

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 20th July 1979

A quiet end to the week was little disturbed even by a $\frac{1}{8}\%$ increase in the U.S. Discount Rate to 10%. The dollar closed slightly firmer as a result and sterling retreated in an orderly market. The ERI closed at 72.3.

The pound closed at 2.2880 in New York yesterday. This morning it opened at 2.2927 and touched 2.2957 on the opening exchanges. Thereafter, however, the underlying trend was clearly softer, even if the rate see-sawed quite widely at times. For much of the day sterling traded comfortably around 2.2850 but, following the increase in U.S. Discount Rate, it fell immediately to 2.28 and eased off thereafter to close at 2.2745, the day's lowest level. Three months' cover again cost $2\frac{13}{16}\%$ p.a. leaving sterling with an intrinsic premium of $3\frac{1}{16}\%$.

The pound lost $3\frac{3}{8}\%$ to each of the deutschemark (4.13 $\frac{5}{8}$), Swiss franc (3.73 $\frac{3}{4}$) and French franc (9.64 $\frac{5}{8}$). These all closed $\frac{3}{4}\%$ lower against the dollar at 1.8187, 1.6435 and 4.24 $\frac{1}{8}$ respectively. No support for the dollar was given in Europe, although the Federal Reserve were reportedly buying the dollar following the Discount Rate increase. The French sold \$22 mn.-worth of marks and the Dutch lost \$30 mn. and \$6 mn.-worth of marks as their currencies slipped down the snake. The Belgian franc (29.07) was again on the base and the band was $1\frac{5}{8}\%$ wide at the close. The lira (818.50) was $3\frac{1}{4}\%$ above the floor, after sales by the Banca d'Italia of \$45 mn. The punt (2.07 $\frac{7}{8}$) stood at $9\frac{3}{8}\%$ discount on sterling. The yen closed at 216.00 in Tokyo and 217.02 in London.

Gold was again quiet and a little softer. Fixings were \$298.50 and \$298.75.

Operations:

Market	- \$1 mn.
BIS o/a Nigeria	- 46
South Africa	- 11
Government	- 10
Germany	+ 27
FRB o/a India	+ 23
Post Office	+ 5
(PSB G'teed)	
Sundries	+ 5
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	- \$8 mn.
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Overnight	<u>+\$11</u>

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