

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th August 1979

Disappointing US producer price figures put the dollar under a cloud and caused sterling to brighten in contrast. The ERI improved 0.5 to 71.1.

Fresh Treasury forecasts of the benefits of North Sea oil put some life into sterling in late trading last night, and the pound closed comfortably in New York at 2.2260. The firm tone was maintained in early trading today, when the rate briefly topped 2.23, but light professional selling, reinforced later in the morning by the sizeable commercial order, took the shine off sterling which touched 2.22 just before noon. However, a larger-than-expected rise in US producer prices revived interest in pounds, and sterling rose steadily during the afternoon to close at 2.2365, the best level of the day. The cost of forward cover eased back to 3%, eliminating the small intrinsic discount.

Sterling gained modestly against continental currencies, closing at 4.07½ against the mark and at 9.48½ against the French franc. The dollar weakened across the board in the afternoon, after the US price figures came out. The mark closed about ¼ pfennig stronger at 1.8230, remaining top of the 2½% band at 2 1/16% above the Danish krone (5.2520, and down to 72 on the divergence indicator). The Bundesbank bought \$14 mn.; the Danes sold \$20 mn. The lira closed 4½% above the krone at 816.95, allowing the central bank to buy another \$50 mn. The French franc gained ¼% to 4.2405, and the Irish pound rose to 2.0642, a 7½% discount on sterling. Outside the snake, the Swiss franc hardened to 1.6499. The yen closed at 216.35 in Tokyo and at 216 in London.

Gold continued its spirited recovery, fixing at \$292½ and \$297.10 in active sessions. The price has risen over \$14½ since Tuesday morning.

Operations:	Market	+ \$39 mn.
	Iraq	+ 11
	BIS	+ 7
	Interest	+ 5
	Sundries	- 2
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		+ \$60 mn.
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	Overnight	+ \$7 mn.
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