

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 1/4% to each of the Swiss franc (3.52 1/2%), French franc (8.98 1/2%) and deutschemark (3.88 1/2%). 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 2.31 1/2). In the event, the Belgian franc (30.39) and Danish krone (5.34 1/2%) 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 4 1/4% 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
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		- \$25 mn.
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	Overnight	- \$14 mn.
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