

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 15th May 1979

The markets sprung to life again and sterling, the dollar and gold were all in good demand. There was little fresh news to provoke such a movement. However, the market reacted perversely to Chairman Miller's overnight assertion that the yen was undervalued and continued to sell the currency when the Kuwaiti oil minister forecast another substantial rise in the oil price in the fourth quarter. Sterling's ERI rose from 66.1 to 66.7.

The pound closed better at 2.0487 in New York yesterday. This morning it opened at 2.0447, touched 2.0430, then began to move gently ahead in tandem with the dollar. Business was by no means hectic and there was no particular source of demand. In fact, the only motive seemed the weakening yen which, pace Chairman Miller, was undergoing another reappraisal, perhaps following Solomon's optimistic US current account forecast. Sterling traded up to 2.0485 this morning. Early this afternoon, American interest was soon in evidence, no doubt in part on the Queen's speech, but also on stop loss orders from New York professionals and the Chicago IMM as the pound rebounded through 2.05. The Kuwaiti oil forecast gave sterling another fillip and, with demand persisting from North America, 2.0605 was paid for pounds before the close came at 2.0593. Three months' cover again cost 1 7/16% p.a.; the intrinsic discount shaded lower to 3/16%.

Sterling gained 1½% against both the deutschemark (3.92½) and French franc (9.07½) and 1½% against the Swiss franc (3.55½). The Swiss sold \$150 mn. as the franc fell to 1.7260 (swapping in \$100 mn., too, to ease liquidity). The French franc, too, looked unwanted - apparently as local call money rates were hoisted - but the Bank of France sold only \$11 mn.-worth of marks as the franc retreated to 4.4050. The deutschemark closed at 1.9060 after Bundesbank sales of \$25 mn. The punt (1.9952 - 3½% discount) finished at the top of the snake which was 2 3/16% in width. The Belgians sold \$23 mn.-worth of marks as their franc eased to 30.49. The lira (851) closed 4½% above the Belgian franc. In Tokyo the yen closed unsupported at 212.65. In London, however, it weakened to 214.10 by the day's end.

Gold was in strong demand ahead of the US Treasury auction. Moved partly by a resurgence in the silver price and partly, no doubt, by the talk of higher oil prices, the metal was fixed at \$253.40 this morning and a record \$255.50 this afternoon, after trading at \$256.25.

Operations:	Market	+ \$63 mn.
	Ireland	+ 21
	India	+ 6
	Sundries	+ 1
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		+ \$91 mn.
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	Overnight	+ \$8 mn.
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