

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 1st August 1979

After a somewhat nervous morning in which no firm trend developed, sterling rebounded strongly this afternoon when Americans returned to cover yesterday's short positions. The dollar was generally easier in response to sterling's recovery. The ERI, which had fallen to 71.6 by noon, closed at 72.4.

The pound was traded as low as 2.23 in New York yesterday, following news of Nigerian plans to nationalise BP's local interests, but recovered to close at 2.2465. This morning it opened nervously at 2.2560, dropped quickly to 2.2480 but soon defined a trading range within those parameters. A reasonable level of two-way activity developed and sterling traded comfortably for a while. Sellers eventually predominated, however, and, with the market now very thin, the pound hovered nervously around 2.2445 for an uneasy spell until any would-be marauders had retreated. The outlook brightened as soon as New York reopened. The pound was marked up quickly to 2.26 as the more nimble squared their short positions while profit was still to be had. With sellers now absent, the movement snowballed and demand - still predominantly American - mounted. Sterling advanced strongly to 2.2755 at which level further, keen two-way trading developed and the rate eased back to close at 2.2735. Forward margins narrowed as the pound improved. Three months' cover cost  $3\frac{1}{2}\%$  p.a. and the adverse covered differential was reduced to  $\frac{1}{8}\%$ .

Sterling recovered  $\frac{1}{2}\%$  against each of the French franc (9.66) and deutschemark ( $4.15\frac{1}{4}$ ) and  $\frac{1}{2}\%$  against the Swiss franc ( $3.76\frac{1}{4}$ ). The latter was only a shade better against the dollar (1.6570) but the deutschemark (1.8288) and French franc (4.2490) made up rather more lost ground. The Danish krone ( $5.26\frac{3}{4}$ ) retained bottom spot in the snake - which was 2% wide at the close - and the Danes sold \$15 mn. in support. The Italians bought \$50 mn. with the lira (819.20) closing  $4\frac{1}{2}\%$  above the krone. The punt ( $2.06\frac{1}{2}$ ) stood at 9% discount on sterling. The yen firmed to 216.05 in London, having closed at 216.95 in Tokyo.

Gold was again very weak, opening and closing below \$290 on continuing bearish sentiment from the USA. In between, the price was fixed at \$290.95 and \$290.10. Conditions were quite active.

Operations:	Market	+ \$45 mn.
	FRB o/a India	+ 23
	Post Office	+ 14
	(PSB G'teed)	
	Iraq	+ 11
	Sierra Leone	+ 5
	Sundries	+ 1
		<hr/>
		+ \$99 mn.
		<hr/>
	Overnight	- \$18 mn.
		<hr/>

*JGH*  
1st August 1979.  
JGH