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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 15th June 1979

The dollar returned to centre stage today, closing substantially easier against most currencies, as record increases in the key monetary aggregates accompanied further reductions in the Prime Rates of major banks. Sterling was very steady and not very active: both the RPI and the new tap stocks were well received. The snake suffered the usual week-end tension. Sterling's ERI closed unchanged at 68.2.

The pound closed at 2.0985 in New York yesterday and opened just two points cheaper this morning. The opening exchanges were quiet and sterling tended easier. Having touched 2.0964, however, it began to advance in the face of a rapidly softening dollar. Later, a couple of large buyers appeared and, buoyed by the RPI, the pound was carried up through 2.10. New York did little in sterling, though Chicago were small buyers. However, the dollar's fall from grace continued and sterling rose to 2.1057 before closing at 2.1037. Three months' forward cover cost 3 1/16% p.a. and the covered differential in London's favour was 3/16%.

Sterling lost 1% to the Swiss franc (3.58 3/8), nearly 5/8% to the deutschemark (3.97 1/2) but barely 1/4% to the French franc (9.22 7/8). Strangely, the impetus for the dollar's decline seemed to come from Paris where the French franc firmed sharply this morning. By the close, however, the Swiss franc had regained some of its pristine glory with an advance of 1 3/8% to 1.7037. The Swiss bought \$16 mn. The deutschemark gained nearly 1% on the dollar to 1.8895 and the Bundesbank took in \$25 mn. The French franc, however, was only 1/2% better on the day at 4.3845; against the mark it closed just above 2.32. All this added to the snake's problems. The Danish krone, despite a 1% increase in Bank Rate to 9% yesterday, was at the bottom of the band almost throughout and closed there at 5.4655. The Danes sold \$3mn. and \$83 mn.-worth of marks while the Germans bought \$8 mn.-worth of kroner. The Belgians were no less beleaguered and they shelled out \$10 mn., \$5 mn. of French francs and \$71 mn. of deutschemarks. Their franc finished at 30.34. On the divergence indicator, the franc was 82 and the krone 81. The lira (849.25) eased further relative to the snake and closed only 4 1/4% above the base after Italian purchases of \$40 mn. With the guilder (2.0765) now only 1% from the bottom, the Dutch sold \$12 mn. and \$21 mn.-worth of marks. The punt (1.9872) recovered further to 5 7/8% discount on sterling. The yen closed at 220.30 in Tokyo but gained ground in London as the dollar fell and closed at 219.40.

Gold continued to firm though activity remained only moderate. Fixings were \$279.30 and \$280.

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| Operations: | Market | + \$9 mn. |
| | Ireland | + 21 |
| | Interest | + 5 |
| | Sundries | + 7 |
| | | <hr/> |
| | | + \$42 mn. |
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| Overnight | + \$23 mn. |
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