

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 29th May 1979

A good day for both sterling and the dollar saw general demand for pounds in evidence, especially this afternoon once New York had opened. Sterling's ERI advanced from 66.9 to 67.2.

The pound traded steadily through the Bank Holiday and closed in New York yesterday at 2.0532. This morning sterling opened at 2.0515 and fell to 2.0470 on the early exchanges as one of yesterday's bulls returned to take a modest profit. This done, however, the pound quickly recovered its poise and, on a modest level of demand, traded either side of 2.0525 through the rest of the morning. This afternoon both dollar and pound were wanted, with American influence undoubtedly underlying the movement, and in a late flurry of activity, sterling was dealt up to 2.0570 before closing at 2.0557. Forward margins narrowed, the three months' to 1 7/16% discount. Sterling's intrinsic discount was reduced to 3/16%.

The pound gained over 1/4% against the French franc (9.14) and 1/2% and more against the Swiss franc (3.58) and deutschemark (3.951/4). The Swiss sold \$71 mn. yesterday and \$108 mn. today, their franc closing at 1.7418. They also swapped in \$1 1/2 bn. over the two days. The French sold \$73 mn. and \$27 mn. of marks yesterday to keep the DM. cross-rate at the required level. Today the franc recovered naturally and, at its closing 4.4460, was 2.31 1/4 to the DM. The deutschemark, though weakening to 1.9224, remained at the head of a fully-stretched snake. The Bundesbank, who were idle yesterday sold \$100 mn. today and bought a token amount of Belgian francs. The Belgian franc (30.91) finished at 93 on the divergence indicator and the Belgians sold \$64 mn. worth of marks. Elsewhere the Dutch sold \$5 mn. and the Danes \$27 mn. as their currencies - the latter in particular - moved considerably closer to the foot of the band. The yen closed at 221.45 in Tokyo this morning and 222.17 in London. The Bank of Japan sold \$14 mn. yesterday and \$19 mn. today.

Gold was bid up strongly in Switzerland yesterday and opened this morning above \$275. Having fixed at a record \$276.10 this morning, it continued to advance as far as \$278.25 this afternoon before profit-taking set in ahead of New York's opening. At a difficult fixing, the price was set at \$273.80 but frenzied selling in the United States after European hours took the metal down as far as \$267.75.

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|-------------|--------------|------------|
| Operations: | Market | + \$46 mn. |
| | Ireland | + 21 |
| | Interest | + 16 |
| | India | + 10 |
| | British Gas | + 4 |
| | (PSB G'teed) | |
| | Sundries | - 1 |
| | | <hr/> |
| | | + \$96 mn. |
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JGH
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J.G.H.