

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 25th May 1979

Impending holidays in the U.K. and U.S. together with the annual Forex gathering made for a relatively quiet day on the exchanges. Sterling was sold this morning but later recovered. The dollar strengthened late in the day despite a large increase in the U.S. Consumer Price Index. Sterling's ERI rose to 66.9.

The pound opened at 2.0537 this morning, having closed three points better than that in New York yesterday. 2.0560 was seen on the opening exchanges following modest interest from the Far East, but Europeans soon came in as sellers and sterling swiftly dropped to 2.0485 before settling to trade around 2.05 for the rest of the morning. This afternoon, 2.0535 was paid for pounds as some of this morning's sellers took their profits but sterling soon lapsed back into the morning's range and closed at 2.0503. Forward margins widened, the three months' to 1 1/2% p.a. discount. The covered differential against London increased to 1/4%.

Sterling gained fractionally on the Swiss franc (3.56) and French franc (9.11 1/4) but rose nearly 1/4% against the deutschemark (3.93 1/4). The latter was not supported as it eased to 1.9184, the Bundesbank merely swapping in \$600 mn. The Swiss, by contrast, sold \$247 mn (including \$36 mn for capital exports) and swapped in \$570 mn. Their franc eased slightly to 1.7364. The French franc fell to 4.4440. The Bank of Francespent \$45 mn. and \$21 mn. worth of marks (also swapping in \$90 mn.) to push the cross-rate up from yesterday's 2.32 to the DM. to 2.31 7/8 and, with the late fall in the mark, it closed at 2.31 5/8. The snake was well-stretched for much of the day but the mark finished only 2 1/8% above the Belgian franc (30.81). Brussels was again closed. The Danes sold \$36 mn. to arrest the continuing decline of their krone in the band. The Italians, however, bought \$20 mn. and the lira (855.20) ended the day 4 3/4% above the floor. The punt (1.9705) was at 4 1/16% discount. The yen closed at 219.20 in Tokyo and 219.82 in London.

Gold was bid up strongly in New York yesterday and the Far East this morning and continued to firm throughout the day. Successive records were set at the fixings of \$270 and \$270.60 and trading took place around \$271 in between.

Operations:	Market	- \$12 mn.
	Interest	+ 9
	I.D.A.	+ 6
	Sundries	- 4
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		- \$1 mn.
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