

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 3/8%.

The pound gained 3/8% against each of the deutschemark (3.94 1/2), Swiss franc (3.57 1/2) and French franc (9.07 1/2). 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 4 1/8% from the base. The punt was 2.0035 (3 1/8% 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
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		+ \$46 mn.

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