

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 20th June 1979

The realisation that distortions in the trade figures may yet conceal some unpleasant shocks caused some degree of uncertainty for sterling this morning. Eventually, however, the weakness of the dollar proved the telling point and sterling slowly regained and held yesterday's heights, despite a later recovery in the dollar. As a result, the ERI climbed from 68.2 to 68.6.

The pound fell almost a cent in New York yesterday as dealers focussed on the small print behind the trade figures. It closed there at 2.1225 and opened this morning at 2.1220. Initially, the uncertainty continued and sterling was marked back to 2.1172. Suddenly, however, the dollar was hit for six as yesterday's mood gripped the market again: sterling participated in the general advance and climbed steadily to 2.1280 before settling around 2.1250. Good buying interest was seen from a number of continental sources and the pound may well have risen higher were it not for the liquidation of a substantial long position in sterling. The dollar had already turned from its lows by the time New York returned, but early interest from that centre took the pound up through 2.13 before a two-way market set in around that level. Towards the close the dollar faltered again following an upward revision in first quarter GNP and sterling traded up to 2.1342 before closing at 2.1315. Three months' cover cost  $3\frac{1}{2}\%$  p.a. at the end of the day and sterling commanded an intrinsic premium of 1/16%.

Sterling gained  $\frac{1}{8}\%$  on the Swiss franc (3.56 $\frac{1}{2}$ ),  $\frac{1}{8}\%$  on the French franc (9.21 $\frac{1}{2}$ ) and  $\frac{1}{8}\%$  on the deutschemark (3.97 $\frac{1}{2}$ ) which bore the brunt of the day's official support operations. Following yesterday's sizeable intervention (to which \$64mn. were added late in the day) the Swiss were relatively inactive today and took in only \$31mn. as their franc appreciated to 1.6740 (after 1.6682). Its premium on the deutschemark continued to widen, now to over 10%. The Bundesbank, by contrast, redoubled their efforts, buying \$180mn. as the mark rose to 1.8634 (after 1.8555). This followed Federal Reserve sales of deutschemark equivalent to \$196mn. yesterday. The Belgian franc (29.87) propped up the snake for most of the day, though the Danish krone (5.3730) again closed at the foot of the band. The Danes sold \$6mn. and the Belgians \$22mn. worth of marks. On the divergence indicator, both currencies improved to 76. The Bank of France sold a further \$39mn. of marks and the franc gained  $\frac{1}{8}\%$  on the mark, closing at just over 2.32. Against the dollar it was 4.32 $\frac{3}{4}$ . The punt (2.0270) was a steady  $5\frac{1}{8}\%$  discount on sterling. The yen closed at 219.15 in Tokyo, then advanced to 217.95 in London before closing at 218.82.

Following a firm U.S. Treasury auction (which produced an average price of \$279.02 for gold in coin bar form), gold strengthened throughout the day, prompted by the dollar's weakness. Fixings were \$280.70 and \$281.35, but after the second session the metal failed to follow through a strong rally in silver and, after trading up to \$282, came back on profit-taking to close at \$281.25.

Operations:	Market	+\$36mn.
	Ireland	+ 21
	Post Office	+ 2
	(PSB G'teed)	

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+\$59mn.  
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