

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 10th July 1979

Although first reactions were to sell pounds, sterling soon steadied and then advanced on good demand. The effective index gained 0.6 to 71.0. The dollar was little changed on balance, but the Belgian franc struggled in the snake and the French franc too, felt the mark's strength.

Having ended a quiet session in New York at 2.2065, sterling opened this morning at 2.2020 and fell to 2.1970 in early trading. This proved to be the low of the day; good buying, mostly by banks in London and on the Continent but with some commercial demand also, carried sterling to 2.2160 during the morning before the rate eased to 2.2140 at noon. The pound spent most of the afternoon on the upper slopes, closing near the peak at 2.2225. The banking and CGBR figures, announced simultaneously, had no effect on balance. A small increase in the cost of forward cover, to 3½%, and slightly higher euro-dollar rates, increased the intrinsic discount to ½%.

Sterling gained on the main continental currencies, by ½% to 4.07½ against the mark and by over ¾% to 9.49½ against the French franc. The dollar, which had improved during late business in Europe yesterday, eased back in New York where the Fed. bought \$33 mn., but traded steadily enough today; for choice, it improved during the morning but yielded ground in the afternoon. Compared with the official close yesterday, the mark gained ¼% to 1.8335 as the Bundesbank bought \$80 mn. The Belgian franc (29.44) laboured at the bottom of the 2¼% band, remaining at 74 on the divergence index. The central bank sold \$49 mn.-worth of marks. The guilder, although well off the bottom of the snake, scored second most (63) on the index after \$5 mn. of support. The French again sold marks (\$40 mn.) as the cross rate topped 2.33. Their franc closed at 4.2737 against the dollar. The lira (826.40) remained top of the snake, 3½% above the Belgian franc. The Irish pound (2.0587) eased to an 8% discount against sterling. Outside the snake, the Swiss franc closed little changed at 1.6613, and the yen ended another quiet day at 217.57, after 217.60 in Tokyo. The Canadian dollar was in some demand yesterday - the authorities added \$91 mn. to reserves - but it eased to 86.32 today.

After \$289.90 at this morning's fix, gold advanced to a record \$290.50 at the second session.

Operations:	Market	+ \$57 mn.
	India	+ 11
	P.S.Borrowing	
	(Post Office)	+ 4
	Sundries	+ 3
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		+ \$75 mn.
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