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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 6th June 1979

Though losing a little ground overall today, sterling continued to display a remarkable degree of resilience in the absence of any good news. The dollar improved overnight on news of a joint US/Canadian plan to explore the Tar Sands but failed to hold its gains. Gold hit new record levels. Sterling's ERI fell to 67.6.

The pound closed a touch easier at 2.0783 in New York yesterday in the face of a firmer dollar. This morning it began at 2.0805 and, as the dollar's advance continued, eased back to a low of 2.0762. Some light professional selling accompanied the movement. Cheap commercial buying then steadied the market and sterling traded either side of 2.0775 into the afternoon. The Chicago IMM opened as a heavy seller of pounds but these offerings were remarkably well absorbed and, after falling to 2.0740, the market again stabilised above 2.0750. Towards the close, however, some long positions were cut out in New York and the pound finished at the day's lowest level of 2.0737. Longer-dated forward margins moved wider, with some evidence of outright selling of pounds. Three months' forward cover, however, was fractionally cheaper at 1 3/16% p.a. and sterling retained a small intrinsic premium on the three months' covered comparison.

The pound lost up to a 1/8% against the Swiss franc (3.59 1/8%), deutschemark (3.97 1/8%) and French franc (9.17 1/8%). The Bundesbank sold \$126 mn. to support the mark which eased to 1.9153. The Swiss sold a net \$33 mn. against exports of capital; their franc was 1.7353, also a touch easier. The French franc was 4.4260. The Danish krone (5.5315) closed at the tail of a fully-extended snake. The Danes sold \$21 mn. and \$44 mn.-worth of marks. The Bundesbank bought \$17 mn.-worth of Danish kroner. On the divergence indicator, the krone was 86 and the Belgian franc 92. The lira (845.05) was 4 1/8% off the floor. The punt (1.9682) was 5 1/8% discount. The yen closed at 220.90 in Tokyo and 220.25 in London.

Gold was active and nervous throughout. Having breached \$280 this morning it was fixed at a record \$280.75 and traded on to \$281.50 before easing to fix at \$280 this afternoon and close at \$279 ahead of today's IMF auction.

|             |                |   |          |
|-------------|----------------|---|----------|
| Operations: | Market         | + | \$7 mn.  |
|             | India          | + | 10       |
|             | PSB            | + | 10       |
|             | National Water |   |          |
|             | Council        | + | 6        |
|             | Orkneys        | + | 2        |
|             | Post Office    | + | 2        |
|             | Interest       | + | 6        |
|             | EEC            | - | 66       |
|             | Sundries       | + | 2        |
|             |                |   | <hr/>    |
|             |                | - | \$31 mn. |
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