

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
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		- \$67 mn.
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J.G.H.