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FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 16th July 1979

The market's response to President Carter's statement on energy was rather more muted than many had expected. Nevertheless the dollar gently drifted lower and the trend eventually gained some momentum. Sterling advanced in sympathy but without any significant demand until the trade figures which were well received and left the ERI closing at 71.3.

The pound closed higher at 2.23 on Friday in New York where the dollar was generally softer. This morning sterling began at 2.2287, touched 2.2272, then gradually crept ahead in response to the declining dollar. Volume was thin and serious demand of any size was sufficient to bring a spurt in the rate. Early this afternoon some sizeable Continental interest carried the pound strongly through to 2.2415 but by the time the trade figures were announced, sterling had relapsed to 2.2377. The figures were better than anticipated, and sterling was marked up immediately to 2.2410 and on to 2.2440 before closing at 2.2415. Three months' cover cost 3 5/16% p.a. and this gave interest parity on the covered comparison.

The pound gained 1/8% against the Swiss franc (3.69 1/8), and 1/8% against each of the French franc (9.51 1/8) and deutschemark (4.08). The Bundesbank took in \$50 mn. (following Federal Reserve purchases of \$120 mn. for marks on Friday) and the deutschemark closed at 1.82. The French franc (4.2465) slipped past 2.33 1/4 on the cross-rate and the Bank of France sold \$55 mn. of marks while the Bundesbank took in \$7 mn. of French francs. Although the Danish krone (5.2455) closed at the bottom of the snake, the Belgian franc (29.17) felt the pressures throughout the day and the Belgians sold \$21 mn. of marks in support. The lira (820.45) was 3 1/8% above the floor. The punt (2.0792) was at 7 1/2% discount on sterling. The Swiss franc firmed to 1.6467 and the yen to 216.90 (after 217.70 in Tokyo).

Gold set successive new records at each fixing with levels of \$291.40 and \$292.80.

Operations:	Market	+	\$38 mn.
	Ireland	+	22
	France	+	21
	Iraq	+	11
	BIS	-	13
	Sundries	+	1
		+	<u>\$80 mn.</u>
	Overnight	+	<u>\$54 mn.</u>

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