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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 18th June 1979

Sterling opened comparatively soft this morning in the face of a still declining dollar. Weekend press comment on the forthcoming trade figures was a worrying factor. Resolute support from the Swiss National Bank prompted a solid recovery for the dollar and this seemed to turn the tide in favour of sterling which closed quite firm. The ERI rose to 68.3.

The pound closed well-bid in New York on Friday at 2.1115. This morning, however, it opened at 2.1047 and, having touched 2.1072 in early dealings, then began to decline with the dollar under some fairly weighty selling. The trade figures were reported as giving some concern but the selling seemed largely on portfolio investment account. Sterling fell to 2.1027 at worst but had recovered to around 2.1050 by midday. The early afternoon saw some sudden buying interest and this was redoubled once American markets opened. The pound traded up to 2.1110 but came back quickly once the demand dried up and closed at 2.1084. Forward margins widened and three months' cover cost 3 5/16% p.a. This gave an intrinsic discount for sterling of 1/16%.

The pound gained 1/4% on the deutschmark (3.98 1/4) and 1/2% on the Swiss franc (3.60 1/4) but was only marginally firmer against the French franc (9.23 1/4). On Friday the Federal Reserve sold deutschmarks equivalent to \$393 mn. Today the Swiss National Bank bought \$195 mn. and the franc eased back to 1.7083. The Bundesbank, however, did nothing and the deutschmark closed little changed at 1.8893. The French franc was again very firm but closed well below its best at 4.3897. The Danish krone, too, was very comfortable this morning but by the close had rejoined the Belgian franc at the foot of the snake. The franc was 30.35 and the krone 5.4492. The Danes sold \$12 mn., the Dutch \$30 mn. and the Belgians \$16 mn. and \$20 mn. of marks. On the divergence indicator, the franc was 85 and the krone 76. The punt (1.9952) closed at 5 5/8% discount on sterling. The lira (847 1/4) continued to ease and closed only 4% from the floor. The yen finished at 219.25 in Tokyo and 219.80 in London.

Gold opened firm ahead of the OPEC meeting but eased once the dollar began to recover. Fixings were \$279.90 and \$278.00.

Operations:	Market	+ \$7 mn.
	PSB G'teed	+ 178
	Electricity Council	+ 167
	Central Regional Council	+ 10
	Post Office	+ 1
	Iraq	+ 11
	Sundries	+ 14
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		+ \$210 mn.
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	Overnight	- \$6 mn.
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