

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 5th July 1979

A somewhat frenetic day on the exchanges saw a further wild scramble for pounds this morning and a sharp and concomitant weakening in the dollar followed this afternoon by a vigorous recovery for the dollar (after heavy support) and some profit-taking in sterling. The ERI touched 71.4 at noon but closed at 71.2. Elsewhere, the weaker Europeans continued to prop their currencies and further increases in interest rates were announced. Gold soared to new record heights.

The pound began the morning at 2.2365 and was soon in demand both from domestic names and from one or two large professional interests. The rate was marked ahead inexorably, pausing inevitably around 2.25. Later in the morning some profit-taking set in and sterling fell a full cent from its best levels before stabilising. The unchanged Minimum Lending Rate (more so than the temporary release of Special Deposits) caused a little confusion and, while sterling was left little changed once the dust had settled, it was no less prone to profit-taking, which resumed once New York returned from holiday. The pound fell to 2.2270 at worst but recovered naturally and was thereafter subject to some wide and world swings. 2.2405 was seen again and 2.2305 thereafter before the close was struck at 2.2340. Forward sterling continued a modest improvement in line with softer sterling deposit rates. Three months' cover cost 2 15/16% p.a. and a small intrinsic premium for sterling persisted.

The pound gained a modest 1/8% against each of the French franc (9.49 1/8) and deutschemark (4.08 1/4) and 1/4% against the Swiss franc (3.68) which suffered again from very heavy support for the dollar by the National Bank. The Swiss added \$51 mn. to their support late yesterday and bought in \$318 mn. today. The franc firmed slightly to 1.6475. The Bundesbank took in \$140 mn. as the mark rose to 1.8271. Elsewhere, the Belgian franc (29.31) closed at the foot of a 2% wide snake. The Belgians sold \$28 mn. worth of marks. The French sold \$48 mn. of marks to keep the DM. cross-rate at 2.3250. Against the dollar it was 4.24 7/8. The guilder (2.01 3/8) continued to slip towards the foot of the snake and the Dutch sold \$15 mn. and \$17 mn. of marks. They also raised Discount Rate by 1/2% to 7 1/2%. Even the Italians sold \$55 mn. although the lira (821.45) closed at 3 3/4% from the floor. The punt (2.06 1/8) was at 8 3/8% discount on sterling. On the divergence indicator, the Belgian franc was 77. The yen closed at 216.10 in Tokyo and 216.65 in London.

Gold opened brightly around \$285 and continued strongly to set new records at successive fixings. The levels were \$286.75 and \$288.25.

Operations:	Market	+ \$158 mn.
	Interest	+ 5
	National Coal	
	Board	- 5
	(PSB G'teed)	
	Sundries	+ 2
		<u> </u>
		<u>+ \$160 mn.</u>

JGH
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