

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 25th July 1979

The dollar staged a mild technical rally today, supported by heightened expectations of a significant speech by President Carter and by Volcker's appointment as Chairman of the Federal Reserve Board. Sterling was well traded in both directions and looked a little soft this morning. By the close, however, the ERI was unchanged at 73.6 and the pound proved to have withstood the dollar's advance as well as most.

Sterling closed little changed in New York at 2.3245 yesterday, having earlier fallen back on news of the electricity supply workers' threatened action. This morning it opened at 2.3260 and saw some good two-way business on the opening exchanges with 2.3270 paid for pounds at one time. Eventually, with the dollar firming generally, sellers of sterling gradually gained the upper hand and the pound retreated in rapid but orderly fashion to 2.3115 before steadying. Continental interest throughout seemed rather thin. Early this afternoon, a burst of buying interest took sterling to 2.3195 but this level bought out one or two large sellers from Europe and for a time an interesting war of nerves prevailed. New York, however, tipped the balance in sterling's favour and the rate crested 2.32 again and remained steady around that level through the afternoon, closing at 2.3200. Three months' cover again cost  $2 \frac{11}{16}\%$  p.a. and sterling's intrinsic premium shaded slightly to  $1/8\%$ .

Sterling closed  $1/4\%$  better against both the deutschemark (4.21 $\frac{1}{2}$ ) and French franc (9.80 $\frac{1}{2}$ ) and  $3/8\%$  higher against the Swiss franc (3.80 $\frac{1}{2}$ ). These all finished near the day's worst levels against the dollar at 1.8154, 4.2275 and 1.6406 respectively. The Swiss swapped in \$50 mn. but there was no other intervention. Yesterday, the Federal Reserve had soaked up a further \$325 mn. against deutschemarks. The snake slimmed to  $1 \frac{11}{16}\%$  in width with the Belgian franc (29.02) closing barely above the Danish krone (5.2110) at the tail. The lira (815.95) was  $3 \frac{7}{16}\%$  above the floor, the Italians buying \$5 mn. The punt (2.08  $7/8$ ) stood at 10% discount on sterling. In Tokyo the yen closed at 214.75 and in London at 215.20.

Gold retreated further from yesterday's highs as the dollar continued to firm. Fixings were \$303.00 and \$303.35.

Operations:

Market	+ \$13 mn.
National Coal Board (PSB G'teed)	+ 81
India	+ 23
Kuwait	+ 12
Interest	+ 7
Germany o/a Nigeria	- 23
Sundries	- 2
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	+ \$111 mn.
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*JG* 25th July 1979.

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