

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 8th June 1979

The long-delayed trade figures for February, March and April had much less of an impact on sterling than such a disastrous result perhaps warranted. Partly due to the hour of publication, partly also to the imminence of the budget and partly perhaps to sterling's own inherent strength, initial selling pressure was very light and the pound finished the day little weaker than it had begun. The ERI eased from 67.3 to 67.2.

The pound closed quietly in New York yesterday at 2.0675. It opened this morning at 2.0667 and yet again ran into early sellers who brought a swift mark-down to 2.0640. Once again, however, there was no follow-through and when opening levels were quickly recovered, the pound traded quietly on in a narrow range around 2.0675. A remarkable diversion was staged in mid-afternoon by a senior Japanese, whose assertion that his Government were seeking a yen rate in the range of 190-200 secured a sharp appreciation for that currency and a concomitant fall in the dollar elsewhere. Sterling topped 2.07 and, when a leading professional took a speculative position in advance of the trade figures, it advanced to 2.0745. Following the announcement, the pound fell from 2.0740 to 2.0700 but trading thereafter was cautious and thin and sterling retreated in measured steps to a closing level of 2.0650. Forward margins were marked wider, the three months' to 1 7/16% p.a. discount, but with sterling deposit rates much firmer, a small intrinsic premium for sterling prevailed.

The pound lost only 1/8% to each of the Swiss franc (3.57 3/8), French franc (9.13 1/2) and deutschemark (3.94 1/2) all of which closed slightly firmer on the dollar at 1.7305, 4.42 3/8 and 1.9102 respectively. The Swiss sold \$9 mn. and \$3 mn. for capital export proceeds. The snake continued in anguish, though closing slightly less than fully-stretched. As often, pressures intensified at the week's end and the Belgians sold \$120 mn. of marks in support of their franc (30.70) while the Bundesbank bought \$17 mn. of francs. The Danes, whose krone (5.5135) finished the day at the foot of the band, sold \$2 mn. and \$31 mn. of marks while the Germans took in \$26 mn. of kroner. The lira (853.55) was 4 5/8% above the floor. The punt (1.9717) remained slightly under 5% discount on sterling. The yen, which had closed in Tokyo at 220 1/4, soared to 214 on Kosaka's statement (which, appropriately, followed an interview with Blumenthal) before closing in London at 218.

Gold was somewhat quieter this morning and fixed at \$277.40. A strong advance this afternoon, however, took the price to \$280 at the fixing.

Operations:	Market	-	\$4 mn.
	Post Office	+	9
	(PSB G'teed)	+	5
	Interest	+	3
	Sundries	+	3
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			+ \$13 mn.
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*JG* 8th June 1979.

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