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.