

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

(Monday, 30th July 1979)

The dollar rallied strongly today, in part on end-month considerations, and partly in response to Volcker's firm support for his currency. Sterling alone stood up to the dollar's advance and the ERI improved to 73.8.

Having closed higher at 2.3215 in New York on Friday, the pound opened at 2.3195 this morning. The early exchanges were not very active and a trend was slow to develop. Sterling and the dollar both eased at first, the pound to 2.3160 before recovering as swiftly to 2.3220. The dollar then began a gradual rally and sterling dipped in salute, though never falling far below 2.32. The pound remained around that level through the afternoon despite the continuing strength of the dollar and only late in the day did it slip to close at 2.3177. Forward sterling margins, however, widened sharply as inter-bank deposit rates hardened. Three months' cover cost 3 1/4% p.a. and the adverse covered differential rose to 1/2%.

The pound gained 1/2% on the French franc (9.85), 7/8% on the deutschemark (4.24½) and a full 1% on the Swiss franc (3.84). These all weakened substantially against the dollar to 4.25, 1.8313 and 1.6564 respectively. Their relatively disparate performances were difficult to explain; the Swiss, however, reacted by selling \$27 mn. worth of deutschemarks (as well as swapping in \$130 mn.) The snake remained relaxed, closing at 1 11/16% in width with the Danish Kroner (5.2572) firmly on the bottom. The lire (819.05) was nearly 4% off the floor. The punt (2.0557) stood at over 11 1/4% discount on sterling. The yen closed at 216.20 in Tokyo but later eased to finish at 217.15 in London.

Gold had an active day. Having fixed at \$304.65 this morning, the metal encountered heavy selling from New York this afternoon and another lengthy fix eventually set a level of \$301.40. Later still the price was quoted down to \$297 3/4.

Operations:	Market	+ \$15 mn.
	India	+ 23
	Interest	+ 6
	Sundries	+ 4
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		+ \$48 mn.

Overnight: - \$30 mn.

JGH

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