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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 3rd August 1979

A quiet end to an active week found sterling trading comfortably again. Yesterday's reserve announcement seemed to provide some buoyancy this morning but, as the dollar firmed, sterling eased back in response. The ERI rose to 72.4, after 72.6 this morning.

The pound closed at 2.2770 in New York yesterday but opened back at 2.2707 this morning. Bullish sentiment prevailed on the opening exchanges and sterling was swept up to 2.2812. The July reserves were no doubt a contributing factor. Thereafter, however, volume was more restrained. Scattered profit-taking brought a gradual turn and a commercial seller in London, though well absorbed, took the rate down through 2.27. The afternoon saw a similar pattern, though in a minor key, and the pound touched 2.2675 before closing at 2.2710. Three months' cover cost 3 1/16% p.a. and the intrinsic discount was 1/16%.

The pound gained 3/8% on each of the Swiss franc (3.77 1/2) and French franc (9.67 3/8) and nearly 1/2% on the deutschemark (4.16 3/8). These all lost ground to the dollar, closing at 1.6610, 4.2595 and 1.8346 respectively. The Swiss sold \$90 mn. and swapped in \$145 mn. The Danish krone (5.2827) remained at the tail of a snake still 2% in width; the Danes sold \$24 mn. On the divergence indicator the krone was 76. The lira (820 1/2) was 4 5/16% above the floor and the Italians took in a further \$56 mn. The punt (2.0520) was at 9 3/8% discount on sterling. The yen closed at 216.87 in Tokyo and 216.85 in London.

Gold remained very weak and uncertain. Fixings were \$288.50 and \$286.50.

Operations:	Market	- \$9 mn.
	India	+ 23
	Ireland	+ 23
	Post Office	+ 20
	(PSB G'teed)	
	Sundries	+ 6
		<u>+\$63 mn.</u>

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