

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 8th August 1979

There was further selling pressure on the pound today but of less force than in the last two days. Just before the close, the upward revision (contained in the Economic Progress Report) of the Treasury's estimate of the benefits of North Sea oil caused sterling to regain almost all its earlier lost terrain - though markets were by then very thin. The ERI improved to 70.6.

In New York last night, the pound recovered a little to close at 2.2240. After opening quietly in London this morning at 2.2215 and easing to 2.2150, it recovered temporarily to 2.2230 but substantive selling orders then reappeared (possibly on overnight press comment relating to yesterday's performance) and the rate fell to 2.2095 before settling back at 2.2150 by midday. Desultory selling continued this afternoon with a low of 2.2035 being recorded before the news flash relating to North Sea oil. In London the rate closed at 2.2170 but there was later dealing above 2.22. The cost of three months' cover narrowed to 3 3/16% p.a. and the covered differential to 1/8% against London.

Against other European currencies sterling made small net gains: to 4.05% in Germany, 3.67% in Switzerland and 9.42% in France. The dollar, in contrast to sterling, had a rather quiet day and finished a wafer weaker. The EMS was 2 3/16% wide between the deutschemark (1.8298) and the Danish krone (5.27% divergence indicator 80); the lira, at 819%, was 4% away from the krone. The Italians bought \$60 mn. The French franc closed at 4.2495 after purchases by the Bank of France of \$30 mn. and deutschemarks worth \$26 mn. The punt ended at 2.0540 (about 8% discount), the Swiss franc 1.6565 and the yen 216.52.

Gold was in good demand again, fixing at \$287.10 and \$289, with later trading around \$291.

Operations:	Market	-	\$20 mn.
	EEC	-	50
	Ireland	+	22
	Sundries	-	2
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		-	\$50 mn.
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