

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 24th July 1979

Sterling was again in heavy demand today, with the impetus coming once more from European sources. Profit-taking was seen at times but this was easily absorbed and the ERI finished the day at a new high 73.6.

The pound closed at 2.3107 in New York yesterday after heavy and persistent American demand which erupted following Miller's latest speech. This morning it opened at 2.3125 and this proved the day's lowest level since a wave of strong, general demand quickly pushed the rate up to 2.3190. Some sizeable profit-taking emerged at this level but fresh buyers were not found wanting and when a major Scandinavian professional came in as a buyer, the pound advanced strongly again to 2.3248 at best. This afternoon saw further two-way business around the higher levels. Buyers predominated again and the pound touched 2.3250 more than once before closing at 2.3235. Three months' cover again cost 2 11/16% p.a. leaving an intrinsic premium for sterling of 3/16%.

The pound gained 5/8% against the French franc (9.78 1/4) and 7/8% against each of the Swiss franc (3.79 1/4) and deutschemark (4.20 1/2). Yesterday the Federal Reserve bought \$324 mn. against marks but the Bundesbank today took in only \$20 mn. The mark and Swiss franc were barely changed at 1.8095 and 1.6323 respectively. The Swiss swapped in \$100 mn. The French franc firmed a little to 4.2105. The snake widened to 1 7/8% with the Danish krone (5.2057) still at the foot of the band. The lira (813.25) was nearly 3 3/4% off the floor; the Italians sold \$56 mn. The punt (2.0910) was at 11 1/8% discount on sterling. The yen closed at 213.95 in Tokyo and 214.55 in London.

Gold fixed at a new high this morning of \$306.50 having traded up to \$307.50 earlier. Profit-taking set in this afternoon as the dollar improved and the price was fixed at \$305.25.

Operations:	Market	+ \$185 mn.
	India	+ 23
	Interest	+ 5
	Government	- 17
	Sundries	+ 4
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		+ \$200 mn.
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