

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 1/4%.

Sterling lost 1/8% to the French franc (8.96 1/4) and deutschemark (3.88 1/4) and 1/4% to the Swiss franc (3.51 1/4). 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 (5.34 1/4) continued to bracket the snake, although the Danes sold \$26 mn. and \$3 mn. of marks when the band narrowed to only 1 1/2% in width. It closed at 2 1/16%. The lira (849 1/2) was 4 1/8% 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
		<u>+ \$50 mn.</u>
	Overnight	<u>+ \$1 mn.</u>

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