

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 9th July 1979

After a strong start, sterling fell back more than most currencies against a generally stronger dollar, though the selling never had much weight. The effective index declined 0.4 to 70.4. Energy concerns still dominated the exchanges, with President Carter's forthcoming statement now the focus of attention.

After a bumpy ride in New York, where the rate swung between 2.19½ and 2.21½, sterling closed for the weekend at 2.2080. The rate opened sharply higher this morning, at 2.2232, and quickly advanced to 2.22½; but it soon slipped back from these levels as the dollar advanced in most centres, to 2.2060 at noon. Early New Yorkers favoured the dollar, and scattered selling from various sources took sterling down to 2.1985. The wholesale price figures were perhaps a touch disappointing. The pound later recovered to 2.2055 before reacting to 2.2040 at the close. An increase in the cost of forward cover to 3 3/16% tipped the small premium in favour of London to a discount of 1/16%.

Sterling lost more ground against the main continental currencies - ¼% (to 4.05½) against the mark and ¼% against the French franc (9.42½). However these currencies, like most others, weakened against the dollar which on the whole took heart from President Carter's deliberations at Camp David about energy policy. The likelihood of further interruption to Iranian supplies, and news that Iran will take payment for oil in other currencies, seemingly did the dollar no damage, and confirmation that Saudi Arabia will produce more gave it a lift in late trading. The mark fell ¼% to 1.8386, remaining top of the 2½% band; at the other extreme, the Belgian franc closed 2% below it at 29.48 (74 on the index of divergence). The Belgians sold \$20 mn.-worth of marks and \$2 mn. The Danish crown (5.2870) was comparatively comfortable 1½% below the mark, no more divergent (at 62 on the index) than the guilder (2.0285). The French franc eased back to 4.2762; another \$14 mn.-worth of official sales of marks left it near 2.32½ on the cross-rate. The Irish pound closed at 2.0477 (7½% discount against sterling). The lira (828.15) stayed top overall, 3½% above the Belgian franc. Outside the snake, the Swiss franc fell ¼% to 1.6626 after \$150 mn. of support - the only sizeable intervention of the day - whereas the yen was steady, closing at 217 in Tokyo and then at 217.22 in London.

The morning's gold fix at \$290.25 shared Friday afternoon's record, but the price fell later when the dollar improved. The second fix was at \$287.85.

Operations:	Market	- \$11 mn.
	BIS	- 8
	Kuwait	+ 16
	India	+ 7
	PS Borrowing	
	(Post Office)	+ 3
	Sundries	+ 4
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		+ \$11 mn.
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