

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Monday 25th June 1979

The imminence of the O.P.E.C. meeting and forecasts of its likely outcome fuelled a further steep decline for the dollar today. Sterling, like the deutschemark and Swiss franc, featured as usual among the prime targets for foot-loose funds, though the yen again outdistanced the field after another late burst. Sterling's ERI rose to 68.9.

The pound closed lower at 2.1390 in New York on Friday with the dollar generally a little better. This morning sterling began at 2.1493 as the dollar was savaged by reports of a possible 20% price rise expected from the OPEC meeting, and was soon advancing rapidly as the dollar went into a tail-spin. 2.15 was quickly passed and 2.16 breached before mid-morning. Volume was very thin, however, and only later did any sizeable professional demand emerge. Sterling touched 2.1633, a new four-year high. The dollar staged a modest recovery this afternoon but the pound fluctuated comfortably around 2.16 before closing at 2.1606. Three months' cover cost 3 3/16% p.a. and sterling had an intrinsic discount of 1/16%.

The pound gained 1/2% on the Swiss franc (3.54 3/4) and 1/4% on the French franc (9.21 5/8) but was only fractionally firmer against the deutschemark (3.97 1/4). The Swiss again gave heavy support to the dollar, adding a further \$50 mn. to their tally late on Friday and soaking up \$467 mn. today. Their franc was 1.6423 at the close. The Bundesbank bought \$125 mn. (following Federal Reserve sales of deutschemarks equivalent to \$78 mn. on Friday) and the mark gained 3/4% to 1.8388. The French franc (4.2655) was allowed to weaken to 2.32 against the mark; the Bank of France merely swapped out \$15 mn. The snake was relatively untroubled. The Danes and Belgians both sold marks equivalent to \$4 mn. and \$22 mn. respectively. The Danish krone (5.3030) closed at the bottom of the band. On the divergence indicator, the franc was 82 and the krone 79. The punt (2.0480) was at 5 1/2% discount on sterling. The yen closed at 215.30 in Tokyo. Late this afternoon further heavy transatlantic demand saw a rise to 212.95 before the close came at 213.25.

Gold set a new record of \$284.50 at the morning fixing but failed to sustain its advance this afternoon when the fixing set a price of \$283.85.

Operations:	Market	+ \$70 mn.
	India	+ 11
	Iraq	+ 7
	Sundries	+ 10
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		+ \$98 mn.
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