

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 26th July 1979

Sterling again met good two-way interest today but buyers once more prevailed and new four-year high levels were set, notwithstanding that the dollar's technical recovery continued. The ERI rose to 74.0.

The pound closed at 2.3240 in New York yesterday and opened at 2.3250 this morning. Substantial demand was seen in the early exchanges, both from outright professionals and from the major portfolio-oriented Continental banks. At the same time, the liquidation of a large and sour bear position was rumoured. Sterling advanced quickly through 2.33 and later continued, to a new recent high of 2.3360. The better dollar eventually brought a turn for the pound and with commercial sellers around, the rate retreated to 2.3263. This afternoon, the market was less active. Americans appeared to be small sellers of sterling and commercial offerings were still in evidence. Nonetheless, this was well absorbed and, despite continuing firmness in the dollar, sterling traded comfortably around 2.33 before closing at 2.3290. Forward margins widened, the three months' to 2 7/8% p.a. discount. As a result, sterling's intrinsic premium was all but eliminated.

Sterling gained 5/8% on the French franc (9.86 3/4) and 3/4% on each of the Swiss franc (3.83 3/8) and deutschemark (4.24 1/4). These all eased further against the dollar to 4.2365, 1.6460 and 1.8216 respectively. The Swiss swapped in \$200 mn. over the end of the month. The snake continued relaxed with the Danish krone (5.2317) at the foot of a 1 3/4% wide band. The Italians sold \$31 mn. The lira (816 1/4) advanced to 3 13/16% above the krone. The punt (2.0730) fell sharply to 11% discount on sterling. The yen closed at 215.02 in London, having earlier finished at 214.35 in Tokyo.

Gold opened very firmly but eased back as the dollar improved. Fixings were \$307.00, a new record, and \$305.20.

Operations:-

Market	+ \$171 mn.
FRB o/a India	+ 23
Interest	+ 8
FRB o/a Nigeria	- 42
Government	- 11
Sundries	- 2
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	+ \$147 mn.
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