

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 3rd July 1979

Sterling was again very firm today, the more so with the dollar weakening towards the close. Mounting expectations of the pound's passing the \$2.20 barrier were inevitably fulfilled shortly before the day's end. The ERI rose to a new record 70.4.

The pound closed at 2.1845 in New York but opened this morning at 2.1871. The morning saw good demand for sterling from the Continent with at least one large buying order against deutschemarks on customer investment account. Sterling was comfortably through 2.19 again by midday and this encouraged widespread expectations that the 2.20 level would soon be breached. New York returned as general sellers of dollars and the pound remained in favour. Much of the afternoon passed around 2.1975 but, as the dollar sagged again towards the close, sterling rose to touch 2.2010 before closing at 2.20. This level provoked a good deal of two-way business with London banks tending to sell long positions into good, fresh demand from the United States. Forward margins narrowed, especially in the longer dates. Three months' cover cost 3½% p.a. and sterling commanded a small intrinsic premium at the close.

The pound gained ½% against each of the Swiss franc (3.64½) and French franc (9.41½) and ¼% against the deutschemark (4.05½). The major Central Banks offered no support for the dollar. In the snake, the Danes sold very small amounts of exchange while the Belgians sold \$58 mn. of marks. The Dutch sold \$10 mn. and \$9 mn. of marks as the guilder (2.0311) slipped down the snake. The Danish krone again finished on the base with the band 2½% in width. On the divergence indicator, the Belgian franc was 76 and the Danish krone 72. The lira (829½) was 3½% above the floor. The punt (2.0457) finished at 7½% discount on sterling. The yen closed at 218.15 in Tokyo and 218.57 in London.

Gold continued quietly firm, though failing to hold yesterday's levels. Fixings were \$281.80 and \$281.35.

Operations:	Market	+ \$66 mn.
	India	+ 11
	Ireland	+ 6
	Sweden	+ 5
	Sundries	+ 6
		<u>+ \$94 mn.</u>
	Overnight	<u>+ \$38 mn.</u>

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