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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd July 1979

Sterling stood out today, in an otherwise unexceptional exchange market, setting new high levels both against the dollar (on recent comparison) and on the ERI which closed at 70.1.

The pound closed quietly at 2.1780 in New York on Friday. This morning, the dollar opened slightly softer but gradually recovered some of its losses against all but the pound. Sterling began at 2.1830, touched 2.1808, then began to forge ahead on good general demand. 2.1886 was paid for pounds but a large selling order from the Continent kept the market in balance around 2.1850 until late in the morning when, with the order complete, sterling surged ahead to 2.1910. Early this afternoon, a Saudi promise to increase oil supplies brought a mark-up for the dollar. Sterling dipped to 2.1865 but soon recovered to trade through the rest of the day around 2.19 touching a new four-year high of 2.1936 before closing at 2.19. Three months' forward cover cost 3 5/16% p.a. and this produced interest parity on the covered comparison.

Sterling gained $\frac{3}{8}\%$ on the Swiss franc (3.62 $\frac{3}{8}$), $\frac{1}{8}\%$ on the French franc (9.35 $\frac{3}{8}$) and $\frac{1}{8}\%$ on the deutschemark (4.03 $\frac{3}{8}$). On Friday, the Federal Reserve sold deutschemarks equivalent to \$103 mn. but today the Bundesbank bought only \$3 mn. The deutschemark closed little changed at 1.8417, the Swiss franc was a touch firmer at 1.6560 and the French franc was fractionally harder at 4.27 $\frac{3}{8}$. The snake was fairly relaxed throughout, closing at 2% in width with the Danish krone (5.30 $\frac{3}{8}$) on the base. Nevertheless the Danes sold \$15 mn. and the Belgians lost \$31 mn.-worth of marks. On the divergence index both Belgian franc and Danish krone stood at 75. The lira (829.15) was 3 $\frac{3}{8}\%$ off the floor. The punt (2.0522) was at 6 $\frac{3}{8}\%$ discount on sterling. The yen closed at 217 $\frac{1}{2}$ in Tokyo but weakened on selling from New York to close at 218.22 in London.

Gold continued Friday's late trend and hardened considerably ahead of the forthcoming IMF auction. Fixings were \$282.20 and \$282.50 but activity was no more than moderate.

Operations:	Market	+ \$65 mn.
	Ireland	+ 22
	Iraq	+ 11
	Sundries	+ 4
		<u>+\$102 mn.</u>
	Overnight	<u>- \$3 mn.</u>

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