

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

~~Tuesday~~
Thursday, 5th June 1979

Sterling enjoyed another good day despite press gloom on the trade prospects and the potentially discouraging banking statistics. The dollar opened unaccountably weaker but picked up strongly once New York returned and registered small net gains on the day. Sterling's ERI rose to 67.8.

The pound closed at 2.0775 in New York yesterday and opened here this morning at 2.0780. Some fair two-way business was transacted in the morning session with predominantly commercial sellers being generally bettered by professional takers. The rate touched 2.0776 on more than one occasion but traded for the most part around 2.08. The afternoon session was conducted above that level, despite the improving dollar, the pound dipping only fleetingly below 2.08 in the immediate aftermath of the banking figures. 2.0820 was paid for pounds late in the day and the close came at 2.0806. Three months' cover again cost $1\frac{1}{2}\%$ p.a., leaving a modest intrinsic premium still for sterling.

The pound gained $\frac{1}{8}\%$ against the French franc (9.19 $\frac{1}{2}$) and deutschemark (3.98 $\frac{1}{2}$) but put on $\frac{1}{8}\%$ against the Swiss franc (3.60 $\frac{1}{2}$). The Swiss franc fell to 1.7328 against the dollar while the Swiss offered only \$13 mn. in support and a further \$27 mn. in cover of capital exports. They also swapped in \$400 mn. The French confined themselves to swapping out \$50 mn.; their franc closed little changed at 4.42 $\frac{1}{2}$. The deutschemark was 1.9135 and the Bundesbank were idle. Following the Whit holiday the snake took a while to reform in good order but eventually little intervention was required. The Belgian franc (30.74) closed less than the full distance off the mark after Belgian sales of marks equivalent to \$13 mn. Danish markets were closed. The lira (852 $\frac{1}{2}$) was 4 $\frac{1}{2}\%$ from the floor. The punt (1.9757) was 5 $\frac{1}{2}\%$ discount on sterling. On the divergence indicator, the Belgian franc finished at 91 and the Danish krone (notionally) at 78. The yen finished at 219.80 in Tokyo and 220.70 in London.

After business at \$278 in Hong Kong this morning, gold traded lower in London and fixed at \$275.75 and \$274.75. Late in the day, however, further demand emerged and the price soared quickly to \$279 before profit-taking, reportedly on Middle East account, brought an end to the rally.

Operations:	Market	+ \$17 mn.
	Ireland	+ 42
	India	+ 10
	Post Office	
	(PSB G'teed)	+ 2
	Sundries	+ 8
		<hr/>
		+ \$79 mn.
		<hr/> <hr/>

JGH
5th June 1979.
JGH