

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 17th May 1979

Sterling remained quite steady today in the face of a strong advance by the U.S. dollar. This reflected a continuing reappraisal of the relative energy situation, following yesterday's increase in Venezuelan prices, and the first overt signs, reported yesterday, of a downturn in activity in the U.S. economy. Sterling's ERI was unchanged throughout at 66.8.

The pound closed quietly in New York yesterday at 2.0593. This morning it opened at 2.0598 and traded comfortably throughout the day between 2.0570 and 2.0622, dipping only on some light professional selling early this afternoon. Otherwise the level of activity was modest and well-balanced, with sterling floating happily around 2.06 this afternoon, as the dollar surged, before closing at 2.0580. Forward margins were little changed. The cost of three months' forward cover was $1\frac{5}{16}\%$ p.a., the intrinsic discount $3\frac{1}{16}\%$. Both sterling and dollar deposits were a touch softer.

Sterling gained $1\frac{1}{8}\%$ or so on each of the Swiss franc (3.56 $\frac{5}{8}$), French franc (9.08 $\frac{3}{4}$) and deutschemark (3.93 $\frac{1}{2}$). The first and last of these were heavily supported. The Swiss sold \$180 mn. as their franc weakened to 1.7327 and the Bundesbank lost \$200 mn. while the deutschemark was falling to 1.9121. The French franc was 4.4157. The yen was again the focal point of the movement but it received little support, closing in Tokyo at 215.10 after official sales of only \$31 mn. In London, it fell to 216.10. The snake again finished at $2\frac{1}{16}\%$ in width between the Belgian franc (30.61) and Danish krone (5.3832). The franc, however, closed at 84 on the divergence indicator and the Belgians sold \$6 mn. of Danish kroner to try and redress the balance. The lira (851 $\frac{3}{8}$) rose to $4\frac{9}{16}\%$ above the floor. The punt (1.98 $\frac{1}{8}$) was $3\frac{7}{8}\%$ discount on sterling.

Gold set another record at this morning's fix, which was set at \$257.55, and traded on to a new peak of \$258.85. Later selling, on a wild rumour of further U.S. official sales, brought the price back to \$256.80 at this afternoon's fixing.

Operations:	Market	-	\$8 mn.
	Ireland	+	21
	Interest	+	11
	India	+	6
	Sundries	+	5
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			+ \$35 mn.
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Overnight - \$4 mn.

JGH 17th May 1979.

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