

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th June 1979

The end of the half-year put a damper on any serious exchange market operations today. The dollar initially continued to appreciate but later turned back, especially against the deutschemark. Sterling generally followed the overall trend but seemed reluctant to move very far in either direction. The ERI finished at 69.5, another new high.

The pound closed higher at 2.1735 in New York yesterday, although the dollar was little changed elsewhere. This morning sterling opened at 2.1735 and immediately tended lower as the dollar improved. Trading took place down to 2.1640 before the dollar topped but volume was not significant and for much of the rest of the day, the pound was dealt in a narrow range around 2.1675. Towards the close, the dollar's slide began to gain momentum and sterling finished at 2.1715. After the close, New York and Chicago bid strongly for pounds and the rate hit another four-year high of 2.1810. Three months' forward cover cost 3 7/16% p.a. and this gave interest parity on the covered comparison.

Sterling gained 1/8% on the French franc (9.27 1/2%) and 1/8% on the Swiss franc (3.60 1/2%) but was unchanged on the deutschemark (3.99 1/2%). Central Bank intervention was modest, the Germans buying \$20 mn., the Swiss \$24 mn. and the Danes \$8 mn. The deutschemark was 1.8414, the French franc 4.2725 and the Swiss franc 1.6597. The Danish krone (5.3097) finished at the bottom of the snake which was 2 1/2% wide. However, the Belgians sold \$25 mn. of marks, despite their overnight increase in interest rates. On the divergence indicator, the Belgian franc was 83. The lira (832.65) closed 3 1/2% above the floor. The punt (2.0430) was 6 1/2% discount on sterling. The yen closed at 217 in Tokyo but weakened in London to 217.47.

Gold was weak again this morning and fixed at \$276.45. This afternoon a recovery began and, having fixed at \$277.50, the metal enjoyed a late rise to \$280.50.

Operations:	Market	+ \$34 mn.
	India	+ 11
	Post Office	+ 5
	(PSB G'teed)	
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		+ \$50 mn.
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The result for June is an increase of \$538 mn. to a reserve total of \$22,070 mn., after net public sector and other debt repayments of \$63 mn. The overbought forward position increased by \$510 mn. to \$1,845 mn.

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