

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 27th July 1979

Sterling mirrored the dollar's movements for much of the day, although both this morning and this evening it looked distinctly soft when sellers were around. The ERI retreated from 74.0 to 73.5.

The pound closed at 2.3220 in New York but opened in line with London closing levels at 2.3290 this morning. Two-way business again characterised the early exchanges but, with the dollar firming from somewhat depressed levels, sellers soon gained the upper hand and the pound came back quite sharply to 2.3190. The later morning was quieter and as the dollar turned, sterling recovered to 2.3242. Later this afternoon, however, London and New York banks began squaring long positions before the weekend and the rate again fell away sharply to 2.3142 before closing at 2.3145. Later still, business was seen down to 2.31. Forward margins widened again, the three months' to 2 15/16% discount, giving an adverse covered differential of 1/16%.

The pound fell by 5/8% against the French franc (9.80 1/8), 3/4% against the deutschemark (4.21) and nearly 7/8% against the Swiss franc (3.80 1/8). These were all little changed against the dollar at 4.2350, 1.8190 and 1.6423 respectively. The Swiss swapped in \$210 mn. but there was no support given to the dollar by the European Central Banks. Yesterday, the Federal Reserve had bought \$216 mn. against marks to boost the dollar's recovery. The snake was 1 3/4% wide at the finish with the Belgian franc (29.11) just pipping the Danish krone (5.2255) into last place. The lira (816 3/8) was 3 11/16% off the floor. The Italians sold \$13 mn. The punt (2.06 7/8) stood at 10 5/8% discount on sterling. The yen closed at 215.45 in Tokyo and 215.25 in London.

Gold traded steadily and without feature. Fixings were \$305.40 and \$305.80.

Operations:	Market	-	\$1 mn.
	E.E.C.	-	25
	Electricity Council	-	10
	(PSB repayment)		
	France	-	9
	Government	-	8
	India	+	23
	Interest	+	19
	Sundries	-	4
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			- \$15 mn.
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