

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 14th June 1979

Sterling was again active, though less so than yesterday. A better two-way market began to develop but with commercial sellers now appearing, sterling's tendency was definitely downward. The dollar, too, continued softer and sterling's ERI fell to 68.2.

The pound closed at 2.1050 in New York overnight and opened at 2.1053 this morning. The early morning saw a steady stream of small buyers but sterling never bettered 2.1063 and, when a few commercial sellers showed their hand the pound began to drift back. Nonetheless the market was stable until early afternoon, when the earlier buyers took panic losses and, with a modest commercial selling interest also around, sterling fell rather more sharply to 2.0960. The rest of the day passed comfortably around this level. New York was again surprisingly quiet but Chicago offered sterling and sellers were generally the more visible. The pound traded down to 2.0937 at one stage but recovered comfortably to close at 2.0961. Forward margins were very steady. Three months' cover again cost 3 3/16% p.a. and this left a small intrinsic premium for sterling.

The pound lost 5/8% to the deutschemark (3.99 3/4) and nearly 3/4% to each of the Swiss franc (3.62) and French franc (9.24 5/8). The Swiss sold \$15 mn. (of which \$11 mn. for capital exports) and swapped in \$100 mn. Their franc firmed to 1.7270. Most German centres were closed; the deutschemark hardened, too, to 1.9073. The Danish krone (5.5017) and Belgian franc (30.63) continued hard-pressed in the snake. The former was on the base throughout. The Danes sold \$45 mn. and the Belgians \$14 mn. and \$31 mn. of marks. On the divergence indicator, the franc was 87 and the crown 80. The lira (852.65) slipped to a level 4 1/2% above the floor. The Italians took in \$40 mn. The punt (1.9757) recovered to 6 1/8% discount on sterling. In Tokyo, the yen closed at 220.70 after publication of a much larger trade deficit in May. In London, however, it recovered to 220.10.

Gold was bid up in New York and Hong Kong but traded down in Europe. The market was less active than of late and the fixings were \$278.80 and \$279.

Operations:	Market	+ \$6 mn.
	India	+ 11
	Iraq	+ 11
	BIS	+ 7
	Sundries	+ 6
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		+ \$41 mn.

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J.G.H.