

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 4th July 1979

The anticipated peace of the American Independence Day holiday was disturbed from an early hour by very heavy and widespread demand for sterling. This was clearly on investment account, for the most part, and the Middle East flavour was again prominent at times. Heightened expectations of a \$2.25 rate added speculative fuel to the fire, although sterling eased very quickly whenever demand dried up. The ERI set a new high of 71.1 at noon before finishing the day at 70.9.

The pound closed at 2.2097 in New York overnight and opened at 2.2112 this morning. The early exchanges were somewhat tentative but a couple of large buying orders kept the rate up and before long a burst of broad demand, with London and Middle East names prominent, had the pound rising briskly to 2.2185. A second strong incursion saw business up to 2.2220 but for sometime thereafter sterling traded stubbornly around this level. Later, however, a clutch of smaller, mainly Swiss professionals began buying and this provoked a final and massive wave of demand from the major professionals and the German portfolio-oriented banks. Sterling soared through to 2.2315 before consolidating around 2.23. The afternoon was quieter with the USA on holiday. Nonetheless the pound enjoyed one further burst of activity, rising to 2.2335 - a new four-year high - before the buying ceased and the rate fell in short order to 2.2220 before closing at 2.2235. Forward margins narrowed slightly, the three months' to 3 1/16% p.a. discount. Sterling commanded a small intrinsic premium at the close.

Sterling gained a further 3/8% on the Swiss franc (3.66 3/8) and deutschemark (4.07 3/8) and 1/4% on the French franc (9.48 1/4). The dollar was generally easier but only the Swiss gave heavy support, buying in \$343 mn. as their franc firmed to 1.6499. The Bundesbank bought \$60 mn. (following Federal Reserve purchases of \$70 mn. for marks yesterday); the deutschemark advanced to 1.8345. Elsewhere the weaker snake currencies were fending for themselves, although the Danish krone (5.2850), which closed at the bottom of a 2%-wide band, received no support. The Belgians sold \$23 mn. and \$79 mn.-worth of marks. The Dutch sold \$32 mn. and \$30 mn.-worth of marks as the guilder (2.0235) slipped to within 1/4% of the Danish krone. The French sold \$59 mn.-worth of marks as their franc (4.2650) fell towards the middle of the band and eased to 2.32 1/2 to the deutschemark. The lira (824.30) rose to 3 1/8% above the floor. The punt (2.0592) closed at 8% discount on sterling. The yen closed at 217.55 in Tokyo and 216.72 in London.

Gold hardened in the wake of an uneventful IMF auction. Fixings were \$283.30 and \$283.50 and the market was not particularly active.

Operations:	Market	+ \$159 mn.
	India	+ 11
	Sundries	+ 6
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		+ \$176 mn.
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