

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 11th July 1979

Sterling was boosted into a higher orbit by some good early buying orders, fuelled by the thought that yesterday's banking figures pointed to high interest rates continuing for some time. Profit-taking later on provided sufficient friction for a lower level to be established by the close. The dollar, following the decision not to decontrol oil prices, was only prevented from crash-landing by further retrogressive intervention. Nebulous statements from U.S. official sources kept markets inactive this afternoon. Sterling's ERI rose to 71.3.

Another quiet evening saw the pound close at 2.22 in New York yesterday. It opened a cent higher today after Far East demand and rose steadily as European buyers swarmed in to top out at 2.2445. It touched a low of 2.2295 in the profit-taking which then ensued, but rallied to close at 2.2365. Forward margins were unchanged but with Eurodollars easing, the covered differential turned into a 1/16% premium in London's favour.

On balance, sterling made small gains (under 1/4%) across the European board. The dollar required \$95 mn. of support by the Fed. yesterday and \$133 mn. by the Bundesbank today, all against deutschemarks. The deutschemark improved to 1.8245 but with the Belgian franc also better (at 29.25, divergence indicator 70), after the sale of deutschemarks equivalent to \$54 mn, the EMS narrowed to just below 2%. The Danish and Dutch currencies remain close to the Belgian franc. The French franc was also supported by sales of German currency, equivalent to \$98 mn.: the cross-rate closed at 2.33 1/4. The lira held its position 3 5/8% from the Belgians, at 821.35. The Swiss franc rose to 1.6521, the yen to 217.22 and the punt to 2.0637 (8 3/8% discount). The main feature elsewhere was the weakness of the Swedish krona in deutschemark terms: the Riksbank sold \$76 mn. in total. Although their dollar price improved, to 4.2422, their crossrate against the deutschemark deteriorated from around 2.32 1/4 to 2.32 1/2.

Gold was steadier, although a new record fixing was set this morning at \$290.60; the second fixing was \$290.30.

Operations:-

Market	+ \$58 mn.
B.I.S.	- 27
Nigeria	- 22
India	+ 11
Sundries	+ 3
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	+ \$23 mn.
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11th June 1979.

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