

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 18 July 1979

Sterling was again in heavy demand today following widespread rumours that the Saudis had been buying pounds on a large scale. The relaxations in Exchange Control came as no surprise and had little immediate effect on the rate. The dollar was disturbed by the offers of resignation from the Carter cabinet but was held steady by official support. Gold broke the \$300 barrier. Sterling's ERI closed at 72.1 after 72.3.

The pound closed at 2.2750 in New York yesterday as the dollar weakened on the political news. This morning the dollar's trend continued and sterling began at 2.2852, quickly forging ahead on strong demand which had a marked Middle East flavour. The pound soared to 2.2945, notwithstanding that the reappearance of European Central Bank support for the dollar stemmed its general decline. This afternoon was much quieter. New York showed little interest, indicating perhaps that the recent bout of diversification may have halted. Sterling drifted lower on little business and, when a strong rumour of Exchange Control relaxations preceded the announcement, dipped to 2.2770. The announcement itself had little effect and the pound closed at 2.2805. The cost of three months' forward cover fell to 2 15/16% leaving sterling still with a small intrinsic premium.

The pound gained 1/8% on the Swiss franc (3.71 3/8) but was barely changed against the French franc (9.59) or deutschemark (4.11 3/4). These all closed firmer, though below best levels, against the dollar at 1.6285, 4.2050 and 1.8053 respectively. The deutschemark briefly breached 1.80 at one stage. Following Federal Reserve purchases of \$350 mn. for marks yesterday, the Bundesbank bought \$170 mn. today and the Swiss added \$70 mn. to their reserves. The snake slimmed considerably to 1 5/8% in width, the Danish krone (5.18) remaining on the base. The lira (811.65) was 3 3/8% above the floor. The punt (2.09) stood at 9 1/8% discount on sterling. The yen closed at 215.80 in Tokyo but attracted a considerable flow of funds during European hours and closed here at 213.42.

Gold finally reached the predicted \$300 level, opening above that price and fixing at a record \$303.85 this morning. Inevitably, profit-taking set in and, after fixing at \$302.15 this afternoon, the metal closed barely above \$300.

Operations:	Market + \$97 mn.
	FRB o/a India + 23
	Kuwait + 9
	Crown Agents - 16
	<hr/>
	+\$113 mn.
	<hr/>

[Overnight: +\$5 mn.]

J.G.H.
18th July 1979.