

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 30th May 1979

It was a fairly quiet day for sterling, with the New York market closed for Memorial Day, but some buying interest was seen at times. The dollar came off its best levels this afternoon and as a result sterling's ERI closed a shade lower at 67.1. The European monetary cauldron continued to bubble.

The pound opened at 2.0565 this morning, having closed at 2.0557 yesterday in New York. After a quiet start, some good two-way business developed which left the professional bulls predominant. Sterling was carried up to 2.0602 before settling to trade around 2.0585 through the rest of the morning. This afternoon, some further modest Continental interest kept sterling buoyant and, when the dollar sagged towards the close, the rate rose to 2.0616 before winding up at 2.0598. Forward discounts narrowed. Three months' cover cost 1 1/4% p.a. and this produced interest parity between domestic and eurosterling.

Sterling lost 1/4% to each of the Swiss franc (3.57) and deutschemark (3.94 3/8) and 1/8% to the French franc (9.12 3/4). The Swiss franc lost ground to the deutschemark this morning but more than recovered the ground this afternoon following relaxations of exchange dealing restrictions (effectively inward exchange control relaxations). The franc closed at 1.7328 and provoked the late fall in the dollar. Against the mark it was 0.9050. The Swiss National Bank sold \$25 mn. and swapped in \$150 mn. The French franc continued firm and unsupported closing at 4.4310. The Bundesbank sold \$58 mn. and the deutschemark improved to 1.9146. This followed Federal Reserve sales of \$201 mn. for marks yesterday. As a result the snake was fully-stretched throughout. The Belgian National Bank announced a further 1% increase to 8% in Discount and Lombard rates with effect from tomorrow but this did little to turn the tide and sales of \$58 mn. of marks were necessary to keep the system intact. The franc closed at 92 on the divergence indicator. The Dutch, too, announced a 1/2% increase in Discount Rate to 7% and this, together with sales of \$25 mn., kept the guilder (2.0950) from slipping any further within the band. The Danish krone, however, at 5.4972, continued its fall from grace and closed only 1/2% above the Belgian franc despite sales of \$24 mn. by the Danish National Bank. Meanwhile, the lira (855) continued to hover around 4 3/4% above the floor after official purchases of \$17 mn. The punt (1.9630) was at 3 3/8% discount on sterling. The yen closed at 221.95 in Tokyo and 220.10 in London. The Japanese sold \$10 mn. only.

Gold staged a modest rally this morning and fixed at \$272.60. This afternoon, however, the bears returned and the price was fixed at \$270.25.

Operations:	Market	+	\$4 mn.
	Ireland	+	21 (for May)
	Australia	+	17
	India	+	10
	New Zealand	-	6
	Sundries	+	7
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			+ \$53 mn.
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JGH 30th May 1979.

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