

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th May 1979

Sterling's tone improved this morning following further consideration of the Queen's speech. The earnings figures, however, were a disappointment and the pound again fell foul of professional sellers this afternoon. The ERI advanced to 67.0 this morning but closed at 66.8.

The pound was bid up to 2.0660 in New York yesterday but came back to close there at 2.0615. A similar pattern developed this morning. Having opened at 2.0637, sterling was traded up to 2.0670 on some modest but broad-based demand. The better sentiment owed much to the Queen's speech. The higher levels, however, quickly induced profit-taking and some good two-way business ensued around 2.0650. Sellers eventually predominated and the pound eased lower falling to 2.0590 after the earnings figures. Sterling attempted a rally early this afternoon but could not get beyond 2.0637. A large Continental bull then turned out his position in frustration and the rate fell to 2.0567 before recovering, as the dollar eased, to close at 2.0615. Three months' cover cost 1 5/16% p.a. and the intrinsic discount fell to 1/8%.

Sterling gained slightly on the Swiss franc (3.56) and deutschemark (3.93) but was barely changed against the French franc (9.07 1/2). Against the dollar, the Swiss franc (1.7272) was a little easier, the French franc (4.4010) a little firmer and the deutschemark (1.9061) unchanged. The Swiss National Bank sold \$78 mn. and swapped in \$100 mn. The Bundesbank sold \$30 mn., following Federal Reserve sales of \$200 mn. yesterday against marks. The snake closed at 2 1/16% in width, spread still between the Belgian franc (30.50) and Danish krone (5.3640). The Belgians sold \$14 mn. The lira (850.65) was 4 1/2% above the franc, which moved out to 84 on the divergence indicator. The punt (1.9842) was at 3 3/4% discount on sterling. In Tokyo the yen closed at 214.90 after official sales of \$30 mn. Later it eased in London following publication of a trade deficit of \$361 mn. in April and closed here at 214.47.

Gold set new highs following yesterday's US auction with a price of \$257.25 between fixings of \$256.10 and \$256.50. The auction saw an average price of \$254.92 for 750,000 ounces in coin bars with much of the gold going to a single bidder.

Operations:	Market	+ \$12 mn.
	Ireland	+ 21
	Iraq	+ 10
	GLC (PSB)	+ 10
	Government	+ 8
	Sundries	+ 2
		<u>+ \$63 mn.</u>

*JGH* 16th May 1979.  
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