

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 13th July 1979

Another spell of light selling took sterling down 0.1 in effective terms to 71.0. Otherwise the exchanges were quiet if slightly nervous ahead of President Carter's statement on energy policy.

Sterling weakened in late trading yesterday, closing in New York at 2.2240. It opened at 2.2265 this morning; went lower at first, to 2.2215; but then improved, trading up to 2.2286 in a quiet market, until the retail price figures brought a brief relapse. Scattered selling, some of it from New York, drove sterling to 2.2165 early this afternoon, but there was no weight behind it and the rate recovered to 2.2248 at the close. An increase in the cost of forward cover to 3 3/8% was matched by a slightly higher sterling interest rate leaving the intrinsic discount on the usual 3 months' comparison at 1/16%.

The pound lost ground on the Continent, about 1/4% to the mark (4.06 1/2) and somewhat less to the French franc (9.48 3/4). The dollar was untouched by the latest money supply figures, but remained nervous ahead of President Carter's energy statement which is now expected on Sunday. The Fed. bought \$30 mn. in New York, but dollar intervention in Europe was negligible. The mark weakened slightly this morning, then recovered to close little changed from yesterday at 1.8270. It remained top of the narrow band in the snake, 2 1/8% above the Belgian franc (29.35, and higher at 76 on the divergence index). The Belgians sold another \$13 mn.-worth of marks. The guilder (2.0150) and the Danish krone (5.2647) survived the day without support, but the French spent \$38 mn.-worth of marks before they closed early for Bastille Day. Their franc ended the day at 4.2647, over 2.33 3/8 against the mark, in the absence of its official champion this afternoon. The lira (824 1/2) eased to 3 1/2% above the Belgian franc; and the Irish pound's discount on sterling fell to 7 3/4%, the rate closing at 2.0642 after a small take for the reserves. Like the mark, the Swiss franc closed little changed at 1.6562. The yen hardened to 217.47 from 217.70 in Tokyo.

Fears that a poor harvest may force the Russians to sell gold brought down the price in an anxious market. The fixings were at \$288.60 and \$287.45.

Operations:

Nigeria	- \$22 mn.
Sundries	+ 1
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	- \$21 mn.
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