

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 12 July 1979

The well-anticipated increase in German discount and Lombard rates, quickly followed by the Dutch and the French, made scarcely a ripple. Light profit taking caused sterling to ease from 71.3 to 71.1 in effective terms. The dollar continued to await President Carter's energy statement.

Like most other currencies, sterling fell back against the dollar in late trading yesterday, closing in New York at 2.2305. In London it opened at 2.2353, and traded to 2.2370 in early exchanges; but the profit-takers soon re-emerged and the rate fell quite quickly to 2.2265. Some commercial interest was shown, however, and the pound recaptured most of the ground lost, returning to 2.2335 at noon. Sterling traded narrowly a little below this level in a surprisingly quiet afternoon session, falling briefly to 2.2298 when the German and Dutch bank rates were increased, but recovering to 2.2320 before the close at 2.2310. An increase to 3½% in the cost of forward cover tipped the small intrinsic premium to a 1/16% discount.

Against the mark sterling weakened only ½ pfennig, to 4.07½; indeed, it eased more, by ¼% to 9.49%, against the French franc. The Fed. gave the dollar a mere \$14 mn. of support against the mark last night, and the Bundesbank did not intervene today. In mid-afternoon the mark was about ¼% stronger than it had been just before the increases in discount and lombard rates were announced, but it later subsided to close at 1.8263, slightly weaker than at the official London close yesterday though better than in New York and still just under 2% above the Belgian franc (29.28, and 70 on the divergence indicator). For once the Belgians did not intervene. The Dutch responded promptly to the German action by raising administered interest rates by ½%, having earlier sold \$3 mn.; their guilder improved slightly thereafter to 2.0135. Although well up the 2¼% band, the French franc (4.2572) was buttressed by official sales of \$49 mn.-worth of marks (as well as by a ¾% increase in the rates at which the central bank discounts Treasury bills); the cross-rate improved slightly to 2.33½. The punt's discount against sterling widened further to 8¾%; it closed at 2.0527. The lira (822) remained top of the expanded snake, a steady 3¾% above the Belgian franc. Outside the EMS, the Swiss franc eased to 1.6555 and the yen concluded a quiet day at 217.15, having closed in Tokyo at 217½. The Swedes gave their krona another \$35 mn. of support altogether.

Gold fixed twice at a record \$290.75.

Operations:-

Market	- \$14 mn.
India	+ 11
Iraq	+ 11
Government	+ 7
Crown Agents	- 5
Sundries	+ 7
	<u>+ \$17 mn.</u>

12th July 1979

P.A.B.