

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 7th August 1979

Another sorry day for sterling saw the currency widely sold both before the monthly banking statistics and again later in the day. The dollar was again very steady. Sterling's ERI fell from 71.5 to 70.5.

The pound closed at 2.2440 in New York yesterday and opened at 2.2458 this morning, touching 2.2462 on the early exchanges. German banks soon came in to sell pounds and sterling began to move back. A large commercial offering in London added to the pound's discomfort and the rate fell quickly to 2.2315 before stabilising around 2.2350. Late in the morning, some of the earlier jobbers returned to take a profit and sterling crested 2.24 again. Early this afternoon, however, sterling was well offered in expectation of unpalatable banking figures and fell to 2.2245. The figures themselves proved better than expected and the pound rebounded to 2.2320. Sellers, however, returned, with Americans now involved too, and sterling crumbled again in a very poor market which found little resistance. The pound suffered an almost continuous slide down to 2.2125 before closing at 2.2130. Forward margins widened in sympathy with the weaker pound. Three months' cover cost 3 9/16% p.a. and the adverse covered differential moved out to 7/16%.

Sterling lost 1½% to the Swiss franc (3.66½) and 1½% to each of the French franc (9.40½) and deutschemark (4.05). All these were barely changed against the dollar at 1.6572, 4.2485 and 1.8302 respectively. The Swiss sold \$20 mn. The Danish krone (5.2780) continued at the foot of the snake which closed at 2½% in width. On the divergence indicator the krone was 78. The Danes sold \$39 mn. The lira (819½) closed 4½% above the floor, the Italians having purchased \$65 mn. The punt (2.0532) stood at 7½% discount on sterling. The yen closed at 216.45 in Tokyo and five points dearer in London.

After opening firmer, gold slipped again and was fixed at \$282.50. This afternoon, it rallied again and was fixed at \$285.10.

Operations:	Market	- \$81 mn.
	Crown Agents	- 19
	Malta	- 5
	India	+ 22
	Saudi Arabia	+ 11
	Sundries	+ 5
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		+ \$67 mn.

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JGH

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