1.6329 - and the yen eased to 223.43 after 222.15 in Tokyo.

Gold drifted down, fixing at $334.35 and $332.95 in good turnover.

Operations:

Market	- $88mn.
BIS	+ 8
Interest	+ 5
EEC	- 9
Sundries	+ 14
	- $70mn.
Overnight	- $22mn.

14 September 1979.

PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th September 1979

Sterling had another very rough ride to-day. Diversification into deutschemark continued apace as opinions hardened on the likelihood of an imminent revaluation. The generally gloomy industrial news made sterling a front-line candidate for selling and as both the $2.20 and DM 4.00 levels were approached and forcibly breached, stop-loss orders were added to the imbroglio. Sterling's ERI fell 1.0 to 69.3. Elsewhere the E.M.S. received its most severe test yet.

In New York yesterday the pound continued under pressure falling over a cent to 2.1965 before closing at 2.1987. This morning sterling opened at 2.1985 and traded up to 2.2012 on the opening exchanges. Soon enough, however, the deutschemark was in demand and the $2.20 and DM 4.00 levels (as well as 70 on the ERI) were quickly tested and left behind. Sterling slumped very quickly by almost two cents to 2.1822 before any serious resistance was found. Having paused for consolidation, however, the decline continued and only at 2.1750 did any semblance of a two-way market emerge. For some long time this level proved a testing-ground with speculators ready to take profits, while others returned to test the authorities' resolve and the rate see-sawed to 2.18 and back. The RPI was well received but was countered by the news that the government was not to sell any of its BNOC interest. Americans returned as buyers of pounds at these levels and the early afternoon was relatively comfortable. Sterling traded up to 2.1850 at one stage. However, two late selling orders from Europe and New York turned the tide again and the pound closed uncertainly at 2.1770. Later the decline continued and when 2.1750 was breached without support, heavy selling was unleashed from New York and Chicago. Sterling shed a further cent in very short order and plumbed 2.1625 before short-covering set in. Forward margins widened sharply, the three months' to 1 15/16% p.a. The covered differential moved out to ⅝% against London.

Sterling lost 1¼% to the French franc (9.22) and 1⅜% to both the Swiss franc (3.55½) and deutschemark (3.94½). The last two of these were barely changed against the dollar at 1.6326 and 1.8122 respectively but the French franc lost a little ground at 4.23½. The snake was under heavy pressure throughout. The Belgians sold marks worth $158 mn. and the Danes shelled out $9 mn. and $166 mn.-worth of marks. The Bundesbank replied by taking in $108 mn.-worth of Danish kroner but they did not support the dollar. Yesterday the Federal Reserve bought $257 mn. against marks. The French continued to fight their own war, spending $52 mn. and $138 mn.-worth of marks while letting the cross-rate slip to 2.3370 to the mark. The lira (815.65) closed only 3⅞% above the base of the band. The punt (2.0710) finished at 4⅜% discount on sterling. The yen weakened sharply to 224 in Tokyo and the Japanese gave $139 mn. in support. In London, it improved to 223.42.

Gold was bid up strongly in New York yesterday and again in Hong Kong this morning. It opened here over $10 firmer and went on to set new records at each successive fixing with levels of $345.75 and $345.80.

Operations:	Market	- $159 mn.
	Interest	+ 8
	Sundries	+ 1
		- $150 mn.

14th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th September 1979

Widespread and massive selling of sterling persisted throughout much of today. There were no new factors, but the prospect of Britain's entry into the EMS, at a rate somewhat lower than the prevailing level, loomed large in dealer's considerations. Some short-covering this afternoon brought a welcome relief but the ERI nonetheless fell from 69.3 to 68.4 (after 67.8 at midday). The index has now declined over 4% in the last four days.

The pound closed at 2.1665 in New York on Friday, a cent below its final London level. This morning it began easier still at 2.1608 following selling by Australian banks in the Far East. 2.1628 was seen on the early exchanges but the bigger professionals were soon taking short positions and, once London was under way, another rapid decline set in with heavy, general offering of pounds. Sterling fell to 2.1475 before any natural support was found and any attempted recovery was quickly nipped in the bud by worried commercial customers who did not miss a chance to cover their currency requirements. One such large commercial seller eventually shattered the uneasy peace and sterling dropped immediately to 2.1433 continuing its slide to 2.1375 before further temporary support was engendered. This level, too, persisted for a while but two large European professionals returned in concert for a final push and the pound was driven forcibly down to 2.1285 before the combatants withdrew for the lunch interval. Early this afternoon, with sources close to the Chancellor declaring that sterling's entry into the EMS was still a long way off, the market took heart and the pound slowly regained a little ground. Late in the day the movement gained pace and 2.1517 was traded shortly before the close, which was struck at 2.1480. Three months' cover cost 1 15/16% p.a. and sterling's intrinsic discount was 9/16%.

Sterling lost a further 1½% to the Swiss franc (3.50¼) and 1⅜% to each of the French franc (9.08¾) and deutschemark (3.89). Activity in Europe was relatively muted. The Swiss bought $10 mn. as their franc firmed marginally to 1.6311; the deutschemark, too, was a shade better at 1.8113. The French sold $17 mn.-worth of marks to keep pace and their franc, too, rose a little to 4.2305, advancing to 2.3356 on the mark. Friday's 2% increase in Danish Bank Rate had a lagged effect, in that the Danish krone suddenly took off from the snake's floor, leaving the Belgian franc (29.08) at the bottom, some 2⅛% distant from the mark. The Belgians spent only $6 mn.-worth of marks. The lira (814.15) closed still 3⅜% above the base of the band. The punt (2.07½) closed at only 3⅛% discount on sterling. The yen closed in Tokyo at 223.70 and in London at 223.42.

Gold began the day above $350 for the first time ever. New records were set at each fixing with levels of $350.75 and $351.75 and the market closed on a buoyant note at a level of $355½.

Operations:	Market	- $308 mn.
	Iran	+ 10
	Sundries	- 1
		- $299 mn.
	Overnight	+ $4 mn.

17th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th September 1979

Further feverish escalation in the price of gold infected the dollar today and sterling, which was already on the mend, as some of yesterday's tormentors returned to cover, gained added strength from the dollar's difficulties. The trade figures, too, proved a useful shot in the arm. Sterling's ERI rose to 68.7. Gold topped $380 at one stage and closed over 5% better on the day.

The pound closed better at 2.1565 yesterday in New York where further selling was countered by a later rally. This morning it opened at 2.1535 and after a very quiet start began a drift back to 2.1467. This proved a natural support point and eventually some modest short-covering set in. Volume was never very great but, as the movement gained momentum over the morning, sterling advanced steadily to 2.1610 before pausing for consolidation. This level provoked some sizeable selling from one or two of the larger operators and the pound retreated very quickly and somewhat nervously to 2.1480. The early afternoon saw some good demand from the United States, the more so as the dollar began to weaken generally. 2.1628 was paid for pounds at one stage and the price was 2.1590 as the trade figures were published. These were very well received and sterling was marked up instantly to 2.1652. This level proved too tasty, however, and professional selling took the rate back to 2.1590 at the close. Forward margins narrowed - the three months' to 1⅝% p.a. discount - as eurodollars hardened in anticipation of a further tightening in US monetary policy. Sterling's intrinsic discount fell ⅛% to 7/16%.

Sterling regained ¼% against the Swiss franc (3.51¼) and ⅜% against each of the French franc (9.12½) and deutschemark (3.90½). The mark firmed to 1.8048 this afternoon before closing at 1.8087. Federal Reserve support for the dollar was suspected. The Swiss took in $25 mn. as their franc rose to 1.6268 (after 1.6215): the cross-rate against the mark slipped below SF 0.90. Conversely the French sold marks worth $25 mn. to haul their cross-rate back from 2.33¾ to 2.33⅜ to the mark. The Belgian franc (29.01) remained at the foot of the snake which closed at 2% in width. The Belgians chose to spend deutschemarks equivalent to $61 mn. With the continued improvement of their krone, however, the Danes were able to recoup a modest $7 mn.-worth of marks. The lira (813.30) was 3¾% above the base of the band. The punt (2.0780) closed at 3¾% discount on sterling. The Irish sold $27 mn. and sterling worth $34 mn. in defence of their currency. The yen closed in Tokyo at 223.60 after official sales of $20 mn. In London it finished at 223.48.

The gold market suffered a very difficult day. The Far East left the metal over $10 higher than yesterday's closing price in London. European dealers were initially reluctant to get involved but the price eventaully advanced to a new record $371.35 in the fixing. Conditions were even more difficult this afternoon and little business could be transacted outside the fixing. A new high $382 was quoted before the fixing. Surprisingly the later session was quickly completed. Turnover was very large and a new record level of $375.75 was set. Later the price tended lower.

Operations:	Market	+	$36 mn.
	FRB o/a India	+	11
	Interest	+	8
		+	$55 mn.
	Overnight	-	$13 mn.

18th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th September 1979

Sterling traded for the most part comfortably and the day's range was relatively narrow. The increase in Discount Rate in the US seemed to do little more than ease the selling pressure on the dollar. The EMS was relaxed. Gold was again very volatile. Sterling's ERI fell from 68.7 to 68.2.

The pound fell over a cent after the close yesterday and finished in New York at 2.1455. Selling there was not very heavy. This morning it opened at 2.1431 and met small but steady offerings from the Far East on the opening exchanges. London followed this trend and the rate fell to 2.1385 before buyers appeared and a better two-way market developed. Thereafter, the currency traded according to the mood of the moment. 2.1470 was paid for pounds in mid-morning but the rate was back to opening levels by midday. In the interim, some large Swiss selling was well absorbed. Americans returned as small sellers and the pound breached 2.14 again on the downside. Some modest buying soon restored the balance, however, and sterling traded comfortably through to close at 2.1440. Forward margins were little changed, despite an increase in Prime Rate to 13½% by Chemical Bank. A softer Federal Funds rate acted as a depressant on Eurodollar rates. Three months' cover cost 1 11/16% p.a. and the covered differential was ½% against London.

Sterling fell by ¾% against the deutschemark (3.87½) and French franc (9.05⅝) and by ⅞% against the Swiss franc (3.48⅜). These currencies were all a little firmer against the dollar at 1.8076, 4.2253 and 1.6246 respectively. Yesterday, the Federal Reserve soaked up $370 mn. against deutschemarks but the Bundesbank did nothing today. The Swiss bought $15 mn (and swapped in $200 mn.) as the Swiss franc/DM cross-rate hardened to SF 0.89⅞. The French, however, sold marks equivalent to $17 mn. in order to hold their cross-rate at 2.33¾. The EMS was comfortable and the Belgian franc (28.98) closed a little less than 2% from the mark. The Danes gave up the $7 mn. of marks they had taken in yesterday. The lira (813.10) finished 3⅝% above the base. The punt (2.0777) closed at 3⅛% discount on sterling. The yen eased to 223.75 in Tokyo but recovered slightly in London to 223.55.

The gold market was again severely tried. Following yesterday's GSA auction (at which an average $377.78 was paid for 750,000 ounces in coin bar form) the metal traded up through $390 in Hong Kong this morning. London began at $376 at which price the metal was later fixed. This afternoon, US markets prompted a sharp sell-off to around $360 but in the fixing, a single buyer bid up the price again to $369. For the first time, however, the rest of the market attempted to counter this tactic and a very large amount of metal was produced in concert to satisfy the demand.

Operations:	Market	- $8 mn.
	Iraq	+ 6
	Post Office (PSB G'teed)	+ 5
	Sundries	+ 5
		+ $8mn.

19th September 1979.
JGH

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 19th September 1979

Gloomy industrial news, fears that sterling might enter the European Monetary System at a depreciated rate, and expectations of a mark revaluation, brought heavy selling of sterling until calm was restored on Monday afternoon. In effective terms, sterling fell 3.3% to 68.2, after 67.8. A further rise in US interest rates did not dispel the dollar's unease. The expanded snake was under intense pressure before the weekend.

Sterling rose from the London close of 2.2195 on 12th September to touch 2.2215 on Thursday morning, but the gain carried no conviction and sellers crowded in when the miners put in their 65% wage claim. The pressure continued on Friday, despite a fair retail price figure, and sterling traded as low at 2.16¼ late on. The bears - professional and commercial - returned in force after the weekend, driving the pound down to 2.1285 on Monday before buyers took fresh heart and earlier sellers reaped their profit. The rate had already turned when the newswires reported that no early entry into the European Monetary System - one of the causes of anxiety - was contemplated, and sterling touched 2.16½ shortly after the trade figures on Tuesday afternoon before reacting to 2.1440 by the close on Wednesday. Some of the selling before the weekend had been against marks, in the expectation - not fulfilled - that the mark would be revalued. Otherwise, industrial news - British Leyland, the engineering strike as well as the miners - was depressing, and sterling interest rates lost more of their edge. The pound fell on the Continent, closing about 3½% lower against the mark (3.87½-4.00 having been breached late on Thursday) and in Paris (9.05⅞). The ECU rate fell to 1.54½, a premium of only 2⅜% on the notional central rate. Eurodollar rates rose in sympathy with New York, and the discount on forward sterling edged up to 1 11/16%, leaving a wider covered margin of ½% against London on the usual comparison.

The Fed gave $1,200 mn. of support to keep the dollar up on the Continent. The ½% increase in discount rate to a record 11% had little immediate effect. The Bundesbank sold $200 mn. to cover capital exports as the mark hardened to 1.8076. It remained leading 2¼% currency in the snake at 2% above the Belgian franc (28.98, and 70 on the divergence indicator). The equivalent of over $1 bn. of official sales of marks were needed to keep the snake intact. The Danes were especially hard-pressed until they increased discount rate by 2% on Friday; the crown improved sharply in consequence, then drifted back, but closed well off the bottom at 5.18¼. All told, they sold $10 mn. and $300 mn.-worth of marks; the Bundesbank for their part bought $200 mn.-worth of crowns. The Belgians sold $270 mn.-worth of marks. Although better placed in the snake, the French franc was sufficiently weak against the mark (2.33¾) to occasion $350 mn.-worth of help, mostly against marks. It closed at 4.2253 against the dollar. The lira (813.10) slipped to 3⅝% above the Belgian franc; and the Irish pound, although comfortable enough in the EMS, received $100 mn.-worth of support, $60 mn. of it in the form of sales of sterling. It closed at 2.0777, a much-diminished 3⅛% discount on sterling. Outside the expanded snake, the Swiss franc closed at 1.6246, gaining on the mark; the National Bank added $60 mn. to reserves. The yen however eased to 223.55 after $160 mn. of official support.

Gold was frantically active, although at times on Tuesday - when the price rose over $20 - the market seized up, and wide dealing margins continue to be quoted. Over the week, the price climbed nearly $32 to $369, the record at a London fix being the $376 on Wednesday morning. Prices over $390 were seen in the Far East. The US Treasury auctioned 750,000 ozs. of low-grade gold at an average of $377.78, equivalent to $378½ or so in good delivery form.

20th September 1979.
pp. PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
13. 9.79		20. 9.79
2.2190	£/$	2.1350
70.6	Effective exchange rate index	67.4
1⅝% p.a. disc.	Forward 3-months	1¼% p.a. disc.
12¼%	Euro-$ 3-months	12 15/16%
⅛% disc.	I.B.Comparison	7/16% disc.
1.8086	$/DM	1.7787
4.01⅜	£/DM	3.79¾
9.37⅝	£/FF	8.92⅛
222.50	$/Yen	221.25
$335.10	Gold	$375.00
1.6313	$/S.Fc.	1.5907
3.62	£/S.Fc.	3.39⅝

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Thursday, 20th September 1979

A remarkable and quite unexpected change in intervention tactics by the Federal Reserve brought massive selling pressure on the dollar today with the deutschemark and Swiss franc the favoured havens. Sterling had an uneasy morning but recovered quite strongly this afternoon, the ERI closing only slightly lower at 68.1.

The pound closed at 2.1445 in New York yesterday and opened at 2.1465 this morning. With attention focussed entirely on the dollar sterling was on the sidelines at first and drifted back to 2.1385 and up again to 2.1440. Later, some large Swiss sellers, together with a commercial buyer of marks in London, drove the pound back to 2.1335. Once these were clear, however, some cheap buying interest spurred a recovery and with good Scandinavian demand emerging in late morning, sterling topped 2.15 shortly after midday. A sudden rumour that MLR was to be raised brought a sharp flurry in which sterling ran swiftly up to 2.1655 and, while it declined as quickly to 2.1525 when the rumour proved unfounded, the generally higher levels were maintained. The pound thereafter seemed to gain from the dollar's weakness and traded up to 2.17 before closing at 2.1645. Three months' cover cost 1 9/16% p.a. and stering's intrinsic discount was ¼%.

The pound lost ⅝% to the French franc (9.00¾), 1¼% to the deutschemark (3.82⅜) and 1¾% to the Swiss franc (3.42⅛). Yesterday, the Federal Reserve had bought in $577 mn. against deutschemarks, holding first the 1.80¼ level and then 1.80 at which the currency closed. This morning, to universal surprise, they did not defend the currency in the Far East and it tumbled fast and far from the outset. The Swiss bought $690 mn. (and swapped in $665 mn.) holding the DM cross-rate at 0.89½ for most of the day; it closed at 0.8942. Against the dollar the Swiss franc hardened to 1.5805. The deutschemark advanced to 1.7675. The Bundesbank seemed reluctant to support the dollar at first but eventually took in $116 mn. Most of the other EMS currencies weakened within the band. The Belgians spent $167 mn.-worth of marks and their franc (28.35) closed 2% from the mark. The French franc (4.1617) and Danish krone (5.0895) slipped down the band to within an ace of the franc. The French sold marks worth $107 mn. and their cross-rate fell from 2.33¾ to 2.35½ to the DM. At 805½ the lira was only 2⅜% above the floor. The punt, however, retained its position in the band, rising to 2.1245 (only 1⅞% discount on sterling) as the Irish sold $41 mn. and $11 mn. of sterling. The yen firmed to 222.30 in Tokyo and 219.70 in London.

Gold opened firmer but showed great reluctance to gain from the dollar's weakness. The first fixing produced a price of $375.35. This afternoon, however, the price soared again. The fixing set a new record level of $380 and the metal traded up to $386 afterwards.

Operations:	Market	+	$16 mn.
	IDA	+	9
	Post Office (PSB G'teed)	+	4
	Greece	-	10
	Sundries	-	8
		+	$11 mn.

20th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st September 1979

The weight of official support for the dollar induced some covering by the bears today, although the extent of the recovery was none too substantial. Sterling traded comfortably for most of the session and the ERI improved to 68.2.

The pound closed at 2.1660 in New York on Friday and opened this morning at 2.1587. Buyers soon came in from the Far East and elsewhere and sterling traded as high at 2.1745 before settling around 2.17. The dollar's rebound did not affect sterling at first but later this morning a large Swiss selling order combined with a London commercial to depress the rate to 2.1575. Americans showed little interest and the pound traded around 2.16 for much of the afternoon. Some moderate transatlantic demand later carried sterling to 2.1687 but the close was struck quietly at 2.1645. Three months' forward cover cost 1 9/16% p.a. and the adverse covered differential was 3/16%.

The pound eased fractionally against the duetschemark (3.82½), was ¼% off on the French franc (8.98⅜) and lost ½% to the Swiss franc (3.40½). Yesterday in New York the Federal Reserve returned to the charge, selling marks worth $319 mn. and Swiss francs worth $14 mn.; the Swiss for their part bought an additional $173 mn. The dollar fell further against each of these currencies. Today the Swiss took in $162 mn., largely it would seem to control the DM cross-rate which was let back from an opening 0.89¼ to 0.89. Against the dollar the franc closed at 1.5730 (after 1.5810), a slight improvement for the dollar on its New York low. The deutschemark similarly finished at 1.7670 (after 1.7770). The Bundesbank bought only $25 mn. The Danish krone (5.1007) closed as the weakest currency in the EMS, almost 2¼% from the mark. The Danes sold $36 mn. of marks and the Belgians, whose franc was propping the snake for most of the day, spent marks worth $108 mn. The French franc was very volatile, closing firmer at 4.1505. The DM cross-rate improved from 2.35½ to 2.34⅞ after the French had sold $21 mn. and marks worth $215 mn. The lira (807¼) closed at 2⅜% above the floor. The punt (2.1225) stood at 2% discount on sterling. The Irish sold $17 mn. and a little sterling. The yen closed at 221.40 in Tokyo and 222.40 in London.

Gold eased in New York yesterday and again in Hong Kong this morning. This morning was relatively quiet and the fixing set a level of $373.00. The price was rather more volatile this afternoon and, after falling to $362, it was bid up to $369.00 in the fixing.

Operations:	Market	+ $9 mn.
	Government	- 40
	Mauritius	+ 5
	Sundries	+ 3
		- $23 mn.

21st September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th September 1979

The EMS realignment took many by surprise and caused considerable confusion within the system itself. At the end of the day, however, the dollar was little changed against the major currencies but sterling was weaker overall as sellers tended to predominate. The ERI fell from 68.2 to 67.9.

The pound rose to close at 2.1690 in New York on Friday but opened this morning no better than 2.1597. On the early exchanges the dollar tended firmer in response to the EMS realignment and sterling moved up in sympathy to 2.1645. Soon enough, however, this trend was reversed and both dollar and pound went into rapid decline. Sterling was sold, in particular, from a host of Middle East banks. The late morning saw a further, general wave of selling, sparked, it seemed from Scandinavia, and the pound dipped as low as 2.1508. Profit-taking, allied with some commercial demand, brought a recovery to 2.1612 early this afternoon but American selling caused a relapse to 2.1520 before the close came at 2.1545. Forward margins were little changed. Three months' cover cost 1⅝% p.a. and sterling's intrinsic discount was ⅛%.

Sterling lost ⅜% to the French franc (8.95) and ¼% to each of the Swiss franc (3.39¾) and the deutschemark (3.81½). The EMS realignment naturally took the Danish krone (5.1420) to the top of the band - and at -75 on the divergence indicator - and the deutschemark (1.7704) towards the bottom. However, the Belgian franc (28.48) continued to prop up the system as many dealers felt the adjustment to be insufficient. The Belgians sold $83 mn. of Danish kroner while the Danes bought $5 mn. of Belgian francs. The band was well-stretched at the close. Otherwise, the guilder and French franc remained together a little above the mark. The French recouped $100 mn., though their franc eased slightly to 4.1540; the DM cross-rate improved to 2.34⅝. The Bundesbank sold $17 mn. (On Friday, the Federal Reserve had bought $107 mn. against marks.) The lira slipped within the 2¼% margins for a while but the Italians sold $70 mn. and it closed at 807.45, 2⅝% above the floor. The Irish sold a further $38 mn. and $20 mn.-worth of sterling and the punt (2.1242 - 1⅜% discount on sterling) rose above the mid-point of the band. Elsewhere, the Swiss bought $95 mn., although their franc eased to 1.5769. Against the mark it was a touch softer. The yen weakened to 222.85 in London. Japanese markets were closed.

Gold firmed in the Far East over the weekend but saw little activity this morning. The fixing, however, saw very heavy turnover and set a level of $377. This afternoon found the price somewhat firmer, although volume was again somewhat subdued. The fixing was $380.40, a new record.

Operations:	Market	- $15 mn.
	IDA	+ 11
	Interest	+ 6
	Mauritius	+ 5
		+ $7 mn.
	Overnight	+ $7 mn.

24th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 25th September 1979

All markets were in better shape today. Sterling was actively traded and recovered to 68.1 in effective terms.

Modest demand took sterling up to 2.1625 in New York last night. It opened quietly at 2.1565 today and drifted down in gentle fits and starts to 2.1518: but as two-way trading began to build up the pound recovered to 2.16 before closing at 2.1584. Forward margins were little changed: the covered differential against London narrowed to 1/16% p.a.

Against the Swiss franc and deutschemark sterling was steady, but in Paris it improved to 8.97⅜ (+ ¼%). The EMS had a more comfortable day though all constituents, save the deutschemark, gave ground to the dollar. The Belgian franc needed no support, closing at 28.59, 2⅛% weaker than the Danish krone (5.1717 and only -61 on the divergence indicator). The deutschemark improved to 1.7673, some 1¼% below the krone. The Italians sold $65 mn. in cushioning the lira's decline to 809.05. The French allowed the DM crossrate to slip to 2.35¼ as their franc eased against the dollar to 4.1575 (1⅛% below the krone). The punt was supported to the extent of some $25 mn. equivalent, closing at 2.1160 (2% discount on sterling). The Swiss franc and yen were little changed.

Gold seems to have settled down within a broad trading range. It fixed today at $375.90 and $376.70 with good levels of turnover reported.

Operations:	Market	+ $26 mn.
	Sundries	- 1
		+ $25 mn.

25th September 1979.
DAHB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th September 1979

Broad-based demand for sterling was evident throughout the day and carried the currency to its best levels for over a week. The dollar was kept steady as a result. Sterling's ERI rose to 68.7.

The pound closed at 2.1612 in New York yesterday and began today at 2.1627. Sterling soon began to advance, probably behind some professional squaring for the end-quarter. Later, however, there appeared a persistent Middle East interest in pounds and this drove the rate up through 2.17 before a range was found around that level. As time passed and sterling failed to relapse, commercial buyers were flushed out into the open and demand for sterling began to mount again. This afternoon saw persistent and solid demand, both from Europe and the USA, with a strong suggestion of further acquisitions by Middle East investment accounts. The pound closed at 2.1795 - its best level of the day - and went on to trade up to 2.19 afterwards. Forward margins narrowed as the pound improved. Three months' cover cost 1⅛% p.a. and sterling's intrinsic discount was 1/16%.

Sterling gained ⅝% on the French franc (9.03⅛), 1% on the deutschemark (3.85¼) and 1⅛% on the Swiss franc (3.45). The dollar was steady in Germany, where the mark closed at 1.7679, and firmer in Switzerland, where the franc eased to 1.5832. After the close, however, it sagged in response to sterling's strength. The EMS narrowed to 1⅞% in width as the Belgian franc (28.48) gained ground on almost all the participants. Only the Dutch showed concern, selling $11 mn. and $20 mn.-worth of marks. The Italians, too, sold $68 mn. and the lira (809.30) finished 2⅜% above the floor. The Danish krone (5.1642) closed at the top of the narrow band. The punt (2.1097) was at 3¼% discount on sterling. The yen closed at 223.00 in Tokyo and 222.81 in London.

Gold traded in a relatively narrow range and tended softer for much of the day until a rise in the platinum price provoked an upward movement late in the day. Fixings were $370.80 and $373.75.

Operations:	Market	+ $126 mn.
	National Water Council (PSB G'teed)	+ 18
	India	+ 11
	Interest	+ 6
	Sundries	+ 1
		+ $162 mn.
	Overnight	+ $35 mn.

26th September 1979.
JGH

SECRET 1979/41

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 26th September 1979

Sustained before the weekend chiefly by the dollar's decline, sterling later came into good demand, rising ¾% in effective terms to 68.7 after 67.8. A temporary withdrawal of official support let the dollar down sharply on Thursday. A realignment of rates relieved the snake's agony.

Sterling fell over a cent at first from the close of 2.1440 on 19th September, but soon began to rise against a markedly weaker dollar, touching 2.1745 on Friday morning when it attracted some attention on its own merits. Later selling from the Continent coincided with a general improvement in the dollar, and sterling closed for the weekend at 2.1645. The pound marked time on Monday morning while the dust raised by the weekend realignment of snake currencies settled, weakening a little on modest selling from the Continent; but it advanced subsequently on good professional, investment and commercial buying, closing on Wednesday at a best level of 2.1795. Sterling failed to keep up with the advance of the main Continental currencies before the weekend, but later recovered most of the ground lost; on balance, it weakened only ⅝% against the mark (3.85¼) and by ¼% to 9.03⅛ in Paris. It fell slightly to 1.54¼ against the ECU, this representing a premium of only ¼% on the revised notional central rate. The intrinsic discount on the usual 3-months' comparison fell to 1/16%, the cost of forward cover closing at 1½%.

The dollar fell precipitously on Thursday when it became clear that the Fed had withdrawn support at around 1.80 against the mark. It went 4 pfennigs or so lower. Once the initial panic was over, official resolve to defend the lower rate was not seriously tested for a time. The Fed bought $460 mn. before the weekend, but did not bat again until Wednesday, when they bought $480 mn. The Swiss bought the most dollars ($1,170 mn., chiefly on Thursday). The franc strengthened by over 4 rappen that day, closing the period 2½% better at 1.5832, but the SNB's main concern was seemingly to prevent their mark cross-rate improving beyond 0.89. The Bundesbank trod lightly in comparison, buying only $70 mn. net. Over the week, the mark strengthened by 2¼% to 1.7679. Other participants in the EMS were acutely embarrassed by its strength. Before the weekend, central banks bought $630 mn.-worth of Belgian and French francs and Danish crowns against marks, the Dane closing bottom of the snake on Friday. By the time trading reopened on Monday, the mark had been revalued 2% against the other currencies, and the crown devalued by 3%; these two swapped positions in the snake, without much change in their cross-rate in the market. The mark subsequently began to advance again, leaving the Belgian franc (28.48) at the bottom 1⅞% below the crown (5.1642). No currency approached its divergence threshold. The lira closed overall top, at 809.30, 2 5/16% above the Belgian franc, but its relative position weakened and it received $270 mn. of support. The French franc closed at 4.14⅜ after $320 mn.-worth of marks (and $20 mn.) had been spent holding the cross-rate below 2.35½. Even the Irish pound (2.1097, its discount on sterling back to 3¼%) was supported by official sales of $110 mn. and $120 mn.-worth of sterling, although it was never troubled in the snake. Elsewhere the yen remained rather weak, closing only ⅛% better against the dollar at 222.81. The Swedes raised bank rate by 1% to 8%.

At times the gold price looked vulnerable but on balance it closed $4¾ higher at $373¾. The $380.40 on Monday morning is a record for the fix. Trading remained active if nervous.

27th September 1979.
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
20th September		27th September
2.1350	£/$	2.2137
67.4	Effective exchange rate index	69.4
1¾% p.a. disc.	Forward 3-months	1 5/16% p.a. disc.
12 15/16%	Euro-$ 3-months	12 11/16%
7/16% disc.	I.B.Comparison	par
1.7787	$/DM	1.7476
3.79¾	£/DM	3.86⅞
8.92⅛	£/FF	9.08⅛
221.25	$/Yen	222.42
$375.00	Gold	$385¼
1.5907	$/S.Fc.	1.5572
3.39⅝	£/S.Fc.	3.44¼

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 27th September 1979

The dollar continued very weak today on fears for a further rise in oil prices and sterling, this morning at least, was again in good demand. The ERI rose from 68.7 to 69.1, after 69.5 this morning. Gold set a new record and moved within sight of the $400 level.

The pound continued wanted in New York last night, advancing to 2.2005 by the close. This morning, the dollar began very soft again - despite very heavy official support - and sterling soon found ready buyers. The opening rate was 2.2065 and, having touched 2.2035, the pound forged ahead to 2.2140 before official support for the dollar on the Continent brought some reaction. This was short-lived, however, and, when the dollar sagged again, sterling was bid up to 2.2170. This level attracted professional sellers, with Scandinavians prominent, and the pound fell steadily, in an otherwise thin market, to 2.20 by early afternoon. Some general profit-taking in the dollar as early Americans returned took sterling lower still and 2.1906 was traded before the announcement of a 6% rise in Venezuelan oil prices turned the dollar down again. Sterling recovered swiftly to 2.2052 before closing at 2.2030. Forward margins narrowed, the three months' to 1⅜% p.a. discount. This produced interest parity on the usual comparison.

The pound was little changed against the French franc (9.03¼) but lost ¼% to the duetschemark (3.84½) and ⅝% to the Swiss franc (3.42⅞). Yesterday the Federal Reserve took in $475 mn. against marks and this morning they were again intervening forcefully in the Far East. Today, the Bundesbank bought $131 mn. but the mark appreciated nonetheless to 1.7455. The Swiss bought only $50 mn.; their franc rose to 1.5562. The Danish krone (5.0925) and Belgian franc (28.20) spanned a snake that was fully-stretched at the close. The Belgians sold kroner worth $14 mn. and the Danes bought $16 mn. and $4 mn. of marks. The punt (2.1392) was at 2⅞% discount on sterling; the Irish sold $13 mn. and sterling worth $28 mn. The yen closed at 222.75 in Tokyo and 223.07 in London. The French soaked up $83 mn., their franc firming to 4.10.

Gold set new records at each fixing with levels of $386.25 and $395.50. Turnover was heavy and the metal was particularly well wanted this afternoon on short covering in the futures markets.

Operations:	Market	+ $44 mn.
	Interest	+ 45
	India	+ 11
	Ireland	- 66
		+ $34 mn.

jgh 27th September 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 28th September 1979

The dollar fell sharply in New York yesterday following the release of the latest U.S. trade deficit but recovered its poise this morning and traded comfortably - though still supported - for much of the day. Sterling was less active than of late and tended to mirror the dollar's performance. The ERI slipped to 69.0.

The pound closed at 2.2097 in New York on Friday in response to the weaker dollar. This morning it began at 2.2072 and, as the dollar regained lost ground, quickly retreated as far as 2.1933. Volume was not heavy and, when some commercial buyers entered the fray, sterling topped 2.20 again. Americans returned as sellers of pounds and for a while this afternoon the tone was uneasy as sterling fell to 2.1908 in a thin market. Late in the day, however, the dollar relapsed and sterling recovered to close comfortably at 2.2020. Forward margins narrowed again, the three months' to 1 1/4% p.a. discount. Interest parity was maintained.

Sterling lost 1/8% to the French franc (9.02 3/8) and 1/4% to each of the deutschemark (3.83 3/8) and Swiss franc (3.41 1/2). Yesterday, the Federal Reserve bought up $181 mn., almost entirely against deutschemark and almost all done in the Far East. Today, the Bundesbank took in $102 mn. and the Swiss $67 mn. The mark firmed to 1.7410 and the Swiss franc to 1.5510. The E.M.S. was relaxed for much of the day but the band was extended again by the close. The Danes bought $5 mn. of Belgian francs and the Belgians sold $7 mn. of Danish kroner. The punt (2.1380) stood at 2 7/8% discount on sterling. The yen eased to 223.45 in Tokyo and further to 224.40 in London.

Gold passed the $400 level in the Far East this morning, but never quite achieved that goal in London. Nevertheless the fixings again set successive records with levels of $397 and $397.25. Conditions were generally less active.

Operations:

Market + $13 mn.

Overnight + $1 mn.

The result for September is a reserve loss of $554 mn. to a level of $22,751 mn. This was struck after net public sector debt repayments of $123 mn. The overbought forward position was reduced by $188 mn. to $1,544 mn.

28th September 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 1st October 1979

The dollar drew fresh heart this morning from the outcome of the weekend talks in Hamburg, but the market was not slow to test the authorities resolve and, notwithstanding that the Bundesbank proved true to its word, the dollar retreated in some disarray to finish around Friday's depressed levels. Sterling drew little comfort from this and found sellers predominant. The ERI fell to 68.6. Gold soared again to new, dizzy heights.

The pound closed at 2.1995 in New York on Friday but was sold in the Far East this morning as the dollar gained ground following the statement from Hamburg. The opening price in London was 2.1928 but this did not hold as Swiss banks came in as ready sellers and sterling eased rapidly to 2.1795. With the dollar itself now weakening, sterling steadied but showed no great inclination to recover until late morning when some of the earlier sellers returned to square their books. Having traded down to 2.1785, the pound recovered rapidly and touched 2.1950 early this afternoon. The rest of the day was much quieter and sterling traded around the higher levels before easing, on a firmer dollar, to close at 2.1895. The cost of three months' forward cover was again 1 1/4% p.a. and interest parity prevailed on the usual comparison.

The pound lost 5/8% to each of the Swiss franc (3.39 1/2) and deutschemark (3.81 1/8) and 7/8% to the French franc (8.94 3/8). The Federal Reserve did nothing on Friday but the Bundesbank today took in $318 mn. The deutschemark closed unchanged at 1.7409 (after 1.7540). The Swiss, too, bought up $110 mn. and their franc also closed little different at 1.5505 (after 1.5623). The E.M.S. was quite comfortable, finishing at 2 1/8% in width between the Belgian franc (28.15) and Danish krone (5.0927). The Danes bought $6 mn. The French franc was relatively firm (4.08 1/2 to the dollar and 2.34 5/8 to the mark) and the French creamed $43 mn. The punt (2.1375) stood at 2 3/8% discount on sterling. The yen continued weak and the Japanese expended $292 mn. in Tokyo this morning to effect a close of 224.95. In London, despite the dollar's decline, the yen eased further to 225.32.

Gold flirted with, and eventually overcame, the $400 level this morning, the price being fixed at $399.50 en route. This afternoon, the price was bid sharply higher, with U.S. futures markets again a leading influence. The fixing set a new record at $414.75 and the price closed around that level.

Operations:

Market	- $36 mn.
B.I.S.	+ 18
Sundries	+ 8
	- $10 mn.
Overnight	+ $11 mn.

1st October 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 2nd October 1979

A day of mixed and widely fluctuating fortunes for the dollar. Battered further this morning, it responded later to official support, Solomon's hints of a further package and market rumours of an imminent Presidential press conference. When the last of these proved unfounded, the currency eased back from the day's better levels. Sterling saw little activity and gained overall from the dollar's recovery. The ERI rose from 68.6 to 69.0.

The pound closed firmer in New York yesterday at 2.1990 but opened this morning back at 2.1940. The opening exchanges saw modest two-way business and sterling tended to mirror the dollar's performance. The pound was marked up to 2.2005 but proved reluctant to advance beyond that and turned back when the dollar began its recovery. This afternoon sterling was very steady around 2.19, despite sharp movements elsewhere, and only late in the day did it ease to 2.1830 before recovering as sharply to close at 2.1915. The cost of three months' forward cover was 1 3/16% p.a. and this gave sterling a small intrinsic discount on the covered comparison.

The pound regained 3/4% against the deutschemark (3.83 3/4) and 1% against each of the Swiss franc (3.42 7/8) and French franc (9.03 7/8). The Federal Reserve sold marks equivalent to $217 mn. and Swiss francs equivalent to $19 mn. (the latter shared with the Swiss, who themselves bought a further $25 mn. late in the day). Today, with the Swiss franc threatening to outdistance all-comers, the Swiss moved in early to buy $175 mn. The Bundesbank took in only $68 mn. By the end of the day, the franc had eased to 0.89 3/8 to the mark; against the dollar the franc was 1.5650 and the mark 1.7510. The French bought $60 mn. (swapping out $55 mn.), although their franc eventually closed easier against both the dollar (4.1245) and mark (2.35 1/2). The E.M.S. was relaxed and the Punt (2.14: 2 3/8% discount on sterling) moved to the top of the band, 1 15/16% above the Belgian franc (28.36). The Danes bought $7 mn. of marks. The yen closed at 224.85 in Tokyo and 225.35 in London.

Gold seemed a more frenzied market than ever before and the day's price range was all of $40. Opening at $422, the metal ran up to a new record $444 - $447 as the dollar weakened this morning. Heavy Middle East interest was rumoured. The price turned before the fixing, which set a level of $437, itself a new record for the fixing. This afternoon, with U.S. futures markets again an influence, the metal moved uncertainly. A long and difficult fixing produced a level of $426 and the market closed offered at around $413.

Operations:

Market	+ $ 1 mn.
India	+ 10
Sundries	+ 2
	+ $13 mn.

2nd October 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 3rd October 1979

No firm, underlying trend emerged on the exchanges today. The dollar weakened following Miller's apparent denial of any support package but staged a technical rally later in the day. Sterling saw two-way activity and, after a soft start, gained strength from Libya's decision to cut oil supplies to the companies. The ERI fell to 68.8.

The pound closed easier at 2.1855 in New York yesterday. This morning it opened at 2.1825 and soon moved lower as early sellers moved in from Germany and London. Further offerings, in part commercial, took sterling back to 2.1755 but this level provoked profit-taking and flushed out some general buying interest, some of this also commercial. The pound had revived to 2.1860 by midday and, following the Libyan announcement, it moved strongly ahead to 2.1985. Once again, 2.20 seemed a barrier and, when Americans sold pounds to square their books, sterling backed off rapidly to 2.1860 before closing at 2.1870. Forward margins narrowed sharply, more than compensating for a marked convergence in dollar and sterling deposit rates. Three months' cover cost 13/16% p.a. at the close and sterling commanded an intrinsic premium of 1/8%.

Sterling gained 1/2% on the Swiss franc (3.44 1/2) but was little changed against either the French franc (9.02 7/8) or deutschemark (3.83 7/8). The dollar firmed against all three, closing at 1.5750, 4.1287 and 1.7550 respectively. Yesterday, the Federal Reserve took in $87 mn. against marks but official support today was almost non-existent. The lira (807.40) led the E.M.S., 2 1/8% above the Belgian franc (28.35). The punt (2.1285) stood at 2 5/8% discount on sterling. The yen closed at 225.50 in Tokyo, where the Japanese sold $150 mn. in support. This afternoon it recovered sharply, following strong demand from a source in Singapore, and closed in London at 224.27 (after 223.20).

Gold attempted a rally this morning but eased into the fixing which set a level of $418.50. This afternoon the price was marked down dramatically, with selling from a large European operator followed by liquidation on the U.S. futures markets. The fixing price was $402 and the closing level was around $393 1/2.

Operations:

Market	+	$4 mn.
Iraq	+	13
Post Office (PSB G'teed)	+	11
Iran	+	5
Greece	-	5
Sundries	+	5
	+	$33 mn.

3rd October 1979.

J.G.H.

SECRET

1979/42

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 3rd October 1979

The pound was less volatile than many currencies in a difficult week, gaining 0.1 to 68.8 in effective terms after 69.5 on Thursday morning and 68.6 on Monday. The dollar was weak until expectations of higher U.S. interest rates and perhaps a new support package picked it up from the floor. Central banks gave heavy support on the way down.

Sterling gathered strength at first, rising 3¾ cents from the London close on Wednesday afternoon to 2.2170 before profit-taking set in. The pound was rather inactive on Friday, closing for the weekend at 2.2020, and decidedly soft on Monday morning, when professional selling from the Continent took the rate down to 2.1785 against a queasy dollar. Sterling moved up again as the dollar took another battering; held a steadier course than most European currencies on Tuesday, when the dollar swung about wildly; but went easier on Wednesday morning, touching 2.1755, until renewed buying carried it to 2.1985 before a retreat to 2.1870 at the close. A report that Libya will curtail oil supplies appeared to encourage demand. The September reserves figures attracted no attention. Sterling softened on the Continent, easing back ⅜% to 3.83⅜ against the mark, and to 9.02⅜ in Paris. The ECU rate fell to 1.5411, a ⅛% premium on the notional central rate. A fall in the cost of forward cover turned the small intrinsic discount on sterling into a ⅛% premium despite a rise in euro-dollar rates.

The dollar had another testing week, with the Hamburg and Belgrade meetings giving rise to various rumours. It received $1.5 bn. of official support altogether. The U.S. trade figures - an increased deficit of $2.36 bn. - were badly received. On Tuesday morning the dollar approached its lows of last October in some centres. It turned on some hints from Mr.Solomon of further support, and expectations were raised when Mr.Volcker left for home on Tuesday afternoon. Although nothing was announced, the prospect of yet higher U.S. interest rates and perhaps more direct support for the dollar kept the bears in their dens, and the dollar closed some way off the bottom. The Fed. themselves bought $490 mn. in the market, mostly against marks. The Bundesbank were also active, buying $650 mn., half of it on Monday. The mark gained ¼% to 1.75½ after 1.7258. The Swiss also gave tangible support to the dollar, buying $430 mn.; their franc strengthened ½% to 1.57½. The French bought $190 mn. as their currency improved to 4.12 ⅜, although, at 2.35¼, it went softer against the mark. The dollar received similar support from Canada, but the Japanese, their own currency weak, sold $440 mn.; the yen, alone among the major currencies, fell to 224.27 against the dollar. The dollar's troubles switched attention from the snake, which was comparatively relaxed with the lira (807.40) in top place and the Belgian franc (28.35) closing 2⅛% below it. The Danes (5.1335) bought a handful of dollars, Belgian francs, and marks; the Belgians gave their currency a modicum of support before raising bank rate to 10%. No currency approached its divergence threshold, and intervention in participating currencies was negligible. The Irish pound closed at 2.1285, a narrower 2⅝% discount on sterling, at the cost of some $60 mn.-worth of support, mostly carried out by sales of sterling.

The gold market remained in the grip of a fever. On Tuesday, the price in London ranged over $40, from $405 to $445. Fixings were lengthy and tortured. The highest fixing level was $437 on Tuesday morning; on Wednesday the price fell sharply to $402, but still showed a rise of nearly $30 on the week.

4th October 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
27th. September		4th. October
2·2137	£/$	2·1917
69·4	Effective exchange rate index	68·9
1 5/16% p.a. disc.	Forward 3-months	3/4% p.a. disc.
12 11/16 %	Euro-$ 3-months	13 3/16 %
par	I.B.Comparison	1/8 % p.a. pre.
1·7476	$/DM	1·7552
3·86 7/8	£/DM	3·84 5/8
9·08 1/8	£/FF	9·04 3/8
222·42	$/Yen	223·20
$ 385 1/4	Gold	$ 396 1/2
1·5572	$/S.Fc.	1·5760
3·44 3/4	£/S.Fc.	3·45 3/8

FE 440.07

SECRET

4.10.79

GPS

Copies to: Mr.Sangster
Mr.Byatt

FOREIGN EXCHANGE AND GOLD MARKETS
28th September - 4th October a.m.

I attach a note for the Governor's return, as requested.

4th October 1979.

PAB

...support. The snake was comparatively relaxed: Belgians raised bank rate.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

After a quiet day on Friday, sterling softened on Monday on professional selling from the Continent, kept steadier than most currencies when the dollar swung about wildly on Tuesday, and, after an easier tendency at first on Wednesday, strengthened on the news that Libya is to curtail oil sales. Between the close on Thursday, 27th September and the opening this morning the rate eased from 2.2030 to 2.1875 (from 69.1 to 68.8 in effective terms; from 3.84½ to 3.83⅜ against the mark). Our market transactions balanced out.

The dollar had a rough ride, especially on Tuesday morning when it fell to 1.7258 against the mark. It turned on Mr.Solomon's hints at further measures to help it, and on Mr.Volcker's return to Washington, which excited expectations of some announcement. None was forthcoming but the dollar stayed firmer. Rates this morning are 1.7515 (DM), 1.5735 (Swiss franc), 4.1237 (French franc). Altogether it received over $0.8 bn. of support, principally from the Fed, the Bundesbank and the Swiss. The yen was weak at times, receiving $440 mn. of support. The snake was comparatively relaxed: Belgians raised bank rate.

Gold was more fevered than ever, ranging over $40 in price on Tuesday. The record fix was $437 on Tuesday morning. The price fell sharply on Wednesday. This morning it stands at $402.

4th October 1979.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th October 1979

The dollar continued relatively firm today with few dealers prepared to take short positions while expectations of a support package remained high. Sterling was in demand this morning following renewed rumours that OPEC producers would take part of their royalties in pounds. The ERI rose from 68.8 to 69.0.

With the dollar continuing to improve in New York yesterday, sterling closed lower at 2.1840. This morning the pound opened at 2.1860 and, after a quiet start, met good demand on the rumoured OPEC consideration of sterling royalties, rising to 2.1965 before profits were taken. This afternoon, the dollar jumped sharply ahead as American markets reopened and sterling came back swiftly to 2.1792. By the close, however, the dollar was off its best levels and sterling rebounded to finish at 2.1890. Three months' forward cover cost ¼% p.a. and sterling retained a very small intrinsic premium.

The pound gained ⅜% on the deutschemark (3.85½), ½% on the French franc (9.07½) and ⅝% on the Swiss franc (3.46⅝). Against the dollar, all three again eased to 1.7610, 4.1460 and 1.5835 respectively. Outright official intervention was negligible, although the Bundesbank swapped in $½ bn. and the Swiss swapped out $50 mn. The Danish krone (5.1575) led the EMS, less than 2% removed from the Belgian franc (28.46). The punt (2.1175) stood at 3¼% discount on sterling. Elsewhere, the yen closed at 223.50 in Tokyo; having firmed later to 221.45 in London, it then weakened sharply, following a report that Iran was increasing the price of oil sold to Japanese importers, and closed at 223.07.

Gold followed recent trends. An early rally, which lacked conviction, gave way to a lower fixing ($394.50) and a further, sharp sell-off once US futures markets reopened. The later fixing, which was again difficult, produced a level of $384.

Operations:	Market	+ $26 mn.
	Interest	+ 13
	India	+ 11
	Sundries	- 4
		+ $46 mn.

JGH

4th October 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th October 1979

A dull end to the week allowed both the pound and dollar to trade comfortably for most of the day. Sterling drifted off towards the close in a thin market and the ERI fell as a result from 69.0 to 68.8.

The pound closed at 2.1870 in New York yesterday and opened at 2.1873 this morning. Sterling touched 2.1895 on the opening exchanges and then meandered through the morning with little activity of consequence until some Swiss selling engendered a rapid decline to 2.1817 early this afternoon. Modest initial demand from the US took sterling back to 2.19 but later in the day American sellers caused a relapse to 2.1815 by the close. Conditions remained thin throughout. Three months' cover cost 13/16% p.a. and the covered differential moved to ⅛% against London.

The pound lost ¼% to the Swiss franc (3.44) and ½% to each of the French franc (9.03) and deutschemark (3.83½). All three gained a little on the dollar at 1.5770, 4.1392 and 1.7580 respectively. Once again, however, there was no significant official support for the dollar, although the Bundesbank swapped in $600 mn. and the Swiss swapped out $50 mn. The Danish krone (5.1570) and Belgian franc (28.46) continued to span the EMS, a little under 2% apart. The Dutch sold marks worth $11 mn. The punt (2.1210) stood at 2¾% discount on sterling. The Irish bought $18 mn. The yen closed at 224.90 in Tokyo and 223.97 in London.

Gold weakened sharply again this morning and the price was fixed at $367.50. The metal then rallied as strongly this afternoon and, with turnover still heavy, the price was fixed at $385.

Operations:	Market	- $33 mn.
	India	+ 22
	Sundries	+ 3
		- $8 mn.

JGH

5th October 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 8th October 1979

The Federal Reserve Board's weekend package was initially received with some scepticism on the exchanges but this quickly evaporated once the new marginal reserve requirements began to impact on dollar deposit rates and the dollar finished the day in very much better shape. For the most part, sterling held up well against other currencies but, given the dollar's advance, the ERI inevitably fell from 68.8 to 68.3.

The pound closed at 2.1767 in New York on Friday but opened at 2.1590 this morning in response to a general mark-up for the dollar. Sterling was sold in the Far East and again in Europe but conditions remained orderly and the pound retreated no further than 2.1535 before finding a level. Swiss banks later returned to sell in some size but this was eventually well absorbed and, although the dollar was advancing further elsewhere, sterling recovered to 2.1640 on some keen Middle East buying interest. Despite the Columbus Day holiday, American banks found ways to participate and proved eager takers of dollars. Sterling backed off in a thin market to 2.1422 before steadying to close at 2.1445. Forward margins narrowed substantially leaving a very small premium only for all periods out to six months. Eurodollar deposits eventually firmed by around 1% for all periods up to twelve months. This left a covered differential of ⅜% against London on the three months' comparison.

The pound gained ⅛% on the French franc (9.04⅛), ½% on the deutschemark (3.85⅜) and ⅞% on the Swiss franc (3.46⅞). The Swiss franc touched 1.6212 before closing at 1.6172 and the deutschemark was 1.7970 (after 1.7980). Neither Central Bank supported its currency. The French franc eased to 4.21⅝ but improved against the mark to 2.34⅝. Unusually the EMS came under modest pressure and the band was almost fully extended at the close between the Belgian franc (29.02) and Danish krone (5.2455). The Belgians sold $6 mn-worth of kroner and the Danes bought $15 mn.-worth of marks. The punt (2.0860) remained at 2¼% discount on sterling. In Tokyo, the yen closed at 225.20, while in London it eased modestly to 225.72.

Having adjusted downwards in price in the Far East this morning, gold was then fairly steady and the fixing set a level of $376.75. The dollar's strong upsurge brought some relapse this afternoon and the price was fixed at $372, at which level the metal closed.

Operations:	Market	- $62 mn.
	Bangladesh	- 5
	Interest	+ 9
	Sundries	+ 5
		- $53 mn.

8th October 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 9th October 1979

Further sharp increases in dollar deposit rates brought healthy gains for the dollar this morning. By the end of the day, however, with deposits well off their best levels, the currency's net rise was rather less spectacular. Sterling was again protected from any adverse impact resulting from the dollar's strength: the increase in Kuwaiti oil prices was cited as a bull point for the pound. The ERI recovered to 68.6.

The pound opened at 2.1380 this morning, some half a cent down on yesterday's close. The dollar quickly picked up ground but sterling traded no lower than 2.1345 before professional demand emerged in London, spurred by the increase in Kuwait's oil prices. Sterling crested 2.14 and settled around that level, advancing later to 2.1455 when Swiss and Middle Eastern buyers came in for pounds. Returning Americans were once more keen takers of dollars and sterling was sold on a modest scale, retreating to 2.1360 at one stage. Late in the day, however, the dollar itself turned easier and some buying interest from Switzerland and the U.S.A. carried sterling up in a thin market to close at 2.1505. As eurodollars firmed further, forward sterling moved to a premium, the three months' closing at 5/16% p.a. This left a small covered differential in favour of London.

The pound put on 1/2% against both the deutschemark (3.87 1/4) and French franc (9.08 1/4) and gained 3/4% against the Swiss franc (3.49%). These lost further ground to the dollar. The deutschemark closed at 1.8005 (after 1.8160), the Swiss franc at 1.6260 (after 1.6415) and the French franc at 4.2230 (after 4.27). The French bought $28 mn.-worth of marks (and swapped out $60 mn.) to hold the DM. cross-rate around 2.34 5/8. The EMS was again fully stretched between the Belgian franc (29.09) and Danish krone (5.2580). The Belgians sold $18 mn.-worth of kroner, while the Danes took in $19 mn., $40 mn.-worth of marks and $29 mn.-worth of Belgian francs. The punt (2.0690) slipped to 3 3/4% discount on sterling. In Tokyo, the Japanese sold $91 mn. to effect a close for the yen of 226.40. In London, it improved to 225.92.

Gold advanced in the Far East from somewhat depressed overnight New York levels and thereafter enjoyed a steady morning with the price fixed at $377. The increase in oil prices tended to support the metal while the stronger dollar acted as a counterweight. Some good demand, supposed to be from the Middle East, then took the price into a higher range and the later fixing set a level of $385.80.

Operations:

Market	+ $45 mn.
Saudi Arabia	+ 11
Sundries	- 6
	+ $50 mn.
Overnight	+ $9 mn.

9th October 1979.

J.G.H.

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th October 1979

The dollar turned easier this morning as dealers began to look in vain for some external support to buttress the weekend's domestic package. Sterling was again well bid, with further evidence of Middle East demand. Markets were generally quieter this afternoon and sterling slipped back towards opening levels. The ERI rose to 68.8.

The pound closed at 2.1562 in New York yesterday and began this morning at 2.1607, a cent higher than yesterday's closing level in London. The early morning session was not overactive and sterling was marked up in response to the dollar's general decline. Later, however, Middle East banks were seen bidding for pounds again and the rate was swept up quickly to 2.1765. With the demand satisfied, however, the pound relapsed as swiftly to settle around 2.17. The afternoon was generally much quieter and steadier but sterling continued its decline and touched 2.1625 before closing at 2.1658. Eurodollar deposits opened yet firmer but thereafter traded somewhat steadier than yesterday. Three months' forward sterling closed at a premium of ½% p.a. The covered differential, however, moved to ⅛% against London.

Sterling eased a shade against each of the deutschemark (3.86⅝), Swiss franc (3.49¼) and French franc (9.06⅝). All gained considerable ground on the dollar with respective closing levels of 1.7850, 1.6125 and 4.1862. The Bundesbank bought $34 mn. and the French took in $159 mn., holding the DM cross-rate at 2.34½. The EMS was again under some pressure, though finishing slightly less than fully stretched between the Belgian franc (28.83) and Danish krone (5.2122). The Danes bought $16 mn. and $25 mn.-worth of Belgian francs. The Belgians sold $3 mn.-worth of kroner. The punt (2.0942) stood at 3⅛% discount on sterling. Tokyo was closed for PE Day. In London, the yen closed slightly firmer at 225.70.

Gold opened sharply higher but thereafter traded indecisively. The fixings attracted very heavy turnover and set levels of $409.25 and $413.

Operations:	Market	+ $51 mn.
	Interest	+ 12
	Sundries	- 1
		+ $62 mn.

10th October 1979.
JGH

SECRET

1979/43

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 10th October 1979

Various policy measures announced by the Fed over the weekend were the feature of the period. The dollar strengthened in their wake, but subsequently lost some of its gains. Sterling closed unchanged at 68.8 in effective terms, having ranged from 69.0 before the weekend to 68.2 after it.

Rumours that OPEC countries plan to take more of their earnings in sterling brought some demand for the pound on Thursday, and the rate advanced almost a cent from the London close on 3rd October to 2.1965. Some profit-taking ensued, leaving sterling to drift back to 2.1815 by the close on Friday. The monetary measures announced by the Fed over the weekend caused sterling, like other currencies, to be marked down; trading opened at 2.1590 on Monday morning, and sterling eased further against the stronger dollar to 2.1345 on Tuesday. The pound was tending to improve against the continental currencies, however, and it came into good demand when Kuwait and Mexico announced higher oil prices, closing the period at 2.1658 after 2.1765. The wholesale price and banking statistics had little effect. Sterling gained ¼% on the mark, to 3.86⅝; in Paris it improved to 9.06⅝. Against the ECU sterling closed stronger at 1.5511, a premium of ¼% on the notional central rate. Euro-dollars rose sharply after the Fed's announcement - 3 months' deposits yielded almost 2% more, at 14⅝%, by Wednesday - but the discount on forward sterling turned to a ½% premium, and sterling closed at only ⅜% discount on the usual comparison.

Anticipation of policy measures sustained the dollar before the weekend, when it tended higher in most centres despite poor producer price figures. After the Fed's announcement of a 1% increase in discount rate, increased reserve requirements, and an intention to focus on monetary base rather than the Federal funds rate, the dollar opened higher on Monday morning and for a time tended to improve further, helped by sharply higher euro-dollar rates and perhaps by some sizeable conversions of Swiss franc borrowings. Major banks quickly increased prime rate to 13½%. By Tuesday afternoon, however, some of the shine had dulled, and the dollar looked distinctly softer on Wednesday. On balance, central banks sold $90 mn. in the period. The Fed themselves were absent from the market. The mark eased ¼ pfennig to 1.7580 before the weekend; opened at 1.7695 on Monday, and touched 1.8160 the following day; but later strengthened to 1.7850. The Bundesbank bought $30 mn. The Swiss, whose franc weakened 2⅜% to 1.6125, did not intervene. The Danish crown (5.2122) remained top of the snake, at times the full 2¼% above the Belgian franc (28.83) in bottom place; but, as is frequently the case when minor currencies are the outriders, modest intervention sufficed to hold the margin. The Danes bought $50 mn.-worth of Belgian francs (and also $40 mn. and $60 mn-worth of marks); the Belgians sold $27 mn.-worth of Danish crowns. No currency approached its divergence threshold. The lira's recent weakness brought a 1½% increase in bank rate, to 12%; the currency closed at 825.30, ⅝% below the crown. The French franc (4.1862, and better at 2.34½ against the mark) was rather firm, and the central bank bought $170 mn. and some marks. At 2.0942, the Irish pound closed at a higher 3¼% discount on sterling. Both the Canadian dollar (bank rate up ¾% to 13%; $280 mn. of support) and the yen (down to 225.70 after $90 mn. of support) struggled at times.

The gold price fluctuated widely again, fixing between $367.50 on Friday and $413 on Wednesday afternoon. Undaunted by the US measures, it rose $11 over the week. Buying interest was reported from the Middle East. The IMF auctioned 444,000 ounces at an average of $412.78.

11th October 1979.
PAB

RATES, ETC.

10.15 a.m. 4th October		10.15 a.m. 11th October
2.1917	£/$	2.1658
68.9	Effective exchange rate index	68.8
¼% p.a. disc.	Forward 3-months	½% p.a. pre.
13 3/16%	Euro-$ 3-months	14⅞%
⅛% p.a. pre.	I.B.Comparison	⅜% p.a. disc.
1.7552	$/DM	1.7837
3.84⅝	£/DM	3.86¼
9.04⅜	£/FF	9.07½
223.20	$/Yen	225.92
$396½	Gold	$401.00
1.5760	$/S.Fc.	1.6125
3.45⅜	£/S.Fc.	3.49¼

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 11th October 1979

Sterling was a little soft at times this morning but recovered to a comfortable close. The dollar, too, continued to decline this morning but it, too, had regained a good deal of ground by the end of the day. Sterling's ERI slipped to 68.7.

The pound closed better at 2.1725 yesterday in New York where the dollar was generally easier. On the early exchanges today, sterling again mirrored the dollar, beginning at 2.1675 and rising to 2.1725. Sellers then moved in from London and the Middle East and the pound fell very rapidly to 2.1620 before recovering. The dollar was by now recovering on a broad front and a second wave of selling hit the pound from Switzerland. Commercial offerings in London also were seen. Sterling fell again to 2.1635 but successfully weathered this storm and, when German buying later emerged, some short-covering was induced in Switzerland; sterling rebounded to 2.1695 late in the session. The afternoon was less eventful and the pound traded in much the same range. The close was struck at 2.1645. Three months' forward sterling stood at a premium of 11/16% p.a.: the intrinsic discount was again ⅜%.

The pound lost ⅛% to the Swiss franc (3.48¾) and French franc (9.05) and ¼% to the deutschemark (3.85⅝). These all closed a little firmer on the dollar at 1.6110, 4.1810 and 1.7815 respectively. The French took in $28 mn. (and swapped out $70 mn.). The EMS was more relaxed and closed at around 2% in width between the Belgian franc (28.73) and Danish krone (5.2055). The Danes bought $7 mn. The punt (2.0930) stood at 3¼% discount on sterling. The yen closed at 225.90 in Tokyo and 226.03 in London.

Yesterday's IMF auction set an average price of $412.78. However, with bids received for only 666,000 ounces (for 440,000 ounces on offer), the price fell this morning to around $400, at which level the first fixing was concluded. Erratic movements around or below this level were repeated this afternoon and the price was fixed at $401.50 at the later session.

Operations:	Market	- $5 mn.
	Nigeria	- 22
	Sundries	+ 1
		- $26 mn.

11th October 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 12th October 1979

An unexceptional end to the week. The dollar was quite firm this morning but eased off at the close. Sterling, as yesterday, was a little soft at times but recovered to a comfortable close. With the dolla firmer, sterling's ERI rose to 68.9.

The pound closed at 2.1665 in New York yesterday. This morning it opened at 2.1655 and tended easier as the dollar strengthened, recovering nonetheless to 2.1670 as a Swiss buyer came to market on investment account (perhaps for a Middle East customer). Thereafter, however, sellers predominated with one Middle East bank, erstwhile a good buyer, now offering pounds in size. Sterling retreated in fits and starts, touching 2.1555 in mid-afternoon. With the dollar then retreating, sterling recovered to a quiet and comfortable close at 2.1625. Three months' forward sterling stood at ⅞% p.a. premium. Interest parity prevailed on the covered comparison.

Sterling gained ⅜% against the deutschemark (3.87⅛), ½% against the French franc (9.09⅝) and ⅝% against the Swiss franc (3.50⅞). These all eased against the dollar, the Swiss franc to 1.6225 (after 1.6307), the French franc to 4.2062 (after 4.2230) and the deutschemark to 1.79 (after 1.7995). Central Bank intervention in Europe was negligible, but the Japanese sold $61 mn. in Tokyo where the yen closed at 226.90. In London it weakened further to 2.2750. The EMS was again untroubled, closing at 1⅞% in width between the Belgian franc (28.84) and Danish krone (5.2322). The punt (2.0782) stood at 3⅞% discount on sterling.

Gold again moved uncertainly, although tending lower on balance. Fixings were $387.75 and $395.

Operations:	Market	- $30 mn.
	Nigeria	- 43
	Government	- 6
	Iran	+ 6
	Sundries	+ 5
		- $68 mn.
	Overnight	- $17 mn.

12th October 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS
Monday 15th
~~Tuesday~~, ~~16th~~ October 1979

Sterling closed a quiet day 0.1 lower in effective terms at 68.8. The dollar was firm. The yen sagged despite strenuous official support.

Having eased back to 2.1565 in New York on Friday, sterling opened this morning at 2.1585. Light early selling took the rate down to 2.1535, but the market soon steadied and the pound traded up to 2.1627 before settling into a routine either side of 2.16. It closed at 2.1574. The premium on forward sterling receded to 11/16%, leaving sterling at an intrinsic discount of ⅛% on the usual 3-months' comparison.

The pound advanced at first on the Continent, but ended slightly lower against the mark, at 3.87, and in Paris (9.08¼) while gaining on the Swiss franc (3.51⅜). The dollar was quietly firm; the mark closing at 1.7937, the French franc at 4.2097, and the Swiss franc at 1.6288. The Danish crown (5.2260) stayed top of the snake, 2⅛% above the Belgian franc. Intervention in participant currencies was confined to a sale of $4 mn.-worth of crowns by the Belgians. The Danes bought $12 mn. The lira softened to 829.95. The Irish pound (2.0890) closed 3⅛% below sterling, the central bank having bought $12 mn. The yen's continuing weakness was the only real feature of the day - the central bank sold $357 mn. to contain its fall in Tokyo to 229.05. In London it closed at 229.30.

Gold paused for breath, fixing at $400.20 and $402.90.

Operations:	Market	+ $12 mn.
	Kenya	+ 7
	Sundries	+ 3
		+ $22 mn.

16th October 1979.
PAB

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 16th October 1979

Most currencies moved in a narrow range today and activity was again quite modest. Spurred by a very weak yen, the dollar tended generally firmer. Sterling held up as well as most and the ERI rose slightly to 68.9.

The pound closed at 2.1555 in New York yesterday and opened at 2.1538 this morning. Modest two-way business was seen this morning with rather less activity this afternoon. Sterling ranged between 2.1515 and 2.1552, closing at 2.1543. The trade figures were well received. The premium on three months' forward sterling narrowed again to ½% p.a. as dollar deposits eased. The adverse covered differential widened to ¼%.

Sterling gained ¼% on the Swiss franc (3.52⅛) and rather less on the French franc (9.09) and deutschemark (3.87¼). The yen proved the major feature, easing sharply in London to 233.60 at one stage following the announcement of another large current account deficit in September. The Bank of Japan sold $69mn. in New York yesterday and $447mn. in Tokyo this morning. The close in Tokyo was 231.70 and in London 231.92. European currencies gave further ground to the dollar: the Swiss franc finished at 1.6340, the French franc at 4.2195 and the deutschemark at 1.7981. The French swapped out $85mn. The E.M.S. was again comfortable, though it closed fully-stretched between the Belgian franc (28.99) and Danish krone (5.2380). The Danes took in $16mn. The punt (2.0780) stood at 3½% discount on sterling. The Irish bought $29mn.

Having fallen below $400 late yesterday, gold opened slightly firmer today but baulked at the $400 level and thereafter declined progressively throughout the day. Fixing levels were $398.60 and $394.25 and the metal closed around $390.

Operations:	Market	+$27mn.
	Bangledesh	- 22
	Government	- 12
	Sundries	- 1
		-$ 8mn.

Overnight: -$28mn.

17 October 1979.

JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th October 1979

After opening on a rather weak tack, the pound encountered a favourable commercial trade wind late this morning. Towards the close, however, the dollar - which had also drifted lower in the opening period - surged ahead again to leave sterling 0.1 down in effective terms at 68.8.

Persistent selling in American markets last night pushed sterling down to 2.1405, but this level was ignored in London where the opening was at 2.1502 this morning. Very modest selling took the rate down to 2.1461 before an order for some £50mn. began to play its part. Coincident with this came a much smaller selling order and the pound rose to 2.1506. By the afternoon the market had become inactive again and, with the dollar recovering, the pound eased to close at 2.1472. The adverse covered differential widened further, to 7/16% p.a

Sterling gained in Switzerland by about ¼% (to 3.53⅛) but ceded a similar amount in Germany (3.86½) and France (9.06⅜). There were no particular features in Europe where the dollar, after opening firmer, eased to close virtually at last night's levels, except in Switzerland where the franc weakened to 1.6442. The EMS was relaxed: the Belgian franc ended at 28.98, the Danish krone at 5.2407 - about 2 3/16% apart. The Danes recouped $17mn. The deutschemark closed at 1.80, the French franc at 4.2210, the lira at 829½ and the punt at 2.0757 (about 3⅜% discount). The French swapped out a further $55mn. For the yen, however, it was another expensive day: $361mn. was spent in Tokyo this morning, where the dollar rose to 233.90. It continued to strengthen in London, closing at 234.30.

Gold was steady up to London's close, but began to weaken sharply thereafter. Fixings were at $386.40 and $386, later dealings at $376.

Operations:	Market		+$12mn.
	P.S.B.		
	B.Airways	+ 50	
	N.S.H.E.B	+ 25	+ 75
	Iran		+ 20
	Nigeria		- 54
	Sundries		+ 1
			+$54mn.

18 October 1979.

D.A.H.B.

SECRET 1979/44

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 17th October 1979

Sterling traded quietly for the most part, closing unchanged in effective terms at 68.8 after 69.0 on Tuesday. The dollar firmed in most centres. The yen fell sharply despite heavy official support.

Buying in New York on Wednesday night carried sterling to 2.1720, but the pound tended lower on Thursday and Friday and closed for the weekend at 2.1625. Continental and Middle Eastern interests were seen both ways in the market. Apart from a sharp fall late on Tuesday - when sterling was sold on the Chicago exchange - the pound traded quietly after the weekend. The trade figures aroused no excitement. By the close on Wednesday, sterling had drifted back to 2.1472 against a generally firmer dollar. It was little changed over the week against the major continental currencies, closing at 3.86½ against the mark and at 9.06⅜ in Paris. Against the ECU it went to 1.5495, a premium of ⅝% on the notional central rate. The forward premium edged back to ⅜%; the intrinsic discount on sterling was little changed at 7/16%.

Although still very nervous, the dollar enjoyed a quieter week, tending to firm in most centres. Further rises in oil prices did not disturb it unduly. Various remarks by Mr.Miller and Chairman Volcker were well received, and there was general reluctance to sell dollars. The Fed. kept out of the market. So very largely did the Bundesbank. The mark weakened over ¾% to 1.80, after 1.8065 at one time on Tuesday. It picked up on Wednesday under the weight of a commercial buying order and on rumours that the Bundesbank will raise discount rate. Other European currencies drifted down gently without special features. The Swiss franc closed at 1.6442, the French franc at 4.2210, and the lira at 829½. The French bought $30mn. The Danish crown (5.2407) and the Belgian franc (28.98) stayed at the extremes of a well-stretched snake, but any pressure was easily contained as the Belgians sold a smattering of Danish crowns and the Danes bought $55mn. The Irish pound eased to 2.0757, a 3⅜% discount on sterling. The central bank bought $50mn. and £15mn. The yen, battered by weak balance of payment figures, inflation and further rises in oil prices, had a miserable week, falling by 3¼% to 234.30 having touched 235 in Tokyo. Intervention amounted to $1380mn. Mr.Morinaga promised unstinted support. A year ago it stood at 181½.

The response to last Wednesday's IMF auction disappointed the gold market, and the price fell $27 to $386. Trading remains nervous and the price volatile. The U.S. Treasury's plan to vary the timing and amount of their auctions has heightened uncertainty. They sold 750,000 ozs. of coin bars at an average price of $391.98 on Tuesday, equivalent to about $392¾ per ounce in good delivery form.

18 October 1979.

P.A.B.

RATES, ETC.

10.15 a.m. 11 October		10.15 a.m. 18 October
2.1658	£/$	2.1465
68.8	Effective exchange rate index	68.6
½% p.a. pre.	Forward 3-months	¼% p.a. pre.
14⅞%	Euro-$ 3-months	14 9/16%
⅜% p.a. disc.	I.B.Comparison	7/16%
1.7837	$/DM	1.7960
3.86¼	£/DM	3.85½
9.07½	£/FF	9.04⅝
225.92	$/Yen	232.40
$401.00	Gold	$383¼
1.6125	$/S.Fc.	1.6418
3.49¼	£/S.Fc.	3.52⅜

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th October 1979

Another fairly quiet day on the exchanges saw both dollar and pound recover from a soft start. Sterling's ERI closed unchanged at 68.8.

The pound finished yesterday at 2.1517 in New York and opened this morning at 2.1512. Having touched 2.1520, sterling met selling in London and, with little other interest in the market, eased back to 2.1465. The rest of the morning was extremely quiet. This afternoon, the pound slipped further to 2.1437 as the dollar strengthened. The money supply was well received and sterling began to advance; the movement gained momentum as a large American began to cut out a sizeable bear position. 2.1522 was paid for sterling shortly before the close at 2.1510. The premium on three months' forward sterling narrowed again to 3/16% p.a. as dollar and sterling deposit rates converged slightly. The adverse covered differential fell to 5/16%.

Sterling scored modest gains in France (9.07¾), Germany (3.86¾) and Switzerland (3.53¾). The deutschemark finished a little firmer on the dollar at 1.7981, but the French franc (4.22) and Swiss franc (1.6445) were little changed. The Danish krone (5.2395) and Belgian franc (28.95) continued to top and tail the E.M.S., which was 2⅛% in width. The punt (2.0770) stood at 3½% discount on sterling. In Tokyo, the Japanese expended a further $180mn. in support of the yen which closed somewhat firmer at 232.30; in London it advanced further to 232.11.

Having fallen sharply in London late yesterday, gold recovered this $10 loss overnight. Opening at $387, the metal traded without any marked trend over that same $10 range. The fixings set levels of $382 and $380.50.

Operations:	Market	-$ 9mn.
	Nigeria	- 42
	B.I.S.	+ 5
	Sundries	+ 6
		-$40mn.

19 October 1979.

J.G.H.

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th October 1979

A quiet end to a quiet week left the dollar steady and sterling with a reasonably firm tone. The ERI rose to 68.9.

The pound closed at 2.1535 in New York yesterday. This morning it began at 2.1505 and met scattered offerings from the Far East. Sterling slipped to 2.1470 but recovered quickly to opening levels and passed the morning quietly. The price indices were viewed not unfavourably and some modest Scandinavian demand took the pound to 2.1525 at midday. The afternoon engendered no more interest of substance until late American buying carried sterling to 2.1550, shortly before the close was struck at 2.1545. Eurodollar deposits opened markedly firmer and fluctuated somewhat uncertainly over the day before closing well bid in response to a sharp increase in the Federal Funds rate to 14½%. The premium on three months' forward sterling thus widened to 7/16% p.a., although the adverse covered differential also rose to 7/16%.

Sterling was marginally firmer in Paris (9.08½), Frankfurt (3.87¼) and Zurich (3.53⅞). The dollar closed little changed in Europe with the deutschemark at 1.7976, the Swiss franc at 1.6422 and the French franc at 4.2172. The French bought $18 mn. and the Germans swapped in $550 mn. The EMS continued comfortable at around 2⅛% in width between the Danish krone (5.2385) and Belgian franc (28.96). The punt (2.0757) eased to 3⅝% discount on sterling. In Tokyo the Japanese sold $50 mn. and the yen closed firmer at 231.80. In London it continued to strengthen and finished the day at 230.65.

Gold was bid up progressively through the day, the price moving most rapidly once US markets reopened. Fixing levels were $388.75 and $393.

Operations:

Interest	+ $5 mn.
Sundries	- 8
	- $3 mn.

19th October 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE & GOLD MARKETS

Monday, 22nd October 1979

Sterling enjoyed another quiet day and stood up well to a further general advance by the dollar. The latter was spurred by yet firmer deposit rates as well as additional sales of Swiss francs for marks by those who expect Central Bank support for the mark.

The pound closed at 2.1530 in New York on Friday and opened at 2.1523 this morning. Sterling touched 2.1550 on the opening exchanges despite a firm dollar, but both eventually retreated, the pound to 2.1502 at worst. Thereafter, sterling moved narrowly within that range. Some Swiss selling was easily absorbed and the pound closed at 2.1515. As eurodollar deposits firmed, forward discounts widened: three months' forward sterling commanded a premium of ¼% p.a. at the close and the adverse covered differential was ½%.

Sterling gained ⅞% on the beleaguered Swiss franc (3.57) but was little changed against the French franc (9.08⅞) or deutschemark (3.87⅞). These all weakened against the dollar to 1.6588, 4.2237 and 1.8026 respectively. The French bought $12 mn. The EMS closed comfortably at 1 13/16% in width between the Belgian franc (28.96) and Danish krone (5.2552). The punt (2.0735) stood at 3⅜% discount on sterling. In Tokyo, the Japanese sold $210 mn. as the yen fell again to 232.80. In London, it eased further to 233.33.

Gold was unusually steady. Some selling this afternoon brought the price down in the lower end of the day's range. Fixing levels were $395.50 and $392.

Operations:	Market	- $9 mn.
	India	+ 22
	Iraq	+ 15
	Sundries	+ 5
		+ $33 mn.

Overnight	- $22 mn.

22nd October 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 23rd October 1979

The abolition of exchange controls induced persistent and increasingly heavy selling of sterling this afternoon, although markets were never in any disarray. The dollar was already firm and it gained some additional strength from sterling's weakness. The ERI fell from 68.9 to 67.9.

The pound closed lower at 2.1445 in New York yesterday. This morning it opened at 2.1458 and remained on a soft tack, although selling was only sporadic and owed something to the firmness of the dollar. Having touched 2.1460 on the opening exchanges, sterling eased quickly to 2.1394 but then steadied to trade around this level through the morning. The Treasury's announcement early this afternoon that a major policy statement was imminent occasioned a sharp period of selling pressure but this eventually passed and the market calmed while awaiting the announcement. The pound then stood at 2.1286 and, following the announcement, it was marked down progressively. Persistent and heavy selling ensued, with US banks prominent. The pressure increased for a while when Morgan Guaranty announced an increase in Prime Rate to 15%. Sterling remained offered through to the close which was struck at 2.1130. Afterwards a brief recovery occurred with the pound rising to 2.1155 on profit-taking but selling was soon resumed and the pound fell to 2.1075. The premium on three months' forward sterling rose to 1 3/16% p.a. as margins moved towards their natural arbitrage points. At the close, an adverse covered differential of 5/16% still remained.

Sterling lost ¾% to the Swiss franc (3.54⅛) and 1½% to each of the French franc (8.95¾) and deutschemark (3.82¼). The Swiss franc remained well offered and fell to 0.92⅝ to the mark and 1.6760 to the dollar. The French franc and deutschemark, too, eased against the dollar to 4.2392 and 1.8094 respectively. The French swapped out $100 mn. The Dutch guilder (2.0050) fell to the bottom of the EMS, 1¾% adrift from the Danish krone (5.2787). The punt (2.0575) closed at 2⅝% discount on sterling. In Tokyo, the Japanese sold $57 mn. and the yen closed at 234.75. In London, it weakened further to 235.50.

Gold eased back in a relatively dull market. Fixings were $387.60 and $385.

Operations:	Market	- $297 mn.
	Nigeria	- 58
	IDA	+ 7
	Sundries	+ 2
		- $346 mn.

23rd October 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS
Wednesday, 24th October 1979

After some further, heavy selling pressure this morning, sterling soon developed a good, two-way market as recent sellers returned to square their positions and give some stability to the rate. The dollar was generally easier but recovered late in the day on the announcement of a new US bond issue in deutschemark. Sterling's ERI fell to 67.7.

In after-hours trading yesterday, the pound recovered to 2.1150, only to be sold down again in New York, where it closed at 2.1062. This morning, the Far East were quite bearish and selling was clearly the order of the day. Sterling opened in London at 2.1025 and London banks quickly joined in, offering the pound quite heavily down to 2.0955. Even at this stage, however, there was a notable absence of Continental participation and, once sterling steadied, buyers appeared in increasing size from Switzerland and the Middle East especially. The pound rebounded quite quickly to 2.1140 and then fluctuated in a one cent range below that level in response to some sizeable, two-way commercial business. New York and Chicago proved good takers of sterling this afternoon and 2.1165 was paid more than once. This clearly owed something to a generally easier dollar but was doubtless also the squaring of yesterday's oversold positions. With the dollar firming at the close, sterling came back a little to finish at 2.1128. Dollar deposits were easier and sterling's three month forward premium fell to 1%. Nonetheless, the intrinsic discount widened to ½%.

Sterling lost ⅜% to the deutschemark (3.80¾), nearly ½% to the French franc (8.91½) and 1⅛% to the Swiss franc (3.49¾). These were all a good deal firmer against the dollar at 1.8016, 4.2207 and 1.6550 respectively. The French took in $40 mn. and the Swiss swapped in $131 mn. The florin (1.9986) remained at the foot of the EMS, 2% below the Danish krone (5.2522). The Belgians bought $8 mn. of marks. The punt (2.0680) was at 2⅛% discount on sterling. The Irish sold $6 mn. and sterling worth $17 mn. In Tokyo the yen closed at 234.17, after official sales of $81 mn. In London it firmed to 234.20.

Gold opened better, traded without feature, then moved firmer once US markets opened. Fixings were $389 and $395.

Operations:	Market	- $34 mn.
	India	+ 21
	Iran	+ 10
	Post Office (PSB G'teed)	+ 5
	Sundries	+ 4
		+ $6 mn.

24th October 1979.
JGH

SECRET 1979/45

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 24th October 1979

A quiet period for sterling ended on Tuesday, when the virtual abolition of exchange control was announced. Heavy selling of pounds took the effective index down to 67.5, but the market remained in good order and subsequent buying carried it back to 67.7 for a net fall of 1.1 in the week. Yet higher interest rates helped keep the dollar firm, but further massive support was needed to sustain the yen.

Sterling was quietly firm before the weekend, touching 2.15½ - ¼ cent higher than the London close on 17th October - before closing on Friday at 2.1545. Money supply and price figures were well received. The pound remained around these levels on Monday, but drifted back to 2.1389 by noon on Tuesday. Shortly afterwards the market got wind of the Chancellor's statement on exchange control, and sterling was down to 2.1286 by the time he spoke. Persistent and heavy selling ensued. In late trading sterling fell to 2.1075, not helped by further rises in US banks' prime rates; and 2.0955 was seen on Wednesday morning, before good demand from the Continent and then from New York lifted the rate to 2.1165 before 2.1128 at the close. Business was active and trading was never disorderly. The pound fell around 1½% against the mark and the French franc, to 3.80¾ and 8.91¾ respectively. Against the ECU it closed at 1.5298, a ⅝% discount on the notional central rate. Eurodollar rates rose further, to 15 9/16% at 3 months; the premium on forward sterling increased to 1%, leaving the intrinsic discount little changed at ½%.

Yet higher interest rates helped to keep the dollar quite firm in most centres; and late on the announcement that more Carter bonds will be issued gave it a brief boost. The Fed did not intervene. The mark eased to 1.8016; a rumoured increase in discount rate did not materialise. The Swiss franc was rather weak at times, closing ⅝% lower at 1.65½ after 1.6760. Against the mark, it eased to 0.91⅞. The other main Continental currencies traded without feature. The snake narrowed to 2%, with the Danish crown (5.2522) and now the guilder (1.9986) the outriders. The French franc closed at 4.2207 and the lira at 829.75. The Bank of France bought $70 mn. The Irish pound softened to 2.0680, a smaller 2⅛% discount on sterling, after sales of $10 mn. and £20 mn. in support. No currency approached its threshold of divergence in the EMS. The Swedish crown remained under some pressure, as did the Canadian dollar, which was supported to the tune of $130 mn. The Bank of Japan's resolve to hold up the yen was once more tested. At first their currency improved on talk of a package; but then it came under heavy pressure again. Altogether they spent $0.5 bn., making $2.5 bn. so far this month. The rate closed slightly better at 234.17 after 235½. Oil prices and supplies and Japan's own trade and price performance are the source of the trouble.

Gold was a generally calmer market and, by recent standards, comparatively steady. The price rose $9 to $395 after $380½ on Thursday.

DATE

25th October 1979.
for PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
18th October 1979		25th October 1979
2.1465	£/$	2.1142
68.6	Effective exchange rate index	67.7
¼% p.a. pre.	Forward 3-months	¼% p.a. pre.
14 9/16%	Euro-$ 3-months	15 9/16%
7/16% disc.	I.B.Comparison	¼% disc.
1.7960	$/DM	1.7993
3.85½	£/DM	3.80⅜
9.04⅝	£/FF	8.91⅛
232.40	$/Yen	233.57
$383¼	Gold	$393½
1.6418	$/S.Fc.	1.6480
3.52⅜	£/S.Fc.	3.48⅜

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Mr. Byatt.

SECRET

CA 28/10

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FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 18th - Friday 26th October

Until announcement about Exchange Control on 23rd markets were quiet. Sterling closed at 2.1472 on 17th (ERI 68.8). Better on publication of September money figures and remained around 2.1510 in quiet markets until Tuesday. Weaker on morning of 23rd as dollar strengthened, reaching 2.1395 by lunch. Speculation about abolition of exchange controls followed H.M.T. advice of "important announcement" by Chancellor and led to considerable selling. Before announcement sterling stood at 2.1286 by which time $86 million spent in support. Heavy and persistent selling followed announcement, exacerbated by increase of Morgan Guaranty's prime rate to 15%. Sterling closed at 2.1130 (ERI 67.9); later fell to 2.1062 in New York. Support after announcement totalled $211 million. Pressure continued following morning: rate 2.0955. But good two-way market developed around 2.11 with commercials prominent. Closed 24th 2.1128 (ERI 67.7). Since then quiet again. Closed period 2.1034 (ERI 67.5).

U.S. interest rates continued to rise. Permium on forward sterling up to ¾%. Margin between domestic and eurosterling remained at about ½% in favour of latter. Table 1 summarises EEA transactions.

Sterling weaker against other main currencies. Swiss franc down to DM.100 = SF93 following decision by Swiss apparently no longer to support SF90-91 level. Yen held up to Y235 against dollar only by dint of substantial intervention. EMS under no pressure. Speculation on devaluation of Danish krone saw it strictly replaced today at top of band by French Franc. Belgian franc was replaced at bottom by Dutch Guilder. Table 2 shows main exchange rates and intervention.

Gold fairly quiet. Fixed at $395 on afternoon of 24th but fell to fix at $375 this afternoon following U.S. announcement of increased auction (1.2 mn.oz) next Thursday.

JAMES

Dealers: 26.10.79

0223 31/10

SECRET

Table 1

$ millions

EEA TRANSACTIONS

The figures so far for October at today's close were:

1.	Spot Reserves	Overbought Forward position	Total
	-143	+894	-793

(Actual figure :- 22,608)

2. Main Transactions

Market (net)	- 334
Nigeria	- 322
Bangladesh	- 70
India	+ 98
Iraq	+ 49
Iran	+ 41

SECRET

TABLE 2

	close 17.10.79	close 26.10.79
1. $ against		
£	2.1472	2.1034
DM	1.8000	1.8042
Swiss franc	1.6442	1.6672
French franc	4.2210	4.2292
Yen	234.30	234.40
2. £ against		
DM	3.86½	3.79½
Swiss franc	3.53 1/16	3.50 11/16
French franc	9.06 5/16	8.89 9/16
3. £ ERI	68.8	67.5

4. Intervention — $ millions

U.K.	- 427	(net)
Japan	- 587	
Denmark	- 96	
Sweden	- 48	(net)
Canada	- 9	(net: - 173, + 164)
France	+ 105	
Norway	+ 60	(o/r x 3 months)

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 25th October 1979

Sterling enjoyed a much quieter day and remained quite steady and untroubled in its new trading range. The ERI edged up to 67.8.

The pound continued firm in New York yesterday and closed there some half a cent better at 2.1170, despite a further mark-up for the dollar in response to the new Carter bonds. This morning, sterling opened at 2.1153 and traded all day between 2.1092 and 2.1167 without trouble. Some early selling from London was mopped up by the Continent and some later offerings from Switzerland and Germany found a home in the Middle East. Some momentary disappointment was registered at the unchanged Minimum Lending Rate. The afternoon was very quiet and the closing level was 2.1136. The three months' forward premium fell again to 11/16% p.a. and sterling's intrinsic discount came down to 3/8%.

The pound was unchanged against the deutschemark (3.80¾) and showed small gains against the Swiss franc (3.50) and French franc (8.92⅜). These all closed little changed on the dollar at 1.8013, 1.6562 and 4.2225 respectively. In the EMS, the Danish krone fell sharply (to 5.3010) on a provincial press report that a devaluation was being considered. The Danes sold $36 mn. in support. The lira (829.32) went to the top of the band, with the guilder (2.0015) 1 13/16% below at the foot. The Dutch sold $20 mn. The French bought $22 mn. and the Belgians took in marks worth $17 mn. The punt (2.0722) closed at 2% discount on sterling. The yen finished at 233.80 in Tokyo and 233.70 in London.

Gold eased slightly but was generally very steady. The market was dull outside the morning fixing which saw heavy turnover. Fixing levels were $391.20 and $391.80.

Operations:			
	Market	-	$8 mn.
	Bangladesh	-	43
	Iraq	+	21
	Kuwait	+	6
	Post Office (PSB G'teed)	+	5
	Sundries	-	4
		-	$23 mn.

25th October 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th October 1979

Citibank's prime rate increase to 15½% induced some selling of sterling out of New York and Chicago and gave the pound a disappointing finish to an historic week. The ERI fell to 67.5.

A quiet New York evening (close: 2.1125) led into a quiet morning today in London. Sterling opened at 2.1105 and drifted 30 points either side up to mid-afternoon when the prime rate change was announced. A short, sharp burst of selling saw business down to 2.1010 but as the echoes died away the rate recovered a little to close at 2.1034. Euro-dollars opened inclined offered but rose later to beyond last night's closing levels, touching 15 13/16% for 3 months. The forward premium for sterling increased to ¾% p.a. and the intrinsic discount shaded lower at 5/16%.

The pound was a touch lower against the deutschemark (3.79½) and French franc (8.89¾) but better in terms of the Swiss franc (3.50¾), which eased last night after Leutwiler's statement had indicated that the Swiss would be coy about supporting their currency if it weakened. Today, in fact, it moved very little although easing one rappen to 1.6672 compared with last night in London. In the EMS the Danes fought hard against further pressure on the krone, which at worst stood at 5.3482 at noon; by the close, at a cost of $76 mn., it had recovered to 5.3132. The lira stayed top, at 830.85, some 1⅞% away from the florin (2.0063) which cost the Dutch $24 mn. to support. The Belgians recouped $27 mn. in deutschemarks. The deutschemark was 1.8042, the punt 2.0562 (2¼% discount). The yen eased to 234.70 in Tokyo and closed in London at 234.40.

Gold moved comparatively narrowly around its fixing levels of $374.80 and $375, having fallen overnight on the latest news of American gold auction plans (an increased offering, at 1¼ mn. ounces, only 17 days after the last auction).

Operations:	Market	- $43 mn.
	Nigeria	- 106
	Government	- 6
	Sundries	- 8
		-$163 mn.

26th October 1979.
for DAHB

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 29th October 1979

After a peaceful morning, sterling was heavily sold this afternoon from the United States, probably behind a sizeable commercial selling order. Until then the pound had stood up well to a strong advance by the dollar, which closed firmer on all fronts. Sterling's ERI finished unchanged at 67.5, after 67.7 at midday.

The pound recovered to close at 2.1105 in New York on Friday but, having opened at 2.1110 this morning, it quickly retreated to around 2.1050. This level proved a base for the morning and sterling traded quietly and comfortably throughout with no more than the occasional seller. Americans returned to bid generally for dollars and, while all currencies weakened initially, the pound soon found itself isolated as heavy and protracted selling built up. US banks were prominent and the movement seemed to stem from a commercial order placed in those quarters. Sterling retreated to 2.0972 shortly before closing at 2.0984. Later, the pound was offered down to 2.0957. Forward margins were steady, with sterling's three-month premium at ⅜% p.a. and the covered differential at 5/16% against London.

Having withstood the dollar's advance this morning, sterling ended the day with net gains of ½% against the Swiss franc (3.52⅝) and ¼% against the deutschemark (3.80⅛) but lost ¼% to the French franc (8.88⅞). The last of these was very firm, rising to 2.3380 to the DM while easing to 4.2364 only against the dollar. The French took in $83 mn.-worth of marks. The Swiss franc weakened to 1.6805 on the dollar and 0.9⅛2¾ to the mark; the Swiss swapped in $300 mn. over the month end. The Dutch sold $40 mn. to support the guilder (2.0143) at the bottom of the EMS, which was 1⅞% in width, the lira (834.15) remaining at the head. The punt (2.0565) was at 2% discount on sterling. The yen closed at 234.75 in Tokyo (where the Japanese sold only $3 mn.) but weakened sharply to 235.85 in London.

Gold was steady and, for the most part, quiet. Fixings were $374.50 and $374.

Operations:	Market	- $86 mn.
	South Africa	- 32
	BIS	- 12
	India	+ 21
	Interest	+ 18
	Iraq	+ 6
	Sundries	- 3
		- $88 mn.
	Overnight	- $21 mn.

29th October 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 30th October 1979

Sterling was very heavily sold throughout much of today. There was little fresh news and the movement was ascribed variously to the miners' pay claim, the North Sea oil problems and the Exchange Control relaxations. In fact, the initial impetus came from very large Swiss selling - almost certainly on Middle East customer account - which probably owed as much to interest rate differentials as it did to an exchange rate view. The subsequent sharp fall in the rate, however, evidently caused panic amongst a number of domestic investment trusts, who moved into dollars while the going was good. The dollar was inevitably a little weaker as a result, while proving undoubtedly the main beneficiary of the outflow from London. Sterling's ERI fell from 67.5 to 66.6.

After a further burst of selling yesterday in New York, sterling remained quietly and nervously for the rest of the day at 2.0925 where it closed. This morning the pound encountered substantial selling in the Far East, largely of Swiss origin, and opened in London at 2.09. The Swiss continued to sell with London banks joining the band-waggon and sterling fell to 2.0855 before some profit-taking induced a recovery to 2.0915. At that stage, a couple of large commercial offerings were placed in London and, though these were handled with care, a snowball soon developed. Further Swiss selling was seen and, perhaps for the first time, investment trusts saw fit to move into dollars while the opportunity remained. The pound had fallen to 2.0740 before midday when an uneasy calm set in ahead of New York's return. One further avalanche then descended, not only from North America, but also from Europe, with the Swiss still prominent; sterling plummetted to 2.0582 but by then appetites were more than sated and the rest of the day saw a thin market with the pound bouncing in fits and starts back up to a closing level of 2.0685. Forward margins were surprisingly little affected. The three months' premium declined to 9/16% p.a. but with dollar and sterling deposit rates converging somewhat, the intrinsic discount was reduced to ¼%.

Sterling lost 1½% to the French franc (8.75), 1⅝% to the deutschemark (3.74) and 1⅞% to the Swiss franc (3.46⅛). These all improved against the dollar to 4.2302, 1.8079 and 1.6737 respectively. The Swiss swapped in a further $150 mn. The French swapped out $25 mn. and took in marks worth $55 mn., although their cross-rate eased to 2.34. The Belgian franc (29.15) replaced the guilder at the bottom of the EMS which narrowed to 1⅝% in width, with the lira (834.47) still at the head. The Danes sold $15 mn. The Irish sold $19 mn. and sterling worth $39 mn., though the punt (2.0510) closed at only ⅞% discount on sterling. Elsewhere the yen remained very weak. The Japanese sold $131 mn. in New York yesterday and $90 mn. this morning in Tokyo where the currency closed at 237.70. In London, it eased to 239.50 before finishing the day at 238.22.

Gold was again quiet and steady. Fixings were $376 and $377.60.

Operations:	Market	- $389 mn.
	Nigeria	- 103
	Ireland	+ 63
	Iran	+ 10
	Interest	+ 9
	Sundries	- 3
		- $413 mn.
	Overnight	- $2 mn.

30th October 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 31st October 1979

The month end conspired with tomorrow's holiday in parts of Europe to produce a quiet session on the exchanges for much of the day. Not even the 1% increase in German Discount Rate had any impact on the dollar. Sterling encountered some modest buying interest from those who had oversold yesterday and the ERI recovered to 66.9.

The pound closed at 2.0760 yesterday in New York where the dollar was generally softer following the latest US trade deficit. This morning sterling opened at 2.0735 and, despite the dollar's continuing easier tone, traded quietly around 2.0750 (after 2.0728) until mid-morning when one of yesterday's large sellers returned as a small buyer. The pound touched 2.0810 but was back to 2.0750 by early afternoon, following scattered offerings from Switzerland and Germany. Later, some moderate demand was seen from the United States, Germany and London and sterling firmed to 2.0833 before closing comfortably at 2.0808. After the close, the miners' rejection of the Coal Board's pay offer depressed the rate to 2.0775. Sterling's three-month forward premium rose to 11/16% p.a. and a covered differential of ¼% persisted against London.

The pound regained ⅜% in France (8.78⅛) and Germany (3.75½) but was an ⅛% lower in Switzerland (3.45½). The Swiss franc firmed to 1.6602 (and 0.92 to the DM) following reports of a meeting at which the authorities declared the intention to support the franc through the domestic markets. In token of this, the National Bank today sold $14 mn. The deutschemark showed only a modest improvement to 1.8043, despite the 1% increase in discount and Lombard rates (which was followed by a ½% increase in the Dutch Bank Rate). The Belgians bought $15 mn.-worth of marks, although their franc (29.09) remained at the tail of the snake, only 1⅛% below the lira (833.25). The Danes, however, sold $13 mn. The punt (2.0557) slipped to 1⅛% discount on sterling. In Tokyo, the yen closed at 237.80 after official sales of $45 mn. In London it finished five points firmer.

Gold advanced in price, although the market was rarely very active. Fixings were $379.75 and $382.00.

Operations:	Market	- $6 mn.
	Government	+ 46
	Sundries	+ 2
		+$42 mn.

The result for October is a reserve loss of $253 mn. to a level of $22,498 mn. after net public sector borrowing of $40 mn. and a repayment of $83 mn. to the IMF. The renewal of the ECU swap with the EMCF increased the value of the reserves by $207 mn. The overbought forward position was reduced by $586 mn. to $958 mn. but $207 mn. of this fall is attributable to the ECU swap.

31st October 1979.
JGH

SECRET

1979/46

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 31st October 1979

Heavy selling of sterling on Tuesday drove the effective index down to 66.6, but it later recovered to 66.9, a net fall over the week of 1¼%. Some at least of the selling stemmed from exchange control relaxations. High interest rates helped the dollar to improve in most centres. German and Dutch interest rates were raised. The yen remained uncomfortable.

Sterling was fairly steady before the weekend, at least until the rise in Citibank's prime rate to a record 15¾% caused the rate to fall to 2.1010 on Friday. It ended the day at 2.1034, just under a cent lower than on Wednesday. The new week started quietly enough, but the pound came on offer on Monday afternoon and then was sold heavily on Tuesday, falling to 2.0582 at one time early in the afternoon. Selling came from all sides, with Swiss banks, possibly acting for Middle Eastern customers, prominent. Some domestic investment trusts moved into dollars while the going was good; and early Americans added to the pressure. Pay and prices, North Sea oil problems, US interest rates as well as delayed reaction to the end of exchange control, all contributed. By mid-afternoon, however, the storm was over; sterling recovered fitfully to 2.0685, and touched 2.0833 on Wednesday before closing the period at 2.0808, a net fall of 3¼ cents. Against the mark it fell 1⅜%, to 3.75½; and it declined by 1½% to 8.78⅛ in Paris. The rate against the ECU fell to 1.5136, a 1⅜% discount on the notional central rate. The premium on forward sterling shrank to 11/16%, but a rise in inter-bank sterling to 14 13/16% cut the intrinsic discount to ¼%. Euro-dollar rates remained very high.

The further rise in prime rates, together with a large downward revision to recent money figures, helped keep the dollar firm. The only setback, and that brief, came from disappointing trade figures. The Fed did not intervene. Nor did the Bundesbank, whose mark eased to 1.8044 after a 1% increase in discount and Lombard rates (accompanied by larger rediscount quotas). It remained around the middle of a relaxed snake, which was bounded by the lira (833⅛) and the Belgian franc (29.09), which took the place of the guilder. The Dutch sold $80 mn. and a handful of marks, and followed the Germans with a ½% increase in bank rate; but the Belgians bought $60 mn.-worth of marks despite their lowly position. Worry about the balance of payments and external debt depressed the Danish crown to 5.3190, after $150 mn. of support. The French franc, on the other hand, was buoyant at times, and closed virtually unchanged against the dollar at 4.2202. The central bank bought $20 mn. and $140 mn.-worth of marks. The Irish pound eased to 2.0557 (1¼% discount on sterling) after $70 mn. of support, most of it in the form of sales of sterling. Outside the EMS, the Swiss franc closed ¼% down, at 1.6602, after 1.6835, the SNB having expressed an intention to tighten money in order to keep it firm; the yen remained uncomfortable, closing 1½% weaker at 237.75 after 239.60 and $280 mn. of support. The Canadians felt compelled to raise bank rate.

Gold fell sharply on the news that the US will auction up to 1¼ mn. ounces on 1st November, and then drifted back to $382, a fall of $13 on the week.

1st November 1979.
PAB

RATES, ETC.

10.15 a.m. 25th October 1979		10.15 a.m. 1st November 1979
2.1142	£/$	2.0865
67.7	Effective exchange rate index	67.0
¾% p.a. pre.	Forward 3-months	9/16% p.a. pre.
15 9/16%	Euro-$ 3-months	15 11/16%
¼% disc.	I.B.Comparison	½% disc.
1.7993	$/DM	1.8007
3.80⅜	£/DM	3.75¾
8.91⅛	£/FF	8.79½
233.57	$/Yen	237.60
$393½	Gold	$379¼
1.6480	$/S.Fc.	1.6543
3.48⅜	£/S.Fc.	3.45⅛

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st November 1979

Markets were thin today with parts of Europe closed for All Saints Day. Sterling traded comfortably over a fairly wide range and the ERI finished unchanged at 66.9. Later, however, the pound was sold sharply down in the United States.

Sterling closed at 2.0780 in New York yesterday and opened at 2.08 this morning. Having touched 2.0770 on the early exchanges, the pound began a steady recovery and, when a determined buyer appeared in London, it was swept up to 2.0890. The market was generally thin, however, and a few, small commercial sellers sufficed to bring a retreat. Further offerings from Scandinavia this afternoon brought sterling back to 2.0765 from which point it recovered quietly to close at 2.0821. Some heavy selling in New York and Chicago, however, then brought a collapse and sterling was traded at one stage below 2.07. Forward margins were little changed. Sterling's three month premium was 11/16% p.a. and its intrinsic discount rose to 7/16%.

The pound lost 1/8% to the French franc (8.76 7/8), 3/8% to the deutschemark (3.74 1/4) and 1/2% to the Swiss franc (3.43 3/4). The dollar generally eased as yesterday's interest rate increases in Germany and the Netherlands began to impact. The Swiss franc (1.6510) was particularly firm and the Swiss took in $49 mn. Only the yen failed to gain, despite a 1% increase in Bank Rate to 6 1/4% this morning. The currency closed at 238.05 in Tokyo and 237.85 in London. The Japanese sold $200 mn. The E.M.S. finished at 1 11/16% in width between the Belgian franc (29.03) and lira (830.35). The deutschemark was 1.7980. The Dutch sold $10 mn. as their florin briefly touched the bottom of the band. The Danes sold $60 mn. as their krone continued to weaken relative to the rest. The punt (2.06) was a little over 1% discount on sterling. The Irish sold $5 mn. and sterling worth $31 mn.

Gold eased into the U.S. auction but firmed again to last night's levels ($382) once the deadline for bidding had passed. Fixings were $379.70 and $378.50.

Operations:

Market	+ $2 mn.
New Zealand	- 20
Sundries	+ 2
	- $16 mn.

1st November 1979.

J.G.H.

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 2nd November 1979

Sterling was weak throughout much of today with ready professional sellers finding few willing takers elsewhere. Some late respite came when a 1% increase in Swiss official interest rates put pressure on the dollar. Sterling's ERI fell to 66.2.

The pound closed at 2.0690 in New York yesterday following the sharp fall late in the day in London. This morning it opened at 2.0687 and briefly touched 2.0701 before quickly declining, first to 2.0655 and later to 2.0612 as sellers moved in from the Continent. An uneasy stability prevailed through the rest of the morning but further offerings from European and London banks this afternoon took sterling back to 2.0562. Americans were slow to take a position but eventually some demand set in from New York and sterling crested 2.06 again. The late fall in the dollar pushed the pound up to 2.0675 before it closed at 2.0655. Sterling's three-month forward premium remained at 11/16%p.a. and the adverse covered differential fell to ¼%.

Sterling lost ⅞% to the deutschemark (3.70⅞), 1% to the French franc (8.68⅛) and 1¼% to the Swiss franc (3.39⅜). The dollar had been steady until the Swiss announcement which raised Discount Rate to 2% and Lombard Rate to 3%. Negative interest rates were cut, too, from 10% to 2½%. The Swiss franc surged ahead to close at 1.6430 (and later 1.6345); the deutschemark and French franc followed at a distance closing at 1.7953 and 4.2025 respectively (later 1.7895 and 4.1875). The EMS contracted to only 1⅛% in width. The lira (831.70) continued to lead and the Belgian franc (28.92) and Dutch florin (1.9940) were together at the base. The Danes sold $40 mn. and the Irish sold $5 mn. and sterling worth $62 mn. The punt (2.0610) finished at ⅜% discount on sterling having briefly re-established parity. The yen closed at 236.50 in Tokyo, where the Japanese sold $232 mn., and 234.92 in London.

Gold weakened following the US auction, at which 1½ mn. ounces (in coin bars) were sold at an average price of $372.30. Fixings were $373 and $372.80.

Operations:		
	Market	- $68 mn.
	Nigeria	- 107
	South Africa	- 10
	Bangladesh	- 7
	Malta	- 5
	Ireland	+ 21
	Sundries	+ 3
		-$173 mn.

JGH

2nd November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th November 1979

There were few fireworks on the exchanges today. After a spluttering start, sterling lit up from time to time and brightened the twilight with a brief display of brilliance. The dollar, however, proved a damp squib and, in consequence, sterling's ERI fell to 66.1.

The pound closed at 2.0670 in New York on Friday and opened this morning at 2.0655. Selling pressure was soon renewed and the pound fell in short order to 2.0575 before some stability was restored. A thin market ensued and one or two sizeable buying orders sufficed to rocket sterling back up to 2.0675. With these satisfied, however, the pound retreated to 2.0577 by early afternoon. The Wholesale Price Indices were received without any marked effect and, with Americans reluctant to participate in any depth, sterling traded a little above 2.06 until late in the day when some further buying interest lifted the pound to close at 2.0645. Demand continued after the close and sterling traded up to 2.0715 at one stage. Forward margins continued steady. Sterling's three month forward premium was 11/16% p.a. and the adverse covered differential ¼%.

The pound lost ⅛% to the Swiss franc (3.39), ¼% to the French franc (8.66) and ⅛% to the deutschemark (3.69½). The dollar fell sharply in New York on Friday following the Swiss measures and recovered only part of the ground today. The deutschemark was 1.7898 and the Swiss franc 1.6423. The French took in $40 mn. as their franc firmed to 4.1950 but the Danes sold $19 mn. to steady their krone which failed to hold the immediate gains from the wage and price freeze. The lira (828.45) and Belgian franc (28.93) spanned the EMS, 1 9/16% apart. The punt (2.0692) closed at a ¼% premium on sterling after Irish sales of $4 mn. and sterling worth $23 mn. The Japanese spent $170 mn. this morning in Tokyo where the yen closed at 237.20. In London it improved slightly to 236.77.

Gold was a good deal firmer following developments in Iran. Fixings were $378.00 and $381.00.

Operations:	Market	- $18 mn.
	Ireland	+ 21
	Iraq	+ 10
	Government	+ 7
	Sundries	- 5
		+ $15 mn.

5th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th November 1979

BNOC's increase in North Sea oil prices gave sterling a boost this morning. With markets otherwise quiet - New York was closed for Election Day - little notice was taken of the banking statistics and the pound closed firm. The ERI rose from 66.1 to 66.6.

Sterling finished at 2.0690 in New York yesterday and opened at 2.0678 this morning. Having touched 2.0665 it was carried steadily forward by good, general demand from the Continent and reached 2.0795 before profit-taking established a trading range around 2.0750. Thereafter, sterling was never very far from this level. The banking figures caused no stir and one or two buyers were seen in the aftermath. Sterling closed at 2.0746. Sterling deposits hardened and forward premia narrowed as dealers began to anticipate an increase in MLR. Sterling's three-month premium was ½% p.a. and this produced interest parity on the covered comparison.

The pound gained ⅞% against both the French franc (8.73⅞) and deutschemark (3.72⅝) and 1⅛% against the Swiss franc (3.42⅝). These all lost ground to the dollar, closing at 4.2123, 1.7961 and 1.6520 respectively. The French swapped out $60 mn. and the Germans bought $31 mn. while swapping out $600 mn. The EMS remained as yesterday at 1 9/16% in width between the lira (830.60) and Belgian franc (29.01). The Danes sold $20 mn. The punt (2.0650) reverted to ½% discount on sterling. The yen again closed at 237.20 in Tokyo, after official sales of $50 mn. but weakened in London to 238.32.

Gold strengthened again today on further consideration of Iranian developments. Fixings were $382.80 and $384.30.

Operations:	Market	+ $48 mn.
	Ireland	+ 21
	India	+ 21
	Lothian CC (PSB G'teed)	+ 11
	Interest	+ 7
	South Africa	- 10
	Sundries	- 4
		+ $94 mn.

6th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th November 1979

Events in Iran and rumours (confirmed late in the day from Washington) that oil supplies to the US had been stopped, dominated activity on the exchanges today. The dollar was generally weaker, the yen markedly so; sterling was in good demand and gained ground on all currencies. The ERI rose from 66.6 to 67.2.

Having closed in London at 2.0746 yesterday, the pound was strongly bid up in the Far East this morning, with business as high as 2.10. Sentiment was buoyed not only by Iranian developments but also by stories that a German oil company was bidding heavily for the BP issue. By the time London opened, profits were being taken; sterling started here at 2.0972 and ran back to 2.0910 before establishing a level. Later, however, more substantial offerings from the Continent drove the pound down to 2.08 but buyers re-emerged there and the rate topped 2.09 again early this afternoon. Americans proved late takers of sterling which advanced to 2.0965 before closing at 2.0943. Later, official US confirmation that Iranian oil supplies had been cut off brought further demand for the pound, which traded up to 2.1075. Sterling's three-month forward premium fell further to ⅜% p.a. as sterling deposit rates hardened again; a small intrinsic discount prevailed.

The pound closed unchanged against the Swiss franc (3.42⅝) but gained ½% on the French franc (8.78⅝) and almost as much on the deutschemark (3.74¼). The dollar was generally weaker but under no marked pressure until the close. The Swiss franc finished at 1.6360 (later 1.6322), the deutschemark at 1.7874 (later 1.7856) and the French franc at 4.1952. The Swiss swapped in $125 mn. and the Bundesbank swapped out $1,150 mn. The EMS closed a little less than 1½% in width between the lira (827.95) and Belgian franc (28.87). The punt (2.0730) stood at 1% discount on sterling. The Japanese sold $404 mn. this morning in Tokyo where the yen closed at 240.20. In London it cheapened by five points.

Gold was again very strong. Fixings were $392½ and $395 and the metal later traded up to $397.

Operations:	Market	+ $72 mn.
	Post Office (PSB G'teed)	+ 8
	South Africa	- 11
	Sundries	+ 2
		+ $71 mn.

7th November 1979.
JGH

SECRET

1979/47

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 7th November 1979

After a nervous start, sterling came into good demand and rose by 0.3 in effective terms to 67.2 after 66.0 on Monday morning. Tension in Iran overshadowed the banking figures. The dollar eased back in most centres. The yen was again very weak.

Although the All Saints holiday made for quieter trading than usual on Thursday, sterling rose ¼ cent from the previous close of 2.0808 before selling from North America brought a sharp setback later in the day. Friday afternoon saw sterling down to 2.0562, but higher interest rates in Switzerland caused the dollar to weaken and sterling scraped up to close the day at 2.0655. Despite rather poor wholesale prices and a sharp rise in the banks' eligible liabilities, the tone was decidedly better after the weekend: indeed, a rise in North Sea oil prices, the unsettled state of Iran, and reported bidding for BP shares by a German oil company drove sterling as high as 2.10 in the Far East on Wednesday morning. It closed the period at 2.0943, a rise of 1⅜ cents on the week. The pound gave a little ground against the mark, however, closing at 3.74¼, but it improved to 8.78⅝ in Paris. Against the ECU it went to 1.5097, a discount of 1⅛% on the notional central rate. The banking figures, on top of widespread increases in interest rates abroad, encouraged expectations of a rise in MLR; the premium on 3-months' forward sterling was whittled down to ⅜%, but higher sterling interest rates brought the intrinsic discount on sterling back to 1/16%.

Further rises in interest rates abroad, together, perhaps, with a diplomatic deferral of a prime rate increase by Citibank, led the dollar to weaken in most centres before the weekend. (Chase Manhattan subsequently raised their prime rate to 15½%.) Later it eased back again because of developments in Iran. Nevertheless, it did not receive official support on balance. The EMS was very relaxed, the lira (827.95) closing at the top only 1 7/16% above the Belgian franc (28.87). No currency approached its divergence threshold. A wage and price freeze helped the Danish crown (5.2837) to recover, and it was briefly top of the snake. The authorities gave it $140 mn. of tangible support. The mark hardened to 1.7874, the Bundesbank buying $30 mn. (and swapping large amounts out); and the French franc continued to be quite firm, improving to 4.1952. The central bank increased the rates at which they discount Treasury bills, and took in $50 mn. on the exchanges. The Irish pound briefly showed a premium on sterling; it closed at 2.0730, a discount of 1%, after over $130 mn. of support, almost entirely conducted by sales of sterling. Outside the EMS, the Swiss raised discount and Lombard rates by 1% (to 2% and 3% respectively) and reduced the levy on foreign deposits with Swiss banks; their franc improved 1½% to 1.6360 in consequence. They took in $50 mn. The Norwegians continued to accumulate dollars; and the Canadian dollar had a comparatively easy week. The yen, however, sank deeper into trouble, cringing at every turn of events in Iran; it fell to 240.60 before closing at 240.25. Discount rate was finally raised 1% (to 6½%). The central bank spent $1,060 mn., making $3.8 bn. since the beginning of last month and nearly $13 bn. in the last year.

Gold was firm ahead of Thursday's US auction, but weakened on the result - an average price of $372.30 (for coin bars, equivalent to about $373 per ounce in good delivery form), with the 1¼ million ounces on offer barely covered. However, events in Iran brought a rally, and the price closed at $395, a gain of $13 over the week. The IMF sold 444,000 ounces at an average price of $393.55.

8th November 1979.

RATES, ETC.

10.15 a.m. 1st November		10.15 a.m. 8th November
2.0865	£/$	2.0956
67.0	Effective exchange rate index	67.4
9/16% p.a. pre.	Forward 3-months	7/16% p.a. pre.
15 11/16%	Euro-$ 3-months	15 7/8%
½% disc.	I.B.Comparison	⅛% disc.
1.8007	$/DM	1.7928
3.75¾	£/DM	3.75¾
8.79½	£/FF	8.81⅞
237.60	$/Yen	242.00
$379.25	Gold	$394.50
1.6543	$/S.Fc.	1.6442
3.45⅛	£/S.Fc.	3.44½

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th November 1979

Sterling was firm and steady for much of today and suffered nothing from the absence of any change in MLR. With no fresh news from Iran, the dollar staged a modest technical recovery this morning. Sterling's ERI rose to 67.3, after 67.5 this morning.

The pound closed at 2.1050 in New York yesterday and opened at 2.1062 this morning. Although this level proved a little ambitious, sterling met good two-way business on the opening exchanges around 2.1050. Eventually, however, sellers from London and Frankfurt held sway and sterling retreated in orderly fashion to 2.10. The recovery in the dollar then brought a further decline to 2.0945 but the pound met no real pressure from this movement and a few buyers sufficed to restore the rate to 2.1005 immediately before the MLR announcement. This was taken quietly; sterling was marked down immediately to 2.0975 and later backed off to 2.0940 as the dollar improved further. The rest of the afternoon was quiet and the pound closed at 2.0945. Later, however, sterling was sold in London and trading took place down to 2.0850. Sterling's three month forward premium was unchanged at ⅛% p.a. The adverse covered differential was ⅛%.

Sterling put on ¼% against the French franc (8.80½) and deutschemark (3.75¼) and ½% against the Swiss franc (3.44½). The dollar gained in all centres to 1.7916 in Germany, 1.6445 in Switzerland and 4.2027 in Paris. The Bundesbank swapped out a further $½ bn. to soak up liquidity. The EMS remained comfortable, 1 9/16% in width between the lira (829.50) and Belgian franc (28.97). The punt (2.0640) slipped to 1½% discount on sterling. The Irish sold $5 mn. and sterling worth $15 mn. The yen remained weak. The Japanese sold $124 mn. in Tokyo, where the close was 241.40. Later the yen traded down to 242.22 before reverting to 241.32.

Gold was steady this morning but eased back this afternoon in response to the better dollar. Fixings were $392.50 and $389.50 and the closing level was around $387.

Operations:	Market	- $20 mn.
	Interest	+ 12
	India	+ 11
	Post Office (PSB G'teed)	+ 3
	Sundries	+ 1
		+ $7 mn.
	Overnight	- $39 mn.

8th November 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 9th November 1979

Having weathered as unpleasant squall in New York yesterday, sterling met a fairer wind from the Continent this morning. The Treasury Bill tender underpinned the recovery and ensured a smooth course for the rest of the day. The ERI closed unchanged at 67.3.

The pound was sold down below 2.08 at one stage in New York yesterday but closed eventually at 2.0840. Opening this morning at 2.0848, it soon encountered good demand, emanating almost entirely from Geneva, possibly on Middle East account. 2.0965 was paid at best but, once appetites were sated, the market turned thin and sterling drifted back to 2.0845 by early afternoon. The tender result then sparked a recovery and, while trading was not active, the pound was marked up again to 2.0955 before closing at 2.0925. Sterling's three-month forward premium was reduced to 3/16% p.a. but, with sterling deposits still firmer, the uncovered differential was eliminated.

The pound was unchanged against the French franc (8.80½) and just a touch better against the Swiss franc (3.45⅛) and deutschemark (3.75⅛). The dollar gained a little ground this morning, following encouraging money supply figures and nothing untoward from Iran, and held the gains through the day. The mark closed at 1.7939, the Swiss franc at 1.6497 and the French franc at 4.2065. The EMS finished at 1⅝% in width between the lira (830.30) and Belgian franc (29.02). The punt (2.0637) stood at 1⅜% discount on sterling. The Irish sold pounds worth $21 mn. The yen was further savaged, closing at 242.00 in Tokyo, after official sales of $156 mn., and 243.07 in London.

Gold eased this morning as the dollar improved. The fixing was $389.75 and the metal fell further before a recovery was sparked in the US. The afternoon fixing set a level of $389.50 and, by the close, opening levels were almost restored.

Operations:	Market	+ $2 mn.
	Sundries	+ 3
		+ $5 mn.
	Overnight	+ $7 mn.

9th November 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th November 1979

After a buoyant start the pound came into some demand this morning and then into substantial demand this afternoon as positions were apparently being ordered in advance of an expected rise in MLR this week. The dollar had a better day. Sterling's ERI rose to 68.0.

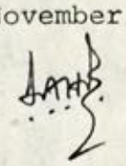
Having closed in New York on Friday at 2.0950, the pound opened modestly wanted today at 2.0977 in London, edged down to 2.0973 but quickly resumed an upward path to touch 2.1058 at best this morning. After reverting to the 2.10 level around noon it traded firmly until a sizable commercial order encouraged other buyers and the rate jumped to 2.1095. Although closing at 2.1065, dealings later took place above 2.11. Forward sterling moved to a discount as MLR hopes gained momentum and pushed up interbank rates. By the close, with the cost of cover at 7/16%, sterling at 15 13/16% and Eurodollars at 15¼%, there was a covered premium of ⅛% in London's favour.

Sterling recorded gains of over ¾% against the deutschemark (3.78½) and French franc (8.87¼) and of 1¾% against the Swiss franc (3.51⅛). The dollar continued to improve in the light of the latest economic indicators and on the fact that the Iranian situation had not worsened. The Swiss franc suffered most in Europe, easing to 1.6672 whilst the deutschemark eased only to 1.7972 (after 1.8010 in late morning). Markets were thinly based, however, because of the Veterans' Day holiday in the US. The EMS ended 1 11/16% wide, still between the Belgian franc (29.09) and the lira (831.95). The punt's discount on sterling widened to 2⅛% (2.0580). The yen had another poor day, closing at 247.20 in Tokyo, where another $172 mn. was spent, and at 247.30 in London.

Gold held steady at firm opening levels, fixing at $393 and $393.25.

Operations:		
	Market	+ $120 mn.
	India	+ 21
	PSB (NWC)	+ 16
	Iraq	+ 6
	Sundries	- 2
		+ $161 mn.

12th November 1979.
DAHB



SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 13th November 1979

An active day on the exchanges. President Carter's ban on American imports of oil from Iran gave the dollar an early psychological boost but this was lost once profit-taking set in. Sterling, too, started strongly as yesterday's buoyant tone persisted but the higher levels attracted an increasing number of sellers and the gains had evaporated by the close. The ERI closed unchanged at 68.0, after 68.4 this morning.

Far Eastern markets this morning evinced good demand for sterling, which opened in London at 2.1140, somewhat better than yesterday's final price. Widespread European interest, too, was seen on the early exchanges and trading took place up to 2.1210. At these levels, the first professionals were tempted to take profits and, before long, with the dollar easing too, commercial sellers were drawn in. Sterling fell swiftly to 2.1115 and later to 2.1080 before a trading range was established a little over 2.11. Some active two-way business took place around this level. Americans returned from a long weekend as small sellers but, as the pound weakened, so the offerings increased; sterling fell away to 2.1025 before closing at 2.1057. Forward margins widened, the three months' to 15/16% p.a. discount. This left an intrinsic discount of 3/16%.

The pound lost ⅛% to the Swiss franc (3.50¼) and rather less to the French franc (8.86⅛) and deutschemark (3.78¼). The dollar closed generally a little easier than yesterday, while well below today's best levels. The deutschemark was 1.7964 (after 1.8042), the Swiss franc 1.6635 (after 1.6742) and the French franc 4.2082 (after 4.2275). The EMS finished at 1⅝% in width between the lira (832.50) and Belgian franc (29.08). The punt (2.0570) stood at 2¼% discount on sterling, the Irish having sold $11 mn. and pounds worth $6 mn. In Tokyo, the Bank of Japan gave up $466 mn. in defence of the yen which closed there at 246.70. In London it eased to 247.37.

Gold opened easier, following the US move on Iranian oil, and traded in a narrow range through the day. Fixing levels were $388.00 and $387.20.

Operations:		
Market		- $27 mn.
PSB:		
British Air	+ 99	
SSEB	+ 150	+ 249
Interest		+ 17
Iran		+ 10
Sierra Leone		+ 7
Government		+ 7
Iraq		+ 6
South Africa		- 11
Sundries		+ 2
		+$260 mn.

JGH

13th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 14th November 1979

The exchanges today were dominated - and to some extent paralysed - by the American decision to block Iranian assets. The dollar was left rather weaker, albeit above the levels plumbed immediately following the earlier Iranian decision to withdraw deposits from US banks. Sterling had weakened this morning on commercial selling but recovered later on the dollar's misfortunes. In the confusion and uncertainty which followed the White House statement, the poor UK trade figures passed almost unnoticed. Sterling's ERI fell from 68.0 to 67.7.

The miners' rejection of the latest pay offer took sterling back to 2.1040 in New York yesterday but it recovered later to close at 2.1095. This morning it opened at 2.1072 with the tone still slightly uneasy. A large commercial seller in Germany then hit the market and sterling went into retreat, the movement extending through much of the morning as the dollar strengthened elsewhere. 2.0880 proved the low point since, at that moment, the Iranian declaration sent the dollar into reverse and sterling recovered very sharply to 2.1107. For a while the market was quite volatile and uncertain: early this afternoon, 2.1130 was paid for sterling. The White House statement now jerked the dollar back into shape and sterling fell very quickly to 2.0972. Trading, however, was quite sparse and uncertainty prevailed. After a long pause for reflection, the dollar turned easier again and sterling had recovered to 2.1065 by the time the trade figures were released. Twenty points were lopped from the rate in the immediate aftermath but, with the dollar's fortunes still dominant, the trade figures had little effect and sterling closed comfortably at 2.1072. Sterling deposits firmed further before tomorrow's MLR announcement but eurodollars, too, hardened, following the Iranian declaration. Sterling's three-month forward discount narrowed to 11/16% p.a. and this gave a small intrinsic premium on the covered comparison.

The pound lost ½% in Paris (8.81⅝), ⅝% in Zurich (3.48) and ¾% in Frankfurt (3.75⅝). The major European Central Banks all gave modest support to the weakening dollar, the French buying $55 mn., the Germans $34 mn., and the Swiss $16 mn. The deutschemark closed at 1.7820 (after 1.77), the Swiss franc at 1.6515 (after 1.6450) and the French franc at 4.1837 (after 4.1725). The lira (828) and Belgian franc (28.91) continued to bracket the EMS, a little over 1½% apart. The punt (2.0760) stood at 1½% discount on sterling; the Irish bought $8 mn. but sold sterling worth $36 mn. In Tokyo, the Bank of Japan sold $91 mn. and the yen closed at 246. In London it finished at 243.20 (after 241½).

Gold was active and a little firmer on the general uncertainty, although resistance was felt at levels much above $390. The Iranian announcement came in the middle of the earlier fixing which set a level of $389.25. This afternoon the price was fixed at $390.

Operations:	Market	- $42 mn.
	Interest	+ 14
	Crown Agents	+ 10
	Kenya	+ 5
	Sundries	+ 6
		- $7 mn.
	Overnight	+ $13 mn.

14th November 1979.

SECRET 1979/48

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 14th November 1979

Higher interest rates (with growing expectations of a rise in MLR) helped keep sterling firm, but the dramatic turn of events in Iran made for a bumpy ride. The effective index rose by 0.5 to 67.7 after 68.4. A testing week left the dollar little changed on balance. The EMS was very relaxed, but pressure on the Yen continued.

Sterling was in no way put out by the failure of MLR to rise on Thursday and, apart from some selling in New York that night, it held its own against a firmer dollar before the weekend. Renewed expectations of an increase in MLR (with a high Treasury bill tender rate and a couple of increases in base rate pointing the way), developments in Iran, and signs that Saudi Arabia will raise the price of their oil, combined to bring good demand for sterling on Monday and Tuesday morning. The rate briefly topped 2.12, nearly 2¾ cents higher than at the close on 7th November. The pound then went into the doldrums, probably affected by rejection of the Coal Board's wage offer, until the Iranian threat to withdraw deposits from American banks lit up the exchange market again. Sterling rose sharply on the news, from 2.08¾ to 2.11, and later to 2.1130. The announcement early in the afternoon that the U.S. will block Iranian assets caused the dollar to recover, and sterling eased back. The trade figures passed almost unnoticed. Sterling closed the period at 2.1072, a rise of 1¼ cents. At first the pound advanced against other major currencies; although it shed some of the gains later, it closed better at 3.75¾ against the mark and at 8.81¾ in Paris. Against the ECU it went to 1.5155, representing a discount of 1½% on the notional central rate. Euro-dollar rates retreated from their recent highs, and indeed were exceeded by interbank sterling rates which rose strongly. The premium on forward sterling turned into a discount of 11/16%, but the covered differential against London on the usual comparison gave way to a premium of 1/16%.

The dollar firmed in most centres around the weekend. Good money supply figures and more increases in prime rates probably helped, and the news from Iran was at least no worse. President Carter's prompt ban on oil imports from Iran was considered shrewd and benefitted the dollar. On Wednesday, however, the Iranian threat to withdraw deposits from American banks threw the exchange market into turmoil. The dollar fell, but recovered as quickly when the U.S. authorities blocked Iranian assets. The Fed. scarcely intervened in the market. The Bundesbank bought a mere $30 mn.; the mark hardened ½ pfennig to 1.7820. It remained around the middle of the EMS, which was relaxed throughout, the lira (weaker at 828) and the Belgian franc (28.91) retaining top and bottom positions only 1 9/16% apart. The French franc closed ⅛% firmer at 4.1837, the central bank having bought $80 mn. The Irish pound received $70 mn. of support, mainly in the form of sales of sterling; it closed at 2.0760, and 1½% discount. All these currencies fluctuated against the dollar, but without special feature. There was more action in the Swiss franc, which slipped back to 1.6742 in the wake of a sizeable selling order before recovering to 1.6515. Mr.Leutwiler hinted at a more receptive attitude to foreign official holdings of francs. The prospect that Iranian oil supplies might be cut off drove the yen to 249½ in Tokyo on Tuesday, but it later improved to close 1⅛% down on the week at 243.20. It received another $1,020 mn. of support.

Gold drifted off until events in Iran sparked a fresh rise in the price. It closed at $390, $5 down on the week.

15th November 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
8th. November		15th. November
2.0956	£/$	2.1135
67.4	Effective exchange rate index	68.0
7/16% p.a. pm.	Forward 3-months	7/8% p.a. disc.
15 7/8%	Euro-$ 3-months	15 5/16%
1/8% disc.	I.B.Comparison	par
1.7928	$/DM	1.7830
3.75 3/4	£/DM	3.76 7/8
8.81 7/8	£/FF	8.84 1/8
242.00	$/Yen	245.90
$394.50	Gold	$388.50
1.6442	$/S.Fc.	1.6525
3.44 1/2	£/S.Fc.	3.49 1/4

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th November 1979

Already in good demand this morning, sterling was well wanted throughout the afternoon following the increase in Minimum Lending Rate to 17%. Having weakened in New York, the dollar recovered this morning was was thereafter little moved. Sterling's ERI rose from 67.7 to 68.9.

With the dollar generally easier in New York, the pound closed there yesterday at 2.1155. This morning it opened at 2.1102 but, as the dollar recovered sharply, fell swiftly to 2.1035 before steadying around 2.1050. Strong Swiss professional buying then sparked a rally and this prompted a good deal of commercial interest in sterling both in London and abroad. 2.12 was paid for sterling early this afternoon but the rate stood at 2.1137 when the increase in MLR was announced. After some initial sparring around 2.12, sterling forged ahead. Commercial demand was still very much in evidence and European interest was keen. Americans, however, were muted, taken up, perhaps, with the practical problems of the Iranian blockade. The pound climbed in fits and starts to 2.1470 at best before settling around 2.14 and closing at 2.1420. The Chancellor's statement came late in the day and had little additional impact. Forward margins widened, the three months' to 1 7/16% p.a. discount. Sterling commanded an intrinsic premium of 3/16% on the covered comparison.

The pound gained 1½% against the French franc (8.95), 1⅝% against the deutschemark (3.81¼) and almost 1¾% against the Swiss franc (3.53⅜). The Swiss franc eased slightly to 1.6535, the French franc firmed to 4.1787 and the deutschemark was little changed at 1.7826. The French swapped out $50 mn. The French franc replaced the lira at the head of the EMS, 1½% above the Belgian franc (28.88). The Dutch sold $11 mn.-worth of marks. The punt (2.0835) stood at 2⅛% discount on sterling. The Irish bought $13 mn. and sterling worth $11 mn. The Japanese sold $60 mn. this morning in Tokyo where the yen eased to 245.50. In London it weakened further to 246.30.

Gold was generally softer throughout the day. Fixings were $387.50 and $386.00.

Operations:	Market	+	$163 mn.
	Ireland	+	33
	BIS	+	10
	EEC	-	45
	Sundries	+	3
		+	$164 mn.

15th November 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th November 1979

Sterling rose by 0.5 in effective terms to 69.4 in the wake of yesterday's measures. Trading became confused during the afternoon as rumours concerning Iran flew about. They caused the dollar to weaken; it later recovered some of the ground lost.

Sterling maintained its firm tone in New York, where it closed at 2.1487 after 2.1520. It was quickly bid up from an opening 2.1462 in London, and traded for most of the morning between 2.14½ and 2.15½ before easing back to 2.1460 at noon. Good two-way business was seen, with continental and UK commercial buying interest. The price figures had no effect. The market flared up again early in the afternoon, on a report that Iran will cease to take payment for oil in dollars, marks, Swiss and French francs being taken instead. Sterling was not mentioned, but the pound leapt to 2.17 as the dollar weakened across the board. Another report out of Tunis, that various countries including the UK intend to block Iranian assets, added to the confusion. The second rumour was officially denied, but the first was not cleared up and sterling closed near the best level at 2.1640. It subsequently fell a cent on a report that oil companies have not been instructed to pay Iran other than in dollars, but then climbed back to 2.16. The cost of cover was fairly steady at 1½%; with 3-months' interbank sterling up to 17 3/16%, however, intrinsic premium in favour of London edged up to ¼%.

Sterling improved on the Continent, to 3.84¼ against the mark and to 3.56¼ in Switzerland. The dollar started quite well despite disappointing money figures, but fell apart on the rumour about oil payments before recovering some of the ground later in the afternoon. Citibank's prime rate rose to 15¾%. The mark closed ¼ pfennig stronger at 1.7755 (after 1.7720). The Bundesbank sold dollars on the swap to absorb domestic liquidity. The French bought $52 mn. as their franc strengthened to 4.1530. It stayed top of the snake 1½% above the Belgian franc (28.71). The lira closed at 828¼, giving more ground in the EMS. The punt advanced to 2.0915, a discount of 3⅜% on sterling. Outside the snake, the Swiss franc hardened to 1.6460, the SNB selling $23 mn.-worth of marks. The Japanese gave another $114 mn. of support: the yen closed at 247.40 in Tokyo but improved to 245.90 in London.

Gold had a surprisingly quiet day, fixing at $386¾ and $390.35.

Operations:	Market	+ $33 mn.
	India	+ 22
	PS borrowing (Post Office)	+ 5
	Nigeria	- 22
	Crown Agents	- 8
	Sundries	- 1
		+ $29 mn.
	Overnight	+ $7 mn.

16th November 1979.
PAB

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th November 1979

Sterling met some demand this morning with sentiment buoyed by the Times report on the Government's supposed exchange rate policy. Thereafter, the pound remained firm, though largely in reflection of the dollar, which weakened sharply on Iranian developments. Sterling's ERI rose from 69.4 to 69.8.

The pound closed at 2.1650 in New York on Friday and opened at 2.1645 this morning. 2.17 was breached more than once on the opening exchanges but it was some time before any real demand was seen. Strong professional interest from the Continent - possibly on Middle East account, possibly, too, for gilt-edged - then carried sterling towards 2.18 and the movement was furthered as the dollar suddenly sagged elsewhere. Sterling was marked up sharply to 2.1907 at best before settling to trade around 2.1850. Early Americans tended to cover short dollar positions but the incipient recovery was nipped in the bud by an Iranian plea to other OPEC members to cease taking the dollar for oil payments. Sterling rebounded to 2.19 before relapsing again into the earlier range. The rest of the day was quiet and a little profit-taking from Europe saw the pound back to 2.1825 at the close. Forward margins narrowed a little. Three months' cover cost 1⅜% p.a. and sterling commanded an intrinsic premium of 5/16% on the usual comparison.

The pound gained fractionally against the deutschemark (3.84½) but was ⅜% better against the Swiss franc (3.57⅜) and ½% up on the French franc (9.03¼). The Bundesbank bought $30 mn. as the deutschemark firmed to 1.7614 and the French took in $45 mn. (swapping out $95 mn.) as their franc hardened to 4.1385. The Swiss franc rose to 1.6375 but the Swiss sold marks equivalent to $28 mn. (outright forward) defending SF 0.93 on the DM cross-rate. The Dutch, too, sold marks worth $31 mn. as the guilder slipped almost to the foot of the EMS band. The French franc and Belgian franc (28.56) continued at the top and tail, now 1⅜% apart. The punt (2.0990) stood at 3⅞% discount on sterling. The yen closed at 246.30 in Tokyo without official support and firmed to 244.52 in London.

Gold improved as the dollar weakened but again met strong resistance around $391. Fixings were $390 and $389.85.

Operations:	Market	+ $36 mn.
	Iran	+ 30
	India	+ 22
	Sundries	+ 12
		+$100 mn.
	Overnight	- $13 mn.

19th November 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 20th November 1979

Sterling ended another untidy day 0.2 lower in effective terms at 69.6 after 69.3 at noon. The dollar swung about but closed higher in most centres.

A commercial selling order which surfaced in late trading yesterday may have washed through New York, where sterling closed at 2.1778 after some support. The pound opened much higher today, at 2.1855, but slipped back over the morning against a generally better dollar. Selling was persistent if not heavy. The rate touched 2.1570 before recovering to 2.1625 at noon. The day's first story from the Middle East - that other OPEC members do not plan to follow Iran's call to abandon the dollar as a pricing unit and transactions currency - had helped the dollar, but the second, in the early afternoon, to the effect that Iran will no longer take dollars in payment for oil, caused it to weaken, and with support from early New Yorkers the pound climbed to 2.1782 before closing at 2.1735. Trouble between Zambia and Rhodesia was another unsettling influence on an unsteady market. Once again sterling met some pressure in late trading. The cost of cover edged up to 1½%, but sterling's intrinsic premium on the usual 3-months' comparison held steady at 5/16%.

Sterling eased back against the mark (3.83⅜) and the French franc (8.99⅛), but at 3.57½ was little changed in Switzerland. The mark closed at 1.7640, having ranged between 1.7585 and 1.7705. The Swiss franc weakened to 1.6445; the SNB sold another $28 mn.-worth of marks as their cross-rate weakened to SF 0.93¼. The French franc, on the other hand, closed stronger at 4.1365, remaining top of the EMS 1⅝% above the Belgian franc (28.61). The Dutch spent $42 mn.-worth of marks to keep their guilder a whisker off the bottom at 1.9710. The lira was steady at 823¼. The punt rose to 2.1015, a 3⅜% discount on sterling. Although weaker, at 245.70 in Tokyo and 245.92 in London, the yen was calmer than of late, and the Bank of Japan kept out of the market for the second day running.

Gold was quiet, fixing at $389 and $387¾.

Operations:	Market	- $38 mn.
	Sundries	+ 5
		- $33 mn.

20th November 1979.
PAB

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st November 1979

Events in Iran and other Islamic centres continued to dominate and depress the dollar today. Sterling saw fairly active two-way business but sellers tended to be in the majority. The ERI closed unchanged at 69.6 after 69.9 this morning.

The pound recovered to 2.1812 in New York yesterday although the dollar was generally little changed. This morning sterling opened at 2.1815 and, with the dollar now sharply weaker, saw business up to 2.1912 on the early exchanges. Before long, however, banks in the Far East were taking profits in dollars and pounds and sterling retreated to opening levels. This stirred potential commercial sellers, who later appeared to depress sterling further to 2.1737. The rest of the day was relatively comfortable, although offerings seemed to come out whenever the pound was much above 2.18. The closing level was 2.1774. Three months' cover cost 1 9/16% p.a. and sterling's intrinsic premium was ¼%.

The pound lost ⅛% to the Swiss franc (3.57⅛) and ¼% to each of the French franc (8.97⅜) and deutschemark (3.82¼). These were all considerably firmer against the dollar at 1.6395, 4.1210 and 1.7557 respectively. The Swiss franc weakened to 0.93⅜ to the DM and the Swiss made outright forward sales of marks worth $29 mn. (They also swapped in $230 mn.). The French franc continued to lead the EMS - still 1⅝% in width - but the Dutch florin (1.9652) replaced the Belgian franc at the base. The Dutch sold $6 mn. and marks equivalent to $34 mn. The punt (2.1080) was at 3⅛% discount on sterling. The Irish sold $10 mn. The yen closed at 247 in Tokyo, where the Japanese sold $47 mn. and 248.17 in London.

Gold was firm on the uncertainty in the Middle East. Fixings were $396.80 and $396.15.

Operations:	Market	+ $19 mn.
	India	+ 22
	South Africa	- 7
	Sundries	+ 2
		+ $36 mn.

21st November 1979.
JGH

SECRET 1979/48

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 21st November 1979

In a week dominated by disturbing and sometimes bizarre events in Iran and elsewhere and the American response to them, the 17% MLR and accompanying measures provided a piece of hard economic news which lifted sterling on to a higher plane. The effective rate index rose nearly 3% to 69.6 after 69.9. The dollar weakened in most centres, but the yen lost more ground. Markets were generally nervous and volatile.

Sterling drifted back at first from the London close of 2.1072 on 14th November, but soon came into good demand from Switzerland which took it to 2.1137 shortly before the MLR announcement. 3% was a bigger increase than the market had expected, and sterling was marked up to 2.1470 on Thursday afternoon. The Chancellor's statement came too late to have any further effect. The pound continued firm on Friday in the wake of the measures, and touched 2.17 in the afternoon as a report that Iran will take other currencies for oil hit the dollar. Another report, subsequently denied, that various countries including the UK plan to block Iranian assets increased the market's disarray. Sterling was stronger still on Monday morning, rising to 2.1907 following a Times report on the government's supposed exchange rate policy. After a relapse, it touched 2.19 again when the Iranians urged other OPEC members to drop the dollar as a transactions currency and the unit in which they price their oil; fell to 2.1570 on Tuesday when the others declined the advice; leapt to 2.1912 on Wednesday morning as trouble spread to Saudi Arabia; and once again retreated from this level to 2.1737 before closing at 2.1774, a gain of 7 cents on the week. Tension between Zambia and Rhodesia added to the confusion. Industrial trouble (at BL and the NCB) may have had some effect. Sterling improved to 3.82¼ against the mark and to 8.97⅜ in Paris. Against the ECU it closed at 1.5410, a premium of ⅛% on the notional central rate. Both the discount on forward sterling and the inter-bank sterling rate rose smartly following the MLR increase. At the close of the period, 3-months' forward cover cost 1 9/16% but the covered differential in favour of sterling had improved to ¼%.

The dollar weakened in most continental centres though its course was erratic. Economic news, including a surprisingly large increase in the US money supply and the widespread adoption of a 15¾% prime rate, was mostly ignored. The Fed hardly intervened on the exchanges. The Bundesbank bought a mere $30 mn. as the mark gained 1½% to 1.7557. The French bought another $100 mn. Their franc ousted the lira (820.50) from top position in the snake, advancing to 4.1210 in the process. It closed 1⅝% above the guilder (1.9652) which in its turn had taken bottom place from the Belgian franc. The Dutch spent $90 mn.-worth of marks and the Belgians, $30 mn.-worth. The Irish pound rose to 2.1080, a 3⅛% discount on sterling, without support on balance. Outside the EMS, the Swiss franc (1.6395) received $110 mn.-worth of help against marks as the cross-rate reached SF 0.93⅜. The Swedish crown was also under some pressure, but the Canadians added $200 mn. to reserves. The yen's agony was somewhat lessened: alone of the major currencies it weakened against the dollar, to 248.17, but the Bank of Japan sold only $300 mn. and did not bat at all on two days.

Gold was surprisingly quiet until Wednesday, when growing tension lifted the price to $396.80 at the morning fix. It closed the period at $396.15 for a net gain of $6.15 on the week.

22nd November 1979.
PAB

RATES, ETC.

10.15 a.m. 15th November 1979		10.15 a.m. 22nd November 1979
2.1135	£/$	2.1720
68.0	Effective exchange rate index	69.4
7/8 p.a. disc.	Forward 3-months	1 1/4 p.a. disc.
15 5/16	Euro-$ 3-months	14 7/8
par	I.B.Comparison	1/8 pre.
1.7830	$/DM	1.7533
3.76 7/8	£/DM	3.80 3/4
8.84 1/8	£/FF	8.94 5/8
245.90	$/Yen	247.70
$388.50	Gold	$395 1/8
1.6525	$/S.Fc.	1.6420
3.49 1/4	£/S.Fc.	3.56 5/8

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd November 1979

Markets were generally quieter today for the absence of Americans in Thanksgiving. The latest statement from Iran - that the Shah's departure from the US would prompt the release of the hostages - was taken constructively for the dollar, which rebounded somewhat from its depressed levels. The Treasury forecasts dampened any enthusiasm for sterling and the ERI closed unchanged at 69.6, after 69.4 at midday.

The pound closed at 2.1780 in New York yesterday. After opening at 2.1790 this morning, it tended easier on the early exchanges and quickly reached 2.1700. This owed something to a small technical recovery in the dollar, which did not last. Thereafter, sterling fluctuated between that level and 2.1755 throughout the morning, although the undertone remained rather soft. This afternoon, the dollar was marked up on the first rumours of a more conciliatory line from Iran and, with the Treasury forecast acting as a further depressant, sterling fell to 2.1655 at one stage. The market was very quiet, however, and the pound rallied late in the day to close at 2.1735. Forward margins widened substantially as eurodollars tended softer. Three months' cover cost 2% p.a., but sterling's intrinsic premium remained at ¼%.

Sterling gained over ¼% against the Swiss franc (3.58¼) and rather less against the deutschemark (3.82¾); there was little change on the French franc (8.97⅝). These all eased against the dollar to 1.6492, 1.7611 and 4.1297 respectively. The Swiss franc/DM cross-rate neared 0.94 but closed at 0.93⅝ after further official sales of outright forward deutschemarks worth $85 mn. The Bundesbank swapped out $1,480 mn. for liquidity reasons. The Belgian franc (28.57) replaced the Dutch florin (1.9670) at the tail of the EMS, while the Danish krone (5.1937) edged out the French franc at the head. The band was 1⅝% in width. The punt (2.1002) stood at 3⅛% discount on sterling. The Bank of Japan sold $65 mn. in New York yesterday and $33 mn. in Tokyo this morning, effecting a close of 248.35. In London, the yen weakened to 249.10 this afternoon before finishing the day at 248.70.

Gold eased a little on the dollar's recovery. Fixings were $394.85 and $393.15.

Operations:	Market		- $9 mn.
	PSB Guaranteed:		
	Electricity Council	+ 33	
	Lothian Regional Council	+ 25	+ 58
	India		+ 22
	Interest		+ 9
	Sundries		+ 3
			+$83 mn.

22nd November 1979.
JGH

SECRET

MR.McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd November 1979

Another relatively inactive day's trading found sterling under some pressure from a handful of commercial sellers. The ERI fell from 69.6 to 69.2.

The pound opened at 2.1672 and tended easier from the start in the face of a modestly better dollar. Two sizeable commercial sellers commanded attention for much of the morning and sterling sagged to 2.1532 at one point. Some recovery took place around midday as the dollar went into reverse. This afternoon saw little increase in volume and American interest seemed non-existent. The pound was propped by one useful buying order but, for all this, could not better 2.1630 and by the close, it had retreated again to 2.1597. Euro-dollars continued to soften markedly and forward margins widened further, the three months' to 2⅛% p.a. discount. This gave sterling an intrinsic premium of 5/16%.

The pound lost ⅜% to the Swiss franc (3.56¼), ½% to the French franc (8.92¼) and ⅝% to the deutschemark (3.80⅜). These were all little changed against the dollar at 1.6520, 4.1340 and 1.7615 respectively. The French franc and Danish krone (5.1907) vied for hegemony in the E.M.S, with the latter holding sway at the close, 1⅝% above the Belgian franc (28.55). The punt (2.0995) stood at 2¼% discount on sterling. With Tokyo closed, the yen weakened in London to 249.62.

Gold was a dull market, easing this morning and recovering a little later in the day. Fixings were $390.15 and $392.

Operation:	Market	-$46mn.
	India	+ 22
		-$24mn.

Overnight: +$3mn.

23 November 1979.

J.G.H.

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th November 1979

Industrial unrest and the continuing gloom amongst forecasters of the UK economy combined to maintain a soft undertone for sterling today. Commercial sellers of pounds were again very much in evidence. To some extent this weakness was masked by a further deterioration in the dollar, due in part to Iranian developments and in part to a very marked decline in eurodollar deposit rates. Sterling's ERI fell to 69.1.

The pound closed firmer at 2.1670 on Friday in New York where the dollar was generally easier. This morning sterling opened at 2.1562 and, with the dollar staging a selective recovery, it fell away to 2.1477 in the face of some heavy selling from the European professionals. Soon enough, however, the dollar's fortunes turned, as eurodollar deposits eased, and the pound crested 2.15 again, supported now by profit-taking from the Continent. The latest polemic from the Ayatollah sent the dollar sharply easier this afternoon and sterling touched 2.1619 at one stage before closing at 2.1595. American interest was again scant but commercial offering of pounds in London was evident throughout the session. Dollar deposits were over ½% easier by the close. Forward margins widened substantially in consequence - the three months' to 2 7/16% p.a. discount - but sterling's intrinsic premium rose nonetheless to ½%.

Sterling was nearly ¼% easier in Frankfurt (3.77¾), and ⅝% lower in Paris (8.87½). Against the Swiss franc, however, it was little changed at 3.56½. The Bundesbank gave $67 mn. of support to the dollar, the deutschemark closing at 1.7491. The Swiss, however, sold outright forward deutschemarks worth $57 mn. as their cross-rate eased to 0.94⅜. Against the dollar the franc closed little different at 1.6510. The French franc firmed, however, to 4.1092, stretching the EMS to almost 2%. The Belgian franc (28.53) remained at the bottom of the band. The Dutch sold $10 mn. and $43 mn.-worth of marks as the florin eased relative to the mark. The punt (2.1070) improved to 2 7/16% discount on sterling. The yen was again under pressure. The Bank of Japan sold $28 mn. in New York on Friday and $321 mn. this morning in Tokyo, where the close was 249.70. In London, the yen weakened to 251.50 before closing at 250.75.

After a quiet and steady morning, in which the price was fixed at $393, gold hardened this afternoon as the dollar weakened. The later fixing set a level of $395.25.

Operations:	Market	+ $13 mn.
	India	+ 22
	Kenya	+ 22
	Post Office (PSB G'teed)	+ 19
	Sundries	+ 1
		+ $77 mn.

26th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th November 1979

The dollar weakened further today, although eurodollar rates, after a further initial decline, reacted upwards from their very low levels. This kept sterling steady but no great demand was evinced. Late in the day, the AUEW decision to support a return to work at British Leyland gave a fillip to sentiment. The ERI fell over the day from 69.1 to 69.0.

The pound closed at 2.1640 yesterday in New York where the dollar was again easier. This morning, sterling opened at 2.1580 but, as the dollar fell sharply away in response to opening eurodollar quotations, sterling improved to find a trading level around 2.1650. The dollar proved the prime factor for much of the day. Two-way commercial business characterised the later morning with sterling gaining further ground to 2.1735 as the dollar weakened again. This afternoon was dull and Americans were again largely absent. The dollar recovered somewhat, aided by the reduction in Chase Manhattan's Prime Rate to 15¼%, and sterling touched 2.1600 before closing at 2.1613. After the close, the AUEW decision saw business in pounds at 2.1640. Forward margins widened again, the three months' to 2 15/16% p.a. Sterling's intrinsic discount was reduced to 3/16%.

The pound lost almost ¼% to the French franc (8.85¼) and deutschemark (3.77), but rather less to the Swiss franc (3.56). The Swiss sold a further $57 mn.-worth of outright forward deutschemark as their franc weakened to almost 0.94½ on the cross-rate. Against the dollar it improved to 1.6470. The Bundesbank bought $13 mn. and the deutschemark firmed to 1.7439 (after 1.7365). The French took in $59 mn. (and swapped in $20 mn.); their franc firmed to 4.0982. The EMS again closed a little under 2% wide between the Belgian franc (28.45) and French franc (4.0982). The Danish krone fell substantially within the band and the Danes sold $5 mn. and $43 mn.-worth of marks. The punt (2.1140) stood at 2⅛% discount on sterling. The yen fluctuated wildly. The Japanese sold $99 mn. in New York yesterday and $471 mn. in Tokyo this morning, effecting a close there of 251.50. The subsequent announcement of a package of supportive measures brought a sharp appreciation to 245.25 on the early exchanges in Europe but by the close the yen had receded to 249.22.

Gold was steady and featureless. Fixings were $393.40 and $393.75.

Operations:	British Air (PSB G'teed)	+ $50 mn.
	Nigeria	+ 44
	EEC	- 14
		+ $80 mn.

27th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th November 1979

The better industrial news may have helped sterling to rise 0.3 in effective terms to 69.3 despite a large commercial selling order. The dollar steadied after a further fall in interest rates had given it an uneasy start. Gold rose sharply.

Having closed lower in New York at 2.1590, sterling opened at 2.1632 in London and, after an early mark-down to 2.1590, strengthened on continental demand to 2.17 by mid-morning. Another sharp fall in euro-dollar rates may have helped. A large commercial seller then appeared, but his offering was readily absorbed around the 2.16½ level. Modest buying interest returned after lunch, and sterling advanced over the afternoon to 2.1680 at the official close and subsequently to 2.1710 in late trading. After the early dip, euro-dollar rates recovered to around yesterday evening's level after allowance for technical factors. The cost of cover was little changed at 2 7/8%, leaving the covered differential in sterling's favour at 3/16%.

The pound gained against the mark (3.78⅞) and the French franc (8.89⅞), but yielded ground in Switzerland (3.55⅝). After an uneasy start - probably occasioned by the early fall in euro-dollar rates - the dollar steadied and indeed managed gains over the day in some centres. The mark closed a little weaker at 1.7475, the Bundesbank having bought $24 mn. The French franc eased to 4.1050, but remained top of the EMS at 1⅞% above the Belgian franc (28.47). The Belgians sold $20 mn.-worth of French currency. The lira slipped to 820.75. In an effort to hold the guilder, the Dutch raised discount and Lombard rates by 1% but gave no direct support in the market. The Danes, on the other hand, sold $44 mn. and a few marks. The punt closed at 2.1110, a 2⅝% discount on sterling. Outside the snake, the Swiss franc received another $57 mn. of support, entirely in the form of forward sales of marks. It closed rather better against the dollar, at 1.6417, and improved to below SF 0.94 against the mark. Yesterday's measures did the yen no good. The Bank of Japan sold a massive $515 mn. in Tokyo, before a close of 249.70; the yen closed in London at 249.15.

The gold market flared up again after a comparatively quiet period, some short-covering in the silver market seemingly providing the spark. Fixings were at $405.35 and $411.20.

Operations:	Market	- $1 mn.
	Sundries	+ 4
		+ $3 mn.

28th November 1979.
PAB

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 28th November 1979

Somewhat brighter industrial news and a marked fall in dollar interest rates dispelled some of the gloom cast by earlier developments at British Leyland, leaving sterling only 0.3 lower in effective terms at 69.3 after 69.0. The dollar had a slightly easier tendency. Sweden and the Netherlands raised interest rates. Some relaxations on capital inflows brought the yen no comfort, and it was massively supported again.

Sterling opened brightly on Thursday morning at 2.1790, slightly up from the previous close, but this proved to be the highest level of the week as gloomy Treasury forecasts soon dampened enthusiasm. Commercial selling on Friday took the rate down to 2.1532 before it recovered to close for the weekend at 2.1597. Poor industrial news, from BL in particular, brought the sellers out again on Monday, when sterling touched 2.1477; but a remarkable fall in dollar interest rates, together with better news from BL (where the AEUW, and later the TGWU, recommended a return to work), gave sterling a firmer appearance, and the rate breasted 2.17 a couple of times before closing at 2.1680 for a net fall of just under 1 cent over the week. The pound also yielded some ground on the Continent, closing ⅞% down at 3.78⅞ against the mark and at 8.89⅞ in Paris. Against the ECU it eased to 1.5295, a discount of ⅝% on the notional central rate. Euro-dollar rates fell sharply, to 13⅜% (after 13 5/16%) for 3 months' deposits. The cost of cover rose to 2⅞%, and interbank sterling rates eased, but the covered differential was little changed at 3/16%.

US interest rates had most influence on the dollar's course in the week. Federal funds rate eased back; several banks reduced their prime rate to 15½% and one, Chase Manhattan, to 15¼%. Money supply showed little change. Consumer prices rose 1% in October, a better result than many had expected. The situation in Iran remained highly confused, and there were scares elsewhere, but events did not take a clear turn for the worse. The Fed bought $20 mn. in the market. The dollar weakened in several centres. The mark touched 1.7365 before closing ½% stronger at 1.7475, the Bundesbank having bought $100 mn. (and sold nearly $1½ bn. on the swap to control the domestic money market). It rose to second place in the EMS, just below the French franc (4.1050) which finished 1⅞% above the lowest currency, the Belgian franc (28.47). The French bought $60 mn.; the Belgians sold $20 mn.-worth of French francs. The Danes sold $50 mn. and $30 mn.-worth of marks in order to brake their currency's fall. Of the other snake currencies, the lira closed at 820.75 and the Irish pound at 2.1110, a 2⅝% discount on sterling, with $30 mn. and a few pounds added to reserves. The guilder closed at 1.9505 after another 1% rise in discount and Lombard rates. The central bank gave some $50 mn.-worth of support, mainly by selling marks. Outside the EMS, the Swiss franc eased to 1.6417 against the dollar, but it was a weakening cross-rate against the mark (SF 0.94 after nearly SF 0.94½) which prompted $260 mn.-worth of official support, all achieved by sales of marks. The discovery that exports have been under-recorded, lower US interest rates, and safe domestic oil supplies combined to cheer up the Canadian dollar; the central bank added $40 mn. to reserves. However, a 9% bank rate did little to help the Swedish crown, and the yen had another wretched week. At one time it touched 251½; some measures to encourage inflows brought a sharp but short-lived recovery to 245¼; it closed at 249.15, ½% down on the week, after another $1,470 mn. of support which has now exceeded $15.7 bn. since last November.

Gold started quietly, but rose in a livelier market on Wednesday to $411.20, a gain of $15 in the week.

29th November 1979.
DAP

RATES, ETC.

10.15 a.m. 22nd November 1979		10.15 a.m. 29th November 1979
2.1720	£/$	2.1775
69.4	Effective exchange rate index	69.5
1¼% p.a. disc.	Forward 3-months	2 11/16% p.a. disc.
14⅞%	Euro-$ 3-months	13¾%
½% pre.	I.B.Comparison	¼% pre.
1.7533	$/DM	1.7420
3.80¾	£/DM	3.79⅜
8.94⅝	£/FF	8.91¼
247.70	$/Yen	249.32
$395.13	Gold	$413.50
1.6420	$/S.Fc.	1.6337
3.56⅝	£/S.Fc.	3.55¼

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th November 1979

A generally dull day was enlivened by pockets of excitement overseas. Rumours, as yet unsubstantiated, of the imminent abolition of Swiss negative interest requirements, sent the Swiss franc sharply firmer. This - together with the sabotage of oil installations in Iran - made for a weaker dollar. Sterling was relatively firm, buoyed by a couple of sizeable buying orders, and the ERI rose from 69.3 to 69.6.

The pound closed at 2.1765 in New York yesterday and opened at 2.1760 this morning. Having touched 2.1740 on the opening exchanges, it recovered as quickly to 2.18 before settling into a narrow trading range around the opening level for the rest of the morning. There was little business of any substance. Early this afternoon a lumpy order from New York - of Latin American origin - sent sterling higher - and, once Americans were fully returned, some good demand seemed to stem from Continental Europe, the pound topping 2.18 in the process. Later, the dollar turned generally easier and sterling hit 2.1865 before closing comfortably at 2.1841. Eurodollar and sterling deposit rates were both firmer but forward margins narrowed somewhat. Three months' cover cost 2⅝% p.a. and sterling's intrinsic premium was ¼%.

The pound gained over ¼% against the deutschemark (3.80) and nearly ⅜% against the French franc (8.92⅞) but fell ½% on the resurgent Swiss franc (3.54). The Swiss sold $32 mn.-worth of outright forward deutschemarks but their franc later recovered on the rumours of impending measures to 1.6207 (0.93⅛ to the DM). The deutschemark was 1.74 and the French franc 4.0885, both considerably firmer. The EMS widened again to almost 2%, stretched still between the French franc and Belgian franc (28.37). The Danish krone (5.1897) slipped down the band and the Danes sold $10 mn. in support. The punt (2.1195) stood at 3% discount on sterling. The Bank of Japan sold $140 mn. in Tokyo this morning where the yen closed at 249. In London, it firmed to 248.85.

Gold fell sharply in Hong Kong this morning on rumours of a planned US auction. This did not materialise, however, and, with the dollar easier, gold recovered to yesterday's levels. Fixings were $410.90 and $411.70.

Operations:	Market	+ $95 mn.	
	Interest	+ 26	
	IBRD	+ 5	
	Sundries	+ 8	
		+$134 mn.	(of which $20 mn. for November)

29th November 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 30th November 1979

Sterling met some demand this morning, as short positions were covered at the month-end, and stayed relatively firm all day. Developments on the Iranian front continued to unsettle the dollar and the EMS struggled to stay intact following the 5% devaluation of the Danish krone. Sterling's ERI rose to 69.9.

The pound closed at 2.1870 in New York yesterday and opened at 2.1932 this morning with the dollar on a weaker tack. Having touched 2.1912, sterling met some good demand on the early exchanges where some operators, who had previously sold on the industrial unrest, were forced to cover for the end of the month. 2.2035 was paid for pounds at one stage but, with this flurry blown out, sterling receded towards opening levels and traded uneventfully around 2.1950 for much of the day. Late in the session, as the dollar eased again, sterling picked up to close at 2.1980 and business was seen at 2.2010 in the after hours. Eurodollar and sterling deposits hardened further and forward margins continued to narrow. Three months' cover cost 2 5/16% p.a. and sterling's intrinsic premium remained at ¼%.

The pound lost ⅜% to the Swiss franc (3.52½), gained ⅛% on the French franc (8.93¾) and was unchanged on the deutschemark (3.80). The Swiss announced suspension of the negative interest requirement and their franc firmed to 1.6035 (0.92¾ to the DM). The deutschemark strengthened to 1.7289 and the French franc to 4.0660. The French took in $15 mn. The EMS was well-stretched for most of the day. Following the 5% devaluation the Danish krone went to the top of the band - closing at 5.3475 - and the Danes bought $176 mn. and $21 mn. equivalent of Belgian francs. The Belgian franc (28.18) at the tail was supported by official sales of $52 mn.-worth of Danish kroner. Elsewhere in Scandinavia, the Norwegians raised Bank Rate by 2% to 9% and the Swedes lost $73 mn., while declaring that the krone's value would remain unchanged. The punt (2.1307) remained at 3% discount on sterling. The yen closed at 249.50 in Tokyo and 249.42 in London. The Japanese sold $153 mn. this morning.

Gold was considerably firmer on Iranian developments. Fixings were $417.20 and $415.65.

Operations:	Market	+ $45 mn.
	Netherlands	+ 10
	Government	+ 6
	Sundries	+ 8
		+ $69 mn. (of which $6 mn. for November)
	Overnight	- $7 mn.

The result for November shows a reserve loss of $81 mn. to a level of $22,417 mn., after net public sector debt repayments totalling $88 mn. The overbought forward position was reduced by $339 mn. to a level of $619 mn.

30th November 1979.

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 2⅛% p.a. discount. Sterling continued to command an intrinsic premium of ¼%.

Sterling lost ⅜% to the French franc (8.90), ½% to the deutschemark (3.78⅛) and 1¾% to the Swiss franc (3.46⅜). The Swiss franc led the charge against the dollar and touched 1.5590 before closing at 1.5650. Against the mark it firmed from 0.92¾ to 0.91⅝. 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
		+ $95 mn.

3rd December 1979.
JGH

G2FE N/C via PAB

FK 4140 · 04

SECRET

4.12.79

Mr P. A. Bull

Thank you

GPS

GR 14/12

Copies to: Mr.McMahon o/r
Mr.Sangster o/r
Mr.Holland o/r
Mr.Byatt

FOREIGN EXCHANGE AND GOLD MARKETS

16th November - 3rd December

I attach a note covering the period of the Governor's absence.

4th December 1979.
PAB

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
16th November - 3rd December

17% MLR and, on 20th November, a "Times" report that the Government want a strong exchange rate, combined to give sterling a firm start, and the rate touched 2.1912 (69.9) on 21st November. Trouble at British Leyland, apprehension over the miners' pay claim, and poor official forecasts for the economy brought some selling, however, and sterling traded down to 2.1477 (69.0) before sharp falls in dollar interest rates and later developments in the Middle East pushed the rate up again. Sterling closed at 2.2131 (69.9) after 2.2167 (70.0) against a very weak dollar. On balance, however, the pound fell against the main continental currencies. Three-months euro-dollars fell to 14½% after 13 5/16%; the cost of forward cover rose to 2⅛%, but the covered differential in sterling's favour closed steady at ¼%.

The dollar went lower in most centres after a very uneven passage; on balance, however, there were official sales of around $1¼ bn., more than accounted for by Japan. A fall in US interest rates (after an initial increase to 15¾%, many prime rates went to 15¼%) contributed. Developments in and concerning Iran and other Islamic centres were a running sore. Latest US trade, money supply and price figures were not especially upsetting. The mark rose over 4% to 1.7085 (and went to a best-ever 1.7040 in late trading last night); the Bundesbank bought $220 mn. The Germans published new targets for growth of a monetary base. A 5% depreciation of the Danish crown (which promptly went top of the EMS, closing at 5.2967) took some pressure off the snake, which stretched to 2 3/16% between the Danish crown and the Belgian franc (27.90). The Dutch raised discount and Lombard rates by 1%. Sweden and Norway also increased administered rates. Indications from Mr.Leutwiler that interest rates would have to rise, followed by suspension of the levy on foreign deposits with Swiss banks, brought a sharp improvement in the Swiss franc-dollar rate to 1.5650. The mark cross-rate (which had caused the SNB to intervene) improved to SF 0.91⅝ from nearly SF 0.94½ at one time. The yen remained very weak despite some relaxation of controls on inflows and the end of concessionary finance for imports. After topping 251½, the dollar rate closed at 248.80. The central bank sold $2¼ bn. in the period, bringing their cumulative total since November 1978 to $16.3 bn.

Table 1 shows main interest rates; Table 2 summarises intervention; Table 3 presents EEA transactions.

Gold was quiet until short-covering in the silver market provoked a sharp rally on 28th November. Over the period the price rose $42¼ to $428¾.

TABLE 1

Exchange Rates	15th November close	3rd December close
Against dollar		
sterling	2.1420	2.2131
DM	1.7826	1.7085
Swiss franc	1.6535	1.5650
French franc	4.1787	4.0217
yen	246.30	248.80
Against sterling		
DM	3.8183	3.7811
Swiss franc	3.5419	3.4635
French franc	8.9508	8.9004
yen	527.57	550.62
Sterling effective	68.9	69.9

TABLE 2

Intervention (main items)	$ bns. (purchases of $ +)
Canada	+ 0.4
France	+ 0.2
Germany	+ 0.2
Sweden	- 0.4
Japan	- 2.3
UK	+ 0.2

The Swiss were sizeable sellers of DM ($0.4 mn.-worth). Belgium, Netherlands, Denmark and France sold smaller amounts of DM. There was also some intervention in French and Belgian francs and Danish crowns.

TABLE 3

EEA transactions

Market intervention	$ mns.
+ 181	

Customers

India	+ 154	
Iran	+ 30	(deals done before US blocked Iranian assets; dollars subsequently freed to complete the deals)
Iraq	+ 22	
Kenya	+ 22	
Nigeria	+ 22	
EEC	- 14	

In November the reserves fell by $81 mn. after net public sector debt repayments of $88 mn. The overbought forward position was reduced by $339 mn. to $619 mn.

For December, the figures are:

spot reserves	- 384	
projected overbought forward position (compared with 619 at end-November)	+ 350	
therefore underlying	- 651	
(of which: market		+ 176)
(debt repayments		- 479)

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 4th December 1979

Provoked perhaps by the re-emergence yesterday of official support for the dollar, market operators took to covering short positions today and a strong technical recovery ensued. Sterling again met two-way commercial business this morning but otherwise reflected the dollar's fortunes. The ERI slipped to 69.8.

The pound closed at 2.2090 yesterday in New York where the dollar met demand from both commercial and professional sources. This morning sterling opened at 2.2132 but retreated rapidly as the dollar's recovery set in and dipped below 2.20 before settling around that level. Yesterday's commercial protagonists were again on stage and another large selling order was successfully absorbed with sterling falling no lower than 2.1975. The modest buyer bid sterling back above 2.20 but when US markets reopened the dollar surged once more and the pound declined to 2.19. Towards the close the dollar itself turned back from best level and sterling finished comfortably at 2.1995. The cost of three months' forward cover was 2 3/16% p.a. and sterling's intrinsic premium rose to 5/16%.

The pound gained ¼% against each of the French franc (8.92¼) and deutschemark (3.79¼) and recovered ⅞% on the Swiss franc (3.49½). The Swiss franc was depressed by professional selling of francs for marks and it fell to 1.6002 before closing at 1.5890 (0.92⅛ to the DM). The deutschemark was 1.7245 (after 1.7330) and the French franc 4.0562. Yesterday, the Federal Reserve sold deutschemarks equivalent to $137 mn. but today the major Central Banks were inactive. The EMS was fully stretched at times but closed at 2⅛% in width between the Danish krone (5.3372) and Belgian franc (28.10). The Belgians sold $6 mn.-worth of kroner and the Danes took in $19 mn. and $7 mn.-worth of francs. The punt (2.1440) stood at 2½% discount on sterling. The yen closed at 247.70 in Tokyo and 248.25 in London. The Japanese did not intervene.

Gold traded up to $442 in Hong Kong this morning but failed to maintain this level in the face of a burgeoning dollar. Nonetheless the metal remained relatively firm throughout and only late in the day did the price fall below yesterday's levels. Fixings were $435 and $431.20.

Operations:	Market	+ $19 mn.
	Kenya	+ 11
	Crown Agents	+ 8
	Iran	+ 5
	Sundries	+ 4
		+ $47 mn.
	Overnight	- $4 mn.

4th December 1979.
JGH

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
		=	

Overnight + $9 mn.

5th December 1979.

J.G.H.

SECRET 1979/50

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 5th December 1979

Another difficult week left sterling 0.1 higher in effective terms, at 69.4, after 70.0 on Monday when the dollar went sharply lower. The dollar later recovered most of the ground. The Danish crown returned to the top of the EMS after a devaluation.

Sterling opened on Thursday morning almost a cent higher than the previous London close of 2.1680, and it tended to rise further before the weekend. The dollar was generally weaker, and good buying interest took sterling up to 2.2035 before it closed on Friday at 2.1980. More trouble in the Middle East caused the dollar the weaken again on Monday, and the pound traded as high as 2.2167, the best since late September. Wholesale price figures were favourably received. The dollar then recovered, however, and sterling fell back to 2.1752 despite the mineworkers' rejection of their union's call to strike. It closed at 2.1765. There was considerable two-way business both commercial and professional. The pound improved against the mark and the French franc, to 3.80 1/4 and 8.92 5/8. Against the ECU sterling went to 1.5353, a discount of 3/8% on the notional central rate. After their earlier falls, 3 months' euro-dollars rose to 14 1/8% but interbank sterling rates also hardened, and a fall in the cost of forward cover to 2 9/16% left the intrinsic premium on sterling little changed at 1/8%.

Developments in Iran and other Islamic centres once more dominated the course of the dollar. U.S. trade figures were slightly better; money and price figures, although not bad, were a touch disappointing. The dollar was at its weakest on Monday, after the Libyans had violated the U.S. embassy and disorder seemed to be spreading in Saudi Arabia; it firmed up on Tuesday and strengthened again on Wednesday when the Iranians hinted that there might be room for negotiations over the hostages. The Fed. bought $230 mn., mostly against marks and mostly on Monday. The Bundesbank bought $80 mn. that day, and $90 mn. altogether. The mark reached a best-ever 1.7040 on Monday evening, but later fell sharply to close little changed on the week at 1.7470. The Bundesbank announced a new monetary target. The Danish crown started under some pressure - though well off the bottom of the EMS - but a 5% devaluation on Thursday night sent it straight to the top where it closed at 5.3982, 2 3/16% above the Belgian franc (28.44). Further measures are being prepared. On balance the Danes bought $210 mn. and $40 mn.-worth of Belgian francs; the Belgians sold $100 mn.-worth of crowns and French francs. The French franc closed comfortably enough at 4.1010; the central bank bought $40 mn. but sold an equivalent amount of marks. The lira went to 819.50, the news that Saudi Arabia will cease to supply ENI with oil having brought some late selling. The punt advanced to 2.1165, a 2 3/4% discount on sterling, after a modest amount of support. Outside the snake, the Swiss franc improved sharply after the levy on foreign deposits with Swiss banks was suspended, but met some selling later before closing 2% better at 1.6080. Against the mark it advanced to SF.0.92. The SNB bought $80 mn. but sold some marks. Norwegian bank rate rose 2% to 9%. The Canadian dollar was firm, helped by the discovery of some "lost" exports; and the yen had a slightly better week, improving by 1 1/4% to 246.07. The central bank sold $600 mn.

Gold went much higher after the weekend, nearing the record levels of early October on Tuesday. The price rose $15.20 over the period to $426.40, after $435 at the fix on Tuesday morning. The IMF auctioned 444,000 ozs. at an average price of $426.37.

6th December 1979.
P.A.B.

RATES, ETC.

10.15 a.m. 29th November 1979.		10.15 a.m. 6th December 1979
2.1775	£/$	2.1839
69.5	Effective exchange rate index	69.4
2.11/16% p.a. disc.	Forward 3-months	2⅛% p.a. disc.
13¼%	Euro-$ 3-months	14 1/16%
¼% pre.	I.B.Comparison	3/16% pre.
1.7420	$/DM	1.7375
3.79⅜	£/DM	3.79½
8.91¾	£/FF	8.92⅜
249.32	$/Yen	243.85
$413.50	Gold	$435
1.6337	$/S.Fc.	1.6012
3.55¾	£/S.Fc.	3.49⅝

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 6th December 1979

Markets marked time today, the dollar giving a little ground overall, while consolidating recent gains. Sterling met selling pressure this morning but was well bid this afternoon and finished the day in fine fettle. The ERI rose to 69.5.

The pound closed considerably firmer at 2.1875 in New York, where the dollar was generally somewhat easier. This morning sterling opened at 2.1847 and, despite the dollar's softer tendency, traded around that level for some time. Eventually a sizeable seller made his presence felt and the pound declined to 2.1790. With this clear, however, the market stabilised again around opening levels into mid-afternoon, when sterling was bid up on small general demand to a closing level of 2.1895. Three months' forward cover cost 2½% p.a. and sterling's intrinsic premium was reduced to 1/16%.

The pound gained ¼% on the French franc (8.95) and rather less on the Swiss franc (3.50⅝) and deutschemark (3.80⅝). These all firmed against the dollar to 4.0877, 1.6012 and 1.7383 respectively. The EMS closed fully stretched between the Danish krone (5.3962) and Belgian franc (28.44). The Danes bought $12 mn.; the Belgians sold $5 mn.-worth of kroner. The punt (2.1222) was at a discount of 3⅛% on sterling. The yen closed at 246.30 in Tokyo and 243.15 in London.

Gold was very much firmer, although yesterday's IMF auction, which set an average price of $426.37 for 444,000 fine ounces, was no more than in line with prevailing levels. Today's fixings were $434.50 and $433.75.

Operations:	Market		+ $30 mn.
	PSB G'teed:		
	Post Office	+90	
	Nat.Water Council	+ 8	+ 98
	Iraq		+ 15
	Interest		+ 15
	Kenya		+ 7
	EEC		- 21
	Sundries		+ 2
			+$146 mn.

6th December 1979.
JGH

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 2⅛% p.a. discount and this made for an adverse covered differential of 1/16%.

The pound closed unchanged against the Swiss franc (3.50⅝) and fractionally easier against the French franc (8.94⅝) and deutschemark (3.80⅛). 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 3⅛% 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 (PSB G'teed)	+ 8
	Sundries	+ 5
		+$40 mn.
	Overnight	- $7 mn.

7th December 1979.
JGH

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 8.92½ 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, 1⅞% 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 2⅞% 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
		+ $38 mn.
	Overnight	+ $15 mn.

10th December 1979.
PAB

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 11th December 1979

Events on the exchanges were of little moment today. The dollar tended weaker; sterling mirrored this and improved somewhat. The yen gyrated wildly, for the better on balance. Gold set new records. Sterling's ERI recovered to 69.1

The pound closed a good deal better at 2.1792 yesterday in New York where the dollar was already on an easier tack. This morning, with dealers tending to focus on the prospect of higher OPEC prices, the dollar moved lower again (after an initial modest uplift). Sterling began at 2.1755, moved uncertainly across the opening exchanges, then crested 2.18 in a thin market behind one solitary Continental buyer. The pound spent a quiet morning around 2.1850, with 2.1880 paid at one stage. The afternoon was little different. The banking figures had no marked impact. Sterling tended firmer as the dollar eased further and 2.1885 was seen before the pound closed at 2.1880. Forward margins narrowed, the three months' to 2 5/16% p.a., and sterling's intrinsic discount fell to 1/16%.

The pound was fractionally firmer in Paris (8.92½) and a touch easier in Frankfurt (3.79⅞) but lost ¼% to the Swiss franc (3.49¼). The major currencies were all considerably firmer against the dollar, the deutschemark at 1.7362, the Swiss franc at 1.5965 and the French franc at 4.0787. The Belgians sold $51 mn., although their franc (28.32) was less than 2% from the French franc, which replaced the Danish krone at the head of the EMS. The punt (2.1210) was a little over 3% discount on sterling. The yen touched 229 in Tokyo this morning but closed at 236 and the Bank of Japan sold $30 mn. (net). In London, the yen firmed to 231 at one stage before closing at 233.10.

Gold had a firm undertone all day. Each fixing set a new record high with levels of $442.75 and $445.50.

Operations:	Market	+ $69 mn.
	Interest	+ 5
	Sundries	- 1
		+ $73 mn.
	Overnight	+ $13 mn.

11th December 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th December 1979

The spectre of a 30% rise in oil prices began to haunt the dollar last night and engage the Fed in another seance of intervention. Gold rose yet higher. The pound floated up and the ERI went to 69.5.

In New York early last night sterling was in modest demand and rose to 2.1980 before closing at 2.1955. In opened brightly in London today and moved from 2.1969 to 2.2045 before reverting this afternoon to opening levels - mainly on a generally improved dollar - and closing at 2.1953. Forwards narrowed again but Eurodollar rates moved steadily upwards, increasing sterling's intrinsic discount to ¼% p.a.

In Europe the pound rose by about ⅜%: to 3.81¾ in Germany, 3.50⅞ in Switzerland and 8.94½ in France. Although the dollar finished the day little changed compared to last night, the Fed bought $75 mn. last night and some $160 mn. in Middle East markets this morning; the Germans bought $75 mn., the French $50 mn. The deutschemark closed at 1.7367, after 1.7252 this morning. The Belgian franc required only $2 mn. of support as it firmed to 28.27 (after 28.11); it was 1⅞% away from the French franc (4.0750). The Swiss franc's movements reflected those of the deutschemark: it improved early on to 1.5870 but closed at 1.5985. In Tokyo the Japanese sold $11 mn. as the yen weakened to 237.30. It moved lower in London, closing at 238.20.

Gold was quoted at $452 in Hong Kong but attracted sellers in London at the $450 level. Fixings were at $449.75 (a record) and $446.25.

Operations:	Market	+ $24 mn.
	IDA	+ 7
	Uganda	+ 7
	France	- 18
	Bangladesh	- 8
	Sundries	+ 5
		+ $17 mn.

12th December 1979.
DAHB

SECRET

1979/50

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 12th December 1979

Sterling rose 0.1 in effective terms to 69.5 after 68.6 at the opening on Monday. After a firm start, the dollar weakened as attention focussed on the forthcoming OPEC meeting. The yen made a spectacular recovery but later gave ground.

A flurry of buying on Wednesday evening took sterling from 2.1765 at the London close to 2.1875 in New York, but the market then turned quietly hesitant and the pound eased back to 2.1755 on Friday afternoon against a generally firmer dollar. Selling in New York took the rate down to 2.1645 that evening; by Monday, however, sterling was firmer again and, once a large commercial selling order was done with, it tended to improve, sharing fully with other currencies in the dollar's weakness on Tuesday and Wednesday. The rate closed at 2.1953, a rise of nearly 2 cents on the week, after 2.2045. The banking figures had little effect; the industrial situation looked brighter; and apprehension ahead of the OPEC meeting may have benefitted sterling which was however unchanged against the mark (at 3.81⅛) though stronger in France (8.94½) and Switzerland (3.50⅞). Against the ECU sterling closed at 1.5365, a ¼% discount on the notional central rate. 3-months' eurodollars went higher and, although the cost of forward cover fell to 2 3/16%, an intrinsic discount of ¼% emerged.

A fall in money supply helped keep the dollar firm before the weekend, but it later fell in most centres. More prime rates went down to 15¼%. The Fed bought $230 mn. against marks. The Bundesbank, for their part, bought $80 mn. as the mark advanced to 1.7367 (after 1.7270). The French franc (⅝% stronger at 4.0750) took over top place in the EMS from the Danish crown (5.3772), closing 1⅞% above the Belgian franc (28.27). The Belgians increased bank rate by ½% to 10½%, and sold $130 mn. and $40 mn.-worth of French francs and crowns. The French bought $50 mn., and the Danes, $20 mn. At times the Belgian franc was over its threshold of divergence; it closed at 72 on the index. The Irish pound advanced to 2.1232, a 3⅛% discount on sterling. The central bank bought a few dollars but sold $50 mn.-worth of sterling. A 3% increase in bank rate, announced late last Wednesday, helped the lira improve to 812.15. Outside the EMS, the Swiss franc hardened to 1.5985, the SNB contenting themselves with buying dollars on the swap to ease their money market. The Bank of Canada added $100 mn. to reserves. Hectic short-covering - together perhaps with Middle Eastern interest - brought the yen a startling change of fortune; it improved almost 7% to 229 at one time on Tuesday, later shedding some of the gain to close at 238.20. On balance the Bank of Japan sold $40 mn. The Swedish crown however remained under pressure.

Gold rose sharply on Tuesday and Wednesday, despite the prospect of Canadian sales. Buying from the Middle East was reported. The record fix was $449¾ on Wednesday, $452½ per ounce having been paid earlier in Hong Kong.

13th December 1979.
pp. PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
6.12.79		13.12.79
2.1839	£/$	2.2020
69.4	Effective exchange rate index	69.7
2⅛% p.a. disc.	Forward 3-months	1¾% p.a.
14 1/16%	Euro-$ 3-months	15⅛%
3/16% pre.	I.B.Comparison	⅛% disc.
1.7375	$/DM	1.7344
3.79½	£/DM	3.81⅞
8.92⅛	£/FF	8.96
243.85	$/Yen	240.50
$435	Gold	$458
1.6012	$/S.Fc.	1.5987
3.49⅛	£/S.Fc.	3.52

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 13th December 1979

Oil prices dominated the exchanges today. The intention of three Arab producers to raise prices in advance of the OPEC meeting - together with active buying of gold by the Middle East - hit the dollar this morning and, while some ground was later recovered, the currency remained depressed throughout. Sterling conversely was quite firm but demand was patchy and volume not great. The ERI rose to 69.8.

The pound touched 2.2040 in New York yesterday before closing at 2.1970. The dollar was a little better. This morning the dollar opened sharply easier and sterling began at 2.2060, rising to 2.2090 on the opening exchanges amid a modest flurry of demand. Thereafter, the dollar began a gradual recovery and sterling eased back, touching 2.1995 around midday. The pound was generally firmer this afternoon but only when some solid German interest later developed did the rate climb to 2.2060. The closing level was 2.2039. Forward margins narrowed as US interest rates moved higher; outright forward demand for sterling was also seen as a factor. Three months' cover cost 1 9/16% p.a. and the adverse covered differential was ⅛%.

Sterling gained around ⅛% in Germany (3.82¼), Switzerland (3.52) and France (8.96⅛). The dollar finished a little easier against the deutschemark (1.7343) and French franc (4.0660) but barely changed against the Swiss franc (1.5975). The French took in $30 mn. as their franc overhauled the Danish krone at the head of the EMS. By the close, however, the krone (5.3685) had regained the lead, 2% ahead of the Belgian franc (28.22). The Belgians sold $33 mn. and $28 mn.-worth of French francs. The punt (2.1265) was at 3½% discount on sterling and the Irish sold $31 mn. equivalent of sterling. The yen closed at 238.90 in Tokyo where the Japanese sold $27 mn. In London, it weakened to 240.10.

Good demand from Middle East and Swiss sources gave gold a firm start but resistance was initially met at $460. Each fixing set a new record with levels of $458.75 and $458.80. Late in the day, American interest took the metal as high as $464.

Operations:	Market	+ $13 mn.
	Government	+ 24
	BIS	+ 11
	Sundries	+ 1
		+ $49 mn.

13th December 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 14th December 1979

The dollar continued to rally to-day following the weekly money supply statistics which were a little better than expected. Sterling drifted back in response to this but took heart late in the day from the trade figures. The ERI closed unchanged at 69.8.

The pound closed at 2.1975 yesterday in New York, where commercial selling was in evidence. This morning it began at 2.1997 and drifted back to 2.1945 before steadying to complete the morning session around 2.1975. The price indices had little impact. This afternoon the dollar's improvement continued and sterling fell to 2.1910. The trade figures, however, were well received and the pound perked up to close at 2.1977. Forward margins widened as eurodollar deposits came off best levels. Three months' cover cost 1 15/16% p.a. and this left sterling with a small intrinsic premium.

The pound gained ⅛% against each of the deutschemark (3.82¾) and French franc (8.97½), but made up ⅜% on the Swiss franc (3.55⅛). These all weakened against the dollar to 1.7420, 4.0842 and 1.6160 respectively. The French franc regained the leadership of the EMS, 2% above the Belgian franc (28.37). The Belgians sold $7 mn. of French francs. The Danes sold $5 mn. The punt (2.1182) stood at 3⅜% discount on sterling. The Irish sold sterling worth $15 mn. The yen eased to 243.10 in Tokyo, where the Japanese sold $10 mn., but recovered in London to 242.45.

Gold had no marked trend and traded slightly below the record levels of late yesterday. The earlier fixing set a new record (for the fix) of $459.50 but in the afternoon the metal retreated to $456.80.

Operations:	Market	+	$15 mn.
	FRB o/a Iraq	+	18
	Government	+	7
	Sundries	+	1
		+	$41 mn.

14th December 1979.
JGH

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th December 1979

The dollar was sold in New York on Friday following news of the hostilities between Iraq and Iran and was depressed again in the Far East this morning after Libya's announcement of an increase in the oil price. In Europe, however, the dollar traded fairly comfortably until this afternoon, when the softer tone emerged again. Sterling was firm, though quiet. The ERI eased to 69.7.

The pound closed at 2.2087 on Friday in New York where the dollar was very weak. This morning it opened at 2.2050 but soon eased back as the dollar recovered ground and, when Swiss selling hit the market, the pound traded down to 2.1965. Short-covering brought a rebound and sterling settled around 2.20, where it seemed to trade quietly for the rest of the day, closing at 2.2012. There was, however at least one very large commercial selling order which was comfortably absorbed. Forward margins narrowed, the three months' to 1 11/16% p.a. discount. Sterling commanded an intrinsic premium of ¼%.

Sterling lost ⅛% to the Swiss franc (3.53⅝) and ¼% to the French franc (8.95⅝) but was only a shade easier against the deutschemark (3.82½). These all firmed against the dollar to 1.6070, 4.0682 and 1.7375 respectively. The French franc closed again at the head of the EMS, a little over 2% distance from the Belgian franc (28.27). The Belgians sold $2 mn. and French francs worth $7 mn. The punt (2.1292) stood at 3¼% discount on sterling. The Irish sold $8 mn. and sterling worth $18 mn. The yen closed at 239.60 in Tokyo, where the Japanese bought $30 mn., and 238.60 in London.

Gold set new records at each fixing. The trend this morning was uncertain and the price was fixed at $460.60. This afternoon, however, the metal was bid up rapidly to $474 before profits were taken. The fixing set a level of $469.50 and the price finished around that mark.

Operations:	Market	+ $9 mn.
	National Coal Board (PSB G'teed)	+100
	Saudi Arabia	+ 36
	New Zealand	+ 11
	EEC	- 11
	Sundries	+ 5
		+ $150 mn.

17th December 1979.
JGH

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th December 1979

Sterling had an easier tone early on, but later improved to close the day only 0.1 down in effective terms at 69.6, after 69.4. The dollar was mixed. Despite Caracas, exchange markets were subdued, but gold conquered fresh peaks.

Having closed in New York at 2.2015, sterling opened lower this morning, at 2.1955, and at first edged down to 2.1935 although the dollar itself was generally weaker. Some selling was seen from the Continent. However, the rate soon returned to 2.20 on no particular business, and the pound traded around this level for the rest of the day, touching 2.2023 around lunchtime before closing at 2.1977. There was a smattering of commercial selling whenever 2.20 was breached. The cost of forward cover was steady at 1 11/16%; the covered differential in favour of London closed at 3/16%.

The pound eased back on the Continent, to 3.81½ against the mark, 3.53⅜ against the Swiss franc, and 8.95 against the French franc. These currencies all opened stronger against the dollar, but later softened to close at 1.7355, 1.6100 and 4.0725 respectively. Trading was featureless. The Danish crown (5.3620) assumed top position in the EMS, 2% above the Belgian franc (28.19). The Irish pound hardened to 2.1352, a 2⅞% discount on sterling. The central bank sold £17 mn. The lira improved to 809.60. The Bank of Japan had earlier sold $10 mn. as the yen eased to 241.30 in Tokyo; in London it improved to 239.40.

Gold was again very strong, setting records at $473½ and $477¾ at the fixings. It traded as high as $479½.

Operations:	Market	+ $18 mn.
	Government	+ 8
		+ $26 mn.

18th December 1979.
PAB

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th December 1979

Otherwise dull markets were enlivened to-day only by the glister of gold, which came close to $500 this morning. Sterling drifted a little firmer, the ERI creeping up to 69.7.

The New York market was inactive last night and the pound ended there at 2.20. It opened in London at 2.2010 this morning and although marked down early on to 2.1970 there was no more business transacted during this movement than there was in the subsequent recovery to the close of 2.2045 (after 2.2050). With forward margins widening to compensate for a slight softness in Eurodollar rates, the covered differential remained at 3/16% p.a. in London's favour.

Sterling had mixed fortunes in Europe: it was a little firmer in Germany at 3.81 11/16, but lower in France (8.92 13/16) and Switzerland (3.53⅝). The French and Danish currencies jockeyed for the lead in EMS with the franc ending the day in top position at 4.05 - 2 1/16% firmer than the Belgian franc, which closed at 28.15. No intervention was necessary, though the Irish sold £10 mn., the punt ending about 3¼% discount on sterling, at 2.13¼. The deutschemark closed at 1.7315; the Swiss franc at 1.6040; the yen at 239. The dollar was thus a little weaker by the close, having had a steady morning at better levels.

Gold traded as high at $496 this morning in early European dealings but eased to a new fixing record of $494. The market was described as nervous and tending to move without much business. The silver price then weakened, encouraging early New York selling of gold which eased at the second fixing to $488.50.

Operations:-

Market	+ $10 mn.
India	+ 22
Iraq	+ 22
Denmark	+ 5
Sundries	+ 4
	+ $63 mn.

20th December 1979.

DAHB

SECRET 1979/51

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 19th December 1979

The pound derived some strength from oil price talk but, despite Caracas, a seasonal lull descended on the exchanges after the weekend. Sterling rose 0.2 in effective terms to 69.7 after 69.9. The dollar was mixed.

The news that some oil producers would raise prices ahead of the OPEC meeting brought a swift gain for sterling on Thursday morning, when the rate rose over 1¼ cents from the London close on Wednesday to 2.2090. This level was not held, however, and the pound closed for the weekend at 2.1977 (after 2.1910 on Friday afternoon) although the trade figures were well received and the price statistics aroused little interest. Despite the Caracas meeting, a pre-Christmas torpor descended on the exchanges after the weekend and sterling traded quietly around the 2.20 level for the most part, closing towards the top of its range, at 2.2045, a gain of just under 1 cent in the period. One sizeable commercial selling order was readily absorbed. Sterling gained on the mark and the Swiss franc (to 3.81¼ and 3.53⅝) but lost ground in Paris where it closed at 8.92⅞. Against the ECU sterling went to 1.5386, a discount of ⅛% on the notional central rate. With little change in interest rates, a fall in the cost of forward cover to 1 13/16% turned the covered discount against London on the usual comparison to the premium of 3/16%.

Although oil price talk harmed the dollar at first, better-than-expected money supply figures brought an improvement on Friday until the news of fighting between Iraq and Iran set the dollar back again in late trading. After the weekend it was mixed. Proceedings in Caracas, although confused, were perhaps no worse than feared. Some US banks reduced prime rate to 15%. The Fed bought $30 mn. Except for a capital export of $72 mn., the Bundesbank kept out of the market as the mark advanced ¼% to 1.7315. The French franc (4.05) and the Danish crown (5.3535) alternated at the top of the EMS, the French franc closing there 2 1/16% above the Belgian franc (28.15). The French bought $50 mn.; the Belgians sold $40 mn. and $70 mn.-worth of French francs. The Irish sold $10 mn. and $120 mn.-worth of sterling; their pound closed at 2.1325, a 3⅛% discount on sterling. The lira improved to 809.75. Outside the EMS, the Swiss franc, unlike most major European currencies, eased to 1.6040; there was no spot intervention, but the SNB bought dollars on the swap to help their money market over the year end. The Swedes, under further pressure, sold $120 mn., and the Canadians, $260 mn. The yen traded either side of 240, closing at 239. The central bank sold a mere $20 mn.

Gold conquered fresh peaks. The record for a fix was $494 on Wednesday morning, but $496 was paid at one time. Over the week the price rose $42¼ to $488½.

20th December 1979.
PAB

RATES, ETC.

10.15 a.m. 13th December		10.15 a.m. 20th December
2.2020	£/$	2.2035
69.7	Effective exchange rate index	69.7
1¾% p.a. disc.	Forward 3-months	1¾% p.a. disc.
15⅛%	Euro-$ 3-months	14 9/16%
⅛% disc.	I.B.Comparison	5/16% pre.
1.7344	$/DM	1.7348
3.81⅞	£/DM	3.82¼
8.96	£/FF	8.94⅝
240.50	$/Yen	238.55
$458	Gold	$480.50
1.5987	$/S.Fc.	1.6090
3.52	£/S.Fc.	3.54½

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 ⅛% on the usual comparison.

The pound was mixed on the Continent, improving to 3.82 against the mark but easing in Zurich (3.52⅛) and in Paris (8.92¼). 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 ⅛% to 1.7355. The French franc remained top of the EMS, at 4.0538, 2 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 3⅛% 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 $477¼. After another brief rise, the price dropped to $471½ at the afternoon session. Turnover was heavy. The market remains very nervous.

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

20th December 1979.
PAB

SECRET

21.12.79.

FF 440.07

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st December 1979

At first the pound was very actively traded in London, but suddenly a Christmas peace descended. Business was mainly commercial. The dollar had a steady day on balance. Sterling's ERI was unchanged at 69.5.

Rather small orders to sell were enough to cause the pound to weaken in New York last night, where it closed at 2.1972. In London today it started at 2.1990, rose 5 points and then eased on commercial selling to 2.1935. At this level buyers were drawn in and by noon the rate had managed to recover to 2.1960. Although easing again to 2.1930, it ended at 2.1970. With Eurodollars and sterling interbank rates firming just a shade, the covered premium in London's favour remained at ⅛% p.a.

General speaking, sterling was little changed in Europe. The dollar at first strengthened in a very thin market but fell back later. The mark closed at 1.7375 (after 1.7430). In EMS the Belgian franc was brought under pressure again: it closed at 28.29 after the expenditure of $48 mn. and French francs equivalent to $20 mn. The latter currency led the system (2¼% wide at the end) at 4.06. The French bought $12 mn. of Belgian francs and $17 mn. Although the Danish krone (5.3777) was fairly close to the French franc, the Danes sold $17 mn. In Dublin, the Irish sold £11 mn. The punt eased nearly a cent to 2.1230, being a closing discount on sterling of 3⅜%. The yen lost yesterday's gains and closed in Tokyo today at 239. It improved a little in London, on no real business, to 238.60.

Continental dealers expressed no interest in gold trading today. They had, perhaps, already squared their books for the year. The price had eased in New York last night but it moved up again in Far East markets early this morning. London fixings were at $474.90 and $473.10. It rallied later in New York to $478.

Operations:	Market	+	$5 mn.
	Nigeria	+	48
	Interest	÷	21
	IDA	+	9
	France	÷	5
		÷	$88 mn.

21st December 1979.
DAHB

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SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th December 1979

A silent day to precede the silent night. Very few centres were open, very few dealers willing to quote. The news that Iran was trying to withdraw deposits from United Kingdom-based banks and branches had no effect. Indeed, the pound strengthened on what little business took place and the ERI had risen to 69.8 at noon, when London closed down.

Having ended in New York on Friday evening at 2.2037, the pound opened in London today at 2.2020, immediately eased 10 points but then rose steadily to close at 2.2080. Forward margins widened a touch as eurodollars hardened. The cost of three months' cover rose to 1 15/16%: with eurodollars at 15% and interbank sterling at 16 13/16%, the covered differential moved to ⅛% p.a. against London.

In Europe the pound was a little softer in terms of the deutschemark (3.81 7/16) and the Swiss franc (3.52⅛) but better in terms of the French franc (8.94 13/16). The dollar itself drifted lower, closing at 1.7275 against the deutschemark. The EMS was nominally a full 2¼% wide between the Danish krone (5.35) and the Belgian franc (28.21). The Swiss franc improved to 1.5950 whilst the yen was steady at 238.45.

Gold recovered in Far East markets on Saturday morning and was quoted as high as $492 there this morning. It opened in London at $489 but a persistent selling interest saw the only fixing today take place at $485.90.

Operations:	Market	+ $2mn.
	New Zealand	+ 6
		+ $8mn.
	Overnight	+ $9 mn.

24th December 1979.
DAHB

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SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 27th December 1979

Sterling's star shone brightly this morning as a spate of commercial buying orders drove the rate up. The dollar remained depressed. Gold struck new record levels. Sterling's ERI improved to 70.5.

The pound closed at 2.2145 in New York yesterday, having met modest demand through the day in response to a weakening dollar. This morning it began at 2.2155 and touched 2.2140 on the opening exchanges which were quiet. Later, however, the pound advanced suddenly through 2.22 as a number of Continental banks came in with orders to buy. The trend was reinforced in London where demand was seen on oil company account and buying continued well into the afternoon, with sterling eventually closing at 2.2390 and trading thereafter up to 2.2475. Three months' forward cover cost 1⅝% p.a. and this left sterling with an intrinsic premium of ⅛%.

Sterling gained ⅜% in Zurich (3.53⅜), ½% in Paris (8.99½) and ⅞% in Frankfurt, (3.84⅝). The dollar continued to drift downwards under the influence of commercial and professional selling in the U.S. It was quoted at 1.7180 against the deutschemark, 1.5782 against the Swiss franc and 4.0175 against the French franc. Yesterday the Federal Reserve bought $10 mn. for Swiss francs and $57 mn. for deutschemarks, while the French bought $18 mn. and a few Belgian francs. Today the Bundesbank took in $70 mn. and the French $50 mn. The EMS closed fully-stretched between the French franc and Belgian franc (27.99). The Belgians sold $111 mn. and French francs equivalent to $51 mn. The French bought $12 mn.-worth of Belgian francs. The punt (2.1355) slipped to 4⅝% discount on sterling. The yen closed in London at 239.70.

Gold breached $500 yesterday in New York and traded up to $512 in the Far East this morning. This morning's fixing (the only one today) set a new record at $508.75 and the metal soon moved higher to close in London around $511.

Operations:

Market	+ $103 mn.
FRB o/a India	+ 67
Interest	+ 22
Germany	+ 18
Sundries	+ 4
	+ 214 mn.

27th December 1979.

J.G.H.

SECRET

MR.McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 28th December 1979

There were few excitements on the exchanges. The dollar recovered some ground, as end-year operations seemed to have been overdone in some quarters. Sterling failed to maintain yesterday's exalted levels and was subject to bouts of profit-taking throughout the day. The ERI fell to 70.3.

The pound closed at 2.2415 in New York yesterday (after 2.2475) and opened at 2.2370 this morning. The early exchanges were uncertain and sterling touched 2.2415 but the dollar soon established a firmer trend and sterling, which had made such considerable gains yesterday, came off quickly as profits were taken. The pound fell to 2.2285 before some stability was achieved around 2.23. The afternoon was generally quieter. Sterling traded steadily around 2.23 until late in the day when the rate dipped to 2.2277 before closing at 2.2285. Eurodollar deposits eased as the day wore on while sterling deposits were a little firmer. Forward margins widened in consequence, the three months' to 2 1/16% p.a. discount. This gave sterling an intrinsic premium of 1/4%.

The pound lost 3/8% in Paris (8.96 3/8), gained 1/2% in Zurich (3.55) and was little changed in Frankfurt (3.84 1/2). The Swiss franc looked particularly weak, presumably on a surfeit of end-year liquidity, and eased to 1.5930. The deutschemark weakened to 1.7255. Yesterday the Federal Reserve bought $123 mn. for marks and $33 mn. for Swiss francs (the latter on behalf of the Swiss National Bank). Today the Bundesbank took in $15 mn. The EMS again closed fully-stretched between the French franc (4.0225) and Belgian franc (28.02). The Belgians sold $38 mn. and $37 mn.-worth of French francs. The French bought $25 mn. and $6 mn. of Belgian francs. The Italians took in $63 mn. but the Scandinavian currencies remained under pressure and the Norwegians spent $110 mn. The punt (2.1460) recovered to 3 3/4% discount on sterling. The Irish sold £9 mn. The yen closed at 239.50 in Tokyo and 240.12 in London.

Gold set a new record of $515 at this morning's fix but eased later as the dollar improved. The afternoon fixing set a level of $512.

Operations:

Market	-	$26 mn.
Australia	+	20
Government	+	20
France	+	6
Interest	+	5
Bangladesh	-	11
Sundries	+	6
	+	$20 mn.

Overnight	-	$12 mn.

28th December 1979.

J.G.H.

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 31st December 1979

The decade went out with barely a whimper on the exchanges. Sterling found one decent commercial buyer this morning but was otherwise featureless. The dollar marked time. Gold alone seemed to point the way ahead. Sterling's ERI slipped back to 70.2, almost 10% higher over a year ago (64.0).

The pound closed at 2.2235 on Friday in New York, where the dollar improved slightly on the latest trade figures while sterling was marked down following news of the steel strike. This morning the pound began at 2.2210, improved steadily to 2.2275 in mid-morning on commercial demand then eased back to trade quietly for the rest of the day. The closing level was 2.2250, compared with 2.0410 a year ago. Three months' cover cost 2⅛% p.a. and this gave sterling an intrinsic premium of ⅜%.

Sterling was a fraction better against the Swiss franc (3.55⅛) and a little easier against the deutschemark (3.84) but lost ⅜% to the French franc (8.93¼). A year ago these rates were 3.29⅞, 3.71½ and 8.50½. The French franc firmed slightly to 4.0150 (4.1675 last year) but there was little movement in either the Swiss franc (1.5960 against 1.6150 last year) or deutschemark (1.7260 compared with 1.82½ year ago). The Belgian franc (28.02) finished more than the full 2⅛% adrift of the French franc but with many centres partly or fully closed there was little official concern. The punt (2.1460) stood at 3½% discount on sterling. The yen closed at 239.90 in Tokyo and 239.65 in London. Last year it finished at 195.10.

Gold yet again set new records trading up to $529 this morning before fixing at $524. There was no fixing this afternoon but the metal was quoted at $531.50 in New York. At the end of 1978, the metal stood at $226⅞ (already 38% up on the previous year); an appreciation of 134% over the course of 1979 has therefore taken place.

Operations:	Market	+ $91 mn.
	India	+ 22
	Interest	+ 8
	Sundries	+ 4
		+$125 mn.
	Overnight	- $20 mn.

The result for December was a reserve increase of $302 mn. to a level of $22,719 mn., after net public sector and government debt repayments of $188 mn. The overbought forward position was increased by $137 mn. to $756 mn.

31st December 1979.
JGH

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SECRET 31.12.79

G.P.S. Copies to: Mr.McMahon o/r
Mr.Sangster o/r

FOREIGN EXCHANGE AND GOLD MARKETS

24th - 31st December 1979

The exchanges have been generally quiet ahead of the year-end. Sterling met modest demand before and during the holiday but on the 27th, a spate of small commercial orders lifted the pound to 2.2475 at one stage. Profit-taking brought a reaction the following day and, following confirmation of a steel strike, sterling had retreated to 2.2210 by this morning. At noon today the rate was 2.2240. Over the period the ERI has risen from 69.5 (21st December close) to 70.1 (noon today) after touching 70.5 on Thursday and Friday.

The dollar was soft for much of the period on commercial selling in the United States itself but picked up a little in the last day or two following official support from the Federal Reserve ($190 mn.). Elsewhere official sales and purchases of dollars were approximately offsetting.

The E.M.S. was often fully-stretched between the French franc and Belgian franc. The French bought $93 mn. and Belgian francs worth $20 mn. The Belgians sold $149 mn. and French francs worth $88 mn. The deutschemark firmed from 1.7375 to 1.7270 (after 1.7150); the Bundesbank bought $85 mn. but sold $133 mn. in cover of capital exports.

Elsewhere, the Swiss franc advanced from 1.6065 to 1.5845. The Swiss took in $53 mn. The yen was featureless, closing a touch easier at 239.35. The Scandinavian currencies were under pressure at times and the Norwegians spent $146 mn. and the Swedes $109 mn.

Gold set new records by the day, breaching $500 on the 26th in New York. Thereafter, Middle East demand and others' general reluctance to sell drove the metal to $529 this morning before the fixing which set a level of $524.

The result for December was a reserve increase of $300 mn. to a level of $22,717 mn., after net public sector debt repayments of $70 mn. and repayments of $121 mn. under the North American loans. The overbought forward position was increased by $137 mn. to $756 mn.

31st December 1979.
J.G.H.