

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th May 1979

The dollar continued to surge strongly ahead today as further signs emerged of an economic slowdown. Sterling again held up well, for the most part, but came off this afternoon so that the ERI closed unchanged at 66.8 (after 66.9 this morning).

The pound closed at 2.0562 in New York yesterday. This morning it began at 2.0575, traded up to 2.0582 on some modest professional interest, then eased gently back to opening levels to watch proceedings elsewhere. Business was very light throughout. A downward adjustment in late morning took sterling towards 2.05 but this level was not breached until North America reawoke. This afternoon, the pound traded down to 2.0466 but recovered again to close at 2.0500. Three months' cover was a little more expensive at  $1\frac{1}{8}\%$  p.a., but the adverse covered differential was reduced to  $\frac{1}{8}\%$ .

Sterling was unchanged on the deutschemark (3.93 $\frac{1}{2}$ ), a touch firmer on the French franc (9.09 $\frac{1}{4}$ ) and a shade easier against the Swiss franc (3.56 $\frac{1}{2}$ ). Central banks were again active. The Bank of Japan sold \$103 mn. in New York yesterday and a further \$28 mn. this morning in Tokyo where the yen closed at 217.20. Later it crashed off to 219.60 before closing here at 218.67. Yesterday in New York the Federal Reserve sold \$112 mn. for marks and the Bundesbank added \$55 mn. to their own losses. Today the Germans sold \$320 mn. and \$200 mn. outright forward. The deutschemark fell to 1.9198 (after 1.9230). The Swiss shelled out \$215 mn. in support of their franc which closed at 1.7380 (after 1.7419). The snake closed fully stretched between the Belgian (30.84) and Danish (5.4130) currencies. The Belgian franc went out to 92 on the divergence indicator and the Belgians sold \$8 mn., \$3 mn. of marks and \$10 mn. of Danish kroner. The French bought \$7 mn. of Belgian francs as a gesture while the Danes bought \$10 mn. The Dutch, however, sold \$33 mn. The lira (855.57) closed 4 $\frac{1}{8}\%$  above the franc and the Italians took in \$27 mn. The punt (1.9680) was at 4 $\frac{1}{8}\%$  discount.

Gold never quite recovered yesterday's heights and, having fixed at \$257.50 this morning, came off to \$256.40 this afternoon.

Operations:	Market	- \$18 mn.
	Government	- 5
	Sundries	- 3
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		- \$26 mn.
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*JGH*  
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