

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 23rd July 1979

After some good two-way business this morning, sterling lit up again this afternoon, despite a dollar which revived swiftly from depressed opening levels. Gold set new records. Sterlings ERI advanced to a new high 73.0.

The pound closed at 2.2825 on Friday in New York where some modest demand was evident. This morning sterling began at 2.2902 and touched 2.2940 on some early interest from Switzerland and the Far East. However, when one or two commercial sellers came to market, the rate slipped quickly and touched 2.2863 before stabilising. The rest of the morning saw balanced two-way business but European appetite for pounds was whetted this afternoon even before New York returned. The Chicago IMM and New York banks added fuel to the fire and with European interest remaining strong until late in the day, sterling hit 2.3045 before closing at 2.3025. Three months cover cost 2 11/16% p.a. and sterling commanded an intrinsic premium of 3/16%.

The pound gained 1/2% against the Swiss franc (3.75 3/4), 3/4% against the French franc (9.71 7/8) and nearly 7/8% against the deutsche-mark (4.17). The Bundesbank bought \$20 mn. and the mark closed firmer at 1.8110 (after 1.8084). The Swiss franc was 1.6323 and the French franc 4.2210. The French sold \$1 mn. and \$11 mn. worth of marks. The Danish krone (5.1992) closed at the foot of the snake which was 1 11/16% in width. The lira (815.05) was 3 3/8% above the floor. The punt (2.0960) stood at 9 7/8% discount on sterling. The yen closed at 214.75 in Tokyo following the 1% increase in Bank Rate to 5 1/4%, and at 215.50 in London.

Gold was fixed at \$303.60 and \$304.90 - the latter a new record. The fixings were active but the market was otherwise not very convincing, despite a closing level around \$305.

Operations:

Market	+ \$141 mn.
FRB o/a India	+ 23
Interest	+ 7
BIS o/a Nigeria	- 46
New Zealand	- 11
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	+ \$114 mn.
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Overnight	+ \$81 mn.
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Jem 23rd July 1979.

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