

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 19th June 1979

The May trade figures proved much less disappointing than many had been led to expect and sterling was marked up in the aftermath to a new four-year high against the dollar. Earlier, however, the dollar had been heavily sold and sterling's response had been very muted. As a result, sterling's ERI finished lower at 68.2.

The pound, like the dollar, was soft in New York yesterday and closed there at 2.1005. This morning it began at 2.1023 and tended easier on the opening exchanges with fears for the trade outturn still very prevalent. Trading took place down to 2.0975 but volume was light and when the odd cheap buyer appeared, the pound stabilised and began a steady but somewhat reluctant ascent against a fast declining dollar. The market settled to trade either side of 2.1050 into the afternoon and stood at 2.1054 as the trade figures came over the tapes. The figures confounded recent press forecasts and sterling was marked up in two short hops to 2.1150. The pound saw light activity around this level and touched 2.1170 before closing at 2.1145. After the close heavy demand for pounds erupted from New York and sterling was dealt up to 2.1300. Forward margins narrowed over the day but finished little changed on yesterday's closes. Three months' cover cost 3 3/8% p.a. and the adverse covered differential was 1/16%.

Reflecting its sluggish earlier performance, the pound closed 1/2% lower against the French franc (9.19), 3/4% down on the deutschemark (3.95 1/4) and over 1% worse against the Swiss franc (3.56 3/8). The Swiss franc was again the star performer and the National Bank raked in \$371 mn. as the franc advanced to 1.6852. The deutschemark was also in strong demand and the Bundesbank bought \$101 mn. with the mark closing at 1.8690. Yesterday the Federal Reserve bought only \$47 mn. against marks, all of which was financed by the Bundesbank. The mark's strength caused problems for its lesser European brethren. The Belgian franc bore the brunt in the snake though the Danish krone (5.3972) actually touched bottom at the close. The Belgians sold \$5 mn. and marks worth \$64 mn. Their franc closed at 30.03. The Dutch, too, sold marks equivalent to \$19 mn. The French franc/deutschemark cross-rate continued to move out and touched 2.32 3/4 before closing at 2.3256 after sales by the Bank of France of \$53 mn. of marks. On the divergence indicator, the Belgian franc was 86 and the Danish krone 77. The punt (2.0090) was 5 1/4% discount on sterling. The yen weakened to 219.95 at the close in Tokyo but recovered to 218.70 in London.

Gold strengthened into today's U.S. Treasury auction as the dollar weakened. Fixings were \$279.25 and \$280.30.

Operations:	Market	+ \$89 mn.
	Ireland	+ 21
	Sundries	+ 5
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		+ \$115 mn.
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	Overnight	+ \$4 mn.
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JGH 19th June 1979.

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