

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 13th June 1979

Sterling was an active and sometimes volatile market today. Some large sums were traded in both directions, with some inflows clearly destined for gilt-edged while yet other long-standing bull positions in pounds were liquidated. Unlike yesterday, there were several serious attempts at profit-taking, especially this afternoon at the higher levels, and the pound closed well below its best. Sterling's ERI rose from 68.0 to 68.6, the highest level since the index was revised.

The pound closed at 2.10 in New York yesterday after continuing good demand. This morning, European professionals took profit on a large scale in the Far East and sterling began in London at 2.0939. Modest two-way business on the early exchanges left no decided trend but when a large long outright position came on offer, sterling dipped to 2.0910. Soon, however, buyers appeared in increasing numbers and a good two-way market persisted through the morning around 2.0950. Early this afternoon, some strong demand was seen, stemming partly from Swiss investment interest and partly from stop-loss buying from a few erstwhile bears. Sterling advanced strongly through 2.10 and, with New York returning to find the rate above its previous close, there was no great inclination to buy from that source. The Chicago IMM, however, were evidently very short of sterling and as demand built up there, the pound jumped further ahead in a series of fits and starts to 2.1140, its highest level for nearly four years. Given these unaccustomed heights and a somewhat less visible official presence the market was fairly volatile throughout the afternoon and it was no surprise when a sell-off occurred late in the day. Sterling closed at 2.1077 and later traded down to 2.1040. Forward margins continued to adjust to the new level of domestic interest rates and closed substantially wider. The cost of three months' forward cover was 3 3/16% p.a. and the covered differential was 3/16% in London's favour.

Sterling gained a further 5/8% on the French franc (9.31) and 3/4% on each of the Swiss franc (3.64 5/8) and deutschemark (4.02 3/8). The Swiss sold \$54 mn. and swapped in \$325 mn., although their franc firmed to 1.7297. The deutschemark, too, hardened to 1.9093; the Bundesbank bought \$3 mn. of Danish kroner. The latter fell to the bottom of the snake after another increase in Belgian Discount Rate by 1% to 9% had buoyed the Belgian franc slightly. The franc closed at 30.65 and the krone at 5.50 7/8. The Danes sold \$40 mn. and \$12 mn. of marks while the Belgians sold \$8 mn. and \$42 mn. of marks. On the divergence indicator, the franc was 85 and the krone 84. The lira (852 1/4) was 4 11/16% above the floor. The Italians took in \$50 mn. The punt (1.9717) finished the day at 6 7/8% discount on sterling. Elsewhere, the Swedes sold \$70 mn. to support their krona and the yen eased to 220.07 after closing at 219.85 in Tokyo.

Gold was again softer, though fairly stable at the lower levels. Fixings were \$276.10 and \$276.60.

Operations:	Market	+ \$52 mn.
	Iraq	+ 63
	Government	+ 5
	P.S.B.G'teed	+ 2
	Post Office	+ 5
	British Airways	- 3
	Sundries	+ 5
		<u>+ \$127 mn.</u>

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J.G.H.