

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th June 1979

The dollar responded poorly to the announcement from O.P.E.C. overnight, but heavy support from the Bundesbank brought a re-appraisal and some recovery. Sterling was in good demand this morning, but found some sizeable sellers this afternoon. Nonetheless, the ERI closed at 69.4, another new high. Gold was heavily offered this afternoon.

The pound closed a cent higher at 2.1655 in New York yesterday after some keen demand. This morning it opened at 2.1702 and met further strong buying interest as the dollar sagged, advancing to 2.1765 - another four-year high. Sterling topped as the dollar turned and was marked back a cent in short order before steadying. This afternoon, with the dollar's recovery continuing, sterling ran into some large selling orders. 2.16 was tested several times - the rate slipping to 2.1603 at one stage - but this proved something of a barrier and when the dollar retreated again towards the close, sterling firmed to finish at 2.1684. The cost of three months' forward cover was $3\frac{1}{2}\%$ p.a., leaving a covered differential of $3/16\%$ against London.

The pound gained $\frac{3}{8}\%$ against the Swiss franc ($3.59\frac{1}{8}$), $\frac{1}{2}\%$ against the French franc ($9.26\frac{1}{2}$) and $\frac{3}{8}\%$ against the deutschemark ($3.99\frac{3}{8}$). The deutschemark was well bid this morning on rumours of an impending increase in Discount Rate, but suffered eventually from very heavy official support for the dollar. Following yesterday's sales of marks equivalent to \$460mn. by the Federal Reserve, the Bundesbank today bought \$370mn. The mark closed little changed at 1.8440 (after 1.8326). The Swiss franc closed a touch firmer at 1.65 $\frac{1}{2}$ (but this after 1.6430). Yesterday, the Federal Reserve sold Swiss francs equivalent to \$174mn. (the financing of which was shared with the Swiss), but today the Swiss took in only \$3mn. The French franc, too, was slightly firmer at 4.2720 after purchases by the Bank of France of \$45mn. and outward swaps of \$40mn. The interest rate expectations in Germany brought renewed problems for the Belgian franc and the snake closed more than fully-stretched. The Belgians sold \$27mn. and \$37mn. worth of marks. Their franc closed at 29.70 and posted 90 on the divergence indicator. The lira (833.15) was $3\frac{3}{8}\%$ above the floor. The punt (2.0422) was at $6\frac{1}{8}\%$ discount on sterling. The yen closed at 215.60 in Tokyo and 216.47 in London.

Gold fell sharply in New York yesterday, but recovered this morning to fix little changed at \$281.30. This afternoon, selling mounted again, both from New York and elsewhere and, with massive amounts on offer at times, the later fixing was long and tortuous. Eventually, a price of \$275.90 was fixed.

Operations:	Market	+\$40mn.
	Interest	+ 26
	Ireland	+ 22
	India	+ 11
	Kenya	+ 5
	E.E.C.	- 28
	Sundries	+ 4
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		+\$80mn.
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Jm
29 June 1979.

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