

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd August 1979

Sterling enjoyed a much more relaxed and comfortable session today with volume more modest and better-balanced throughout. The dollar was little changed. Sterling's ERI eased back to 72.2.

The pound closed at 2.2562 yesterday in New York, where sellers gained the upper hand in a thin market. This morning sterling began at 2.2637 and met sufficient early demand from professional jobbers to create a modest rally. 2.2715 was paid more than once and the pound settled down to trade comfortably through the morning around 2.2675. Returning Americans brought a better dollar and sterling eased back gradually in sympathy. For a while in mid-afternoon some nervousness re-emerged and, with a few sellers in a thin and unreceptive market, the pound was offered down to 2.2590. The tide turned, however, when a commercial buyer emerged - unusually for the hour of the day - from the Middle East and sterling recovered in style to close at 2.2677. Forward margins narrowed, the three months' to 3 $\frac{1}{8}$ % p.a. discount. The adverse covered differential was 1/16%.

The pound gave up $\frac{1}{8}$ % to each of the Swiss franc (3.75 $\frac{1}{2}$), French franc (9.63 $\frac{1}{2}$) and deutschemark (4.14 $\frac{1}{2}$). These were all hardly changed against the dollar at 1.6566, 4.2480 and 1.8285 respectively. The Swiss, however, sold \$50 mn. in support of their franc and swapped in \$450 mn. In the snake, the Danes sold \$35 mn. as their krone (5.2707) slipped to 2 $\frac{1}{8}$ % from the mark. On the divergence indicator the krone fell to 78. The lira (819) closed 4 $\frac{1}{4}$ % above the krone and the Italians took in a further \$20 mn. The punt (2.0595) stood at 9 $\frac{3}{16}$ % discount on sterling. The yen closed at 216.40 in Tokyo and 216.55 in London.

Gold remained very uncertain. After a modest rally to \$293 this morning, the price was fixed at \$292.85 but the metal was sold again this afternoon and was fixed at \$291.50. Later still American selling took the price below \$290 again. Fears of forced Russian sales continue to provide a bearish influence.

Operations:	Market	+ \$9 mn.
	National Water	
	Council	+ 49
	(PSB G'teed)	
	Saudi Arabia	+ 23
	FRB o/a India	+ 23
	Iraq	+ 11
	Interest	+ 5
	Bangladesh	- 7
	Botswana	- 5
	Sundries	+ 2
		<u>+\$110 mn.</u>
	Overnight	<u>+\$16 mn.</u>

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