

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th June 1979

Sterling took on a distinctly softer tone this morning as dealers began to reflect more closely on the economic scene. Pressure was never very great, however, and sterling eased back without undue disturbance to the market. With the dollar itself weakening towards the close, sterling's ERI came back to 67.3.

Having closed at 2.0755 in New York yesterday, the pound opened at 2.0730 this morning and soon ran into a clutch of small sellers who, in an otherwise wary market, pushed sterling down through 2.07. One or two bargain hunters eventually appeared, however, and the market steadied somewhat uncertainly around 2.0675. Short-covering before the lunch break saw a brief return to 2.0702 but the earlier trading range was soon restored. An American professional returned to offer sterling and 2.0647 was seen. Once again, however, the pound rode out its problems and, with other sellers reluctant and the dollar easing, earlier levels were regained and the close came at 2.0662. The three months' forward discount widened to $1\frac{1}{8}\%$ p.a. giving an adverse covered differential of $\frac{1}{8}\%$.

Sterling lost $\frac{1}{8}\%$ to the French franc (9.14 $\frac{1}{2}$) and $\frac{1}{8}\%$ to each of the deutschemark (3.95) and Swiss franc (3.57 $\frac{1}{2}$). The French franc was unchanged on the dollar at 4.4265 but the deutschemark (1.9120) and Swiss franc (1.7314) both firmed. The Swiss sold \$24 mn. and \$24 mn. in cover of capital exports (while swapping in \$100 mn.). The franc gained further from a late announcement that the 50% conversion requirement on exports of capital was to be abolished. The snake continued stretched with the Belgian franc (30.74) and Danish krone (5.5232) alternating at the base. The Danish currency finished there and the Danes bore the brunt of the day's pressures, selling \$27 mn. and \$43 mn.-worth of marks while the Bundesbank bought \$40 mn.-worth of kroner. The Belgians sold deutschemarks equivalent to \$36 mn. The lira (854) closed $4\frac{1}{2}\%$ above the floor after the Italians had taken in \$70 mn. The punt (1.9692) was a little under 5% discount on sterling. The yen closed at 220.10 in Tokyo and 219.65 in London.

Gold was again very volatile and uncertain. The market's initial response to the average price of \$280.39 at the IMF auction was favourable but potential selling pressure was already evident by the morning fixing which set a price of \$279.30. The price fell sharply on the New York opening and, after a long and tortuous session at which further substantial offerings were seen, the afternoon fixing produced a level of \$276.05.

Operations:	Market	-	\$27 mn.
	Government	+	11
	India	+	10
	Post Office	+	10
	(PSB G'teed)		
	Interest	+	9
	Australia	+	6
	Iraq	+	6
	Sundries	+	1
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		+	\$26 mn.
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