

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 6th August 1979

The pound sold off sharply again this afternoon following a disappointing Wholesale Price Index. The dollar eased slightly as funds moved onto the Continent. Sterling's ERI fell from 72.4 to 71.5. Gold was very weak.

The pound closed at 2.2685 on Friday in New York and opened at 2.2740 this morning. After a quiet start, a little Swiss selling took the rate back to 2.27 and, after some good two-way business at that level, sterling settled down to trade very quietly around 2.27 for the rest of the morning. A slightly softer time prevailed ahead of the WPI announcement but persistent selling erupted once the news had been digested. New York joined in and sterling fell, quite sharply at times, to 2.2440 before closing uncertainly at 2.2460. Later, business was seen down to 2.2385. Forward margins widened and three months' cover cost 3 3/16% p.a. at the close. Sterling's intrinsic discount was 1/8%.

The pound lost 1 1/8% to each of the Swiss franc (3.72), French franc (9.54 1/2) and deutschemark (4.11). The Swiss swapped in \$455mn., but no other intervention was reported by the major Central Banks. The Danish krone (5.28 1/2) continued at the bottom of the snake which was 2% wide for most of the day but closed fully-stretched. As a result, the krone finished at 80 on the divergence indicator. The Danes sold \$14mn. By contrast, the lira (819.67) was almost 4 1/2% above the floor of the band and the Italians took in a further \$38mn. The punt (2.0525) stood at 8 1/2% discount on sterling. The yen closed at 216.40 in Tokyo and 216.37 in London.

After fixing at \$287.00 this morning, gold was sold down nervously this afternoon, turning only during an active fixing, which set a level of \$282.70.

Operations:	Market	-\$ 78mn.
	BIS o/a Nigeria	- 45mn.
	Sundries	+ 2mn.
		<u>-\$121mn.</u>

7th August 1979.

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