

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 22nd May 1979

Sterling's recent softness persisted this morning, the more so with the dollar off its recent high levels. This afternoon, however, both recovered together, leaving sterling slightly firmer on balance with the ERI at 66.7 (after 66.5 at noon).

The pound closed better at 2.0457 yesterday in New York where the dollar was generally considerably easier. This morning sterling began at 2.0442 and met only modest two-way professional activity on the opening exchanges. Eventually the sellers predominated and the pound drifted back to 2.0372 before steadying on some commercial interest around 2.04. A healthier tone developed this afternoon on professional short-covering combined with some fresh US interest. Sterling traded up to close at the day's best level of 2.0443. Three months' cover again cost  $1\frac{3}{8}\%$  p.a. and the adverse covered differential remained at  $\frac{1}{8}\%$ .

Sterling finished only fractionally easier against the Swiss franc (3.55 $\frac{1}{4}$ ), French franc (9.08 $\frac{1}{2}$ ) and deutschemark (3.92 $\frac{1}{4}$ ). The deutschemark closed at 1.9184 and the Bundesbank stayed out of the market. The Swiss, however, sold a further \$135 mn. (including \$17 mn. for capital exports) and swapped in \$515 mn. The snake continued to show signs of tension, though closing at only 2 $\frac{1}{2}\%$  in width between the Belgian franc (30.80) and deutschemark. The franc finished at 90 on the divergence indicator amid market speculation on a further increase in Discount Rate. The Belgians sold \$25 mn. and the Dutch spent \$8 mn. and \$6 mn. of marks. The Danes helped by buying \$7 mn. The French again showed most concern for their currency, apparently to keep the DM cross-rate around 2.31 $\frac{1}{4}$ . They sold \$62 mn. and \$32 mn. of marks. Their franc finished in mid-band at 4.44 $\frac{1}{2}$  against the dollar. The punt (1.9655) closed at 4% discount. The yen closed at 218.75 in Tokyo, receiving only \$7 mn. of official support, and 219.42 in London.

Gold continued active, establishing another new record level of \$266.80 between successive record fixings of \$265.15 and \$265.40. Profit-taking set in when American metals markets opened lower but this was readily absorbed.

Operations:	Market	-	\$10 mn.
	BIS o/a Nigeria	-	20
	Ireland	+	31
	Interest	+	6
	Iran	+	5
	Sundries	-	6
		+	<u>\$6 mn.</u>
	Overnight	+	<u>\$7 mn.</u>

*JGH*  
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