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10. 8.79

MR. McMAHON

Copies to: Mr. Sangster
Mr. Byatt

Foreign Exchange and Gold Markets during your absence

I attach a copy of a note prepared for the Deputy Governor. Since Mr. Sangster is sending you a separate note, I hope that this will suffice. You will find two versions of the second table, the first as sent to the Deputy Governor, and the second amended to cover the period of your own absence.

10th August 1979.

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FOREIGN EXCHANGE AND GOLD MARKETS
30TH JULY - 10TH AUGUST 1979

Sterling fell sharply between the London close on 30th July and the opening on 1st August (from 2.3177 to 2.2480, having touched 2.23 in New York on Tuesday night); and again in the first half of this week (from 2.2710 to 2.2035 at one time on 8th August). Overall, the fall in effective terms was about 4½% to 70.6. There was no obvious reason for the first spell of pressure, which seemingly started in Chicago; the second was triggered by a 2½% increase in wholesale prices. At times the market was thin and disorderly. We gave about \$300 mn. of support in these periods of pressure. Otherwise, the market was calm, and indeed sterling was in some demand after publication of another 1.1% rise in US wholesale prices on 9th August. Then, and on other occasions, we bought dollars. The large July reserve increase (published on 2nd August) probably helped sterling, and the Treasury's EPR article on the benefits of North Sea oil (8th August) certainly did, but the banking figures (7th August) were seemingly ignored. At the close to-day, sterling is back to 2.2495 (71.5). Market views span a wide range - in contrast to a couple of weeks ago when few talked of a fall in the rate. Sterling's weakness has not been reflected in the cost of forward cover, which remains around 3%, giving approximate interest parity on the usual comparison. Table 1 summarises EEA transactions.

The pound lost ground to the main continental currencies, which were a little stronger against the dollar. However, sterling apart, the exchanges were pretty quiet until the US wholesale price figures came out. Dollar support diminished. The Danish krone was in trouble at the bottom of the snake (at times 80 on the divergence indicator). Table 2 shows main exchange rates and intervention.

Gold led an exciting life. Having, like sterling, reached its zenith of \$307 on 26th July, it dropped all the way to \$282½ on 7th August on fears of forced Russian sales, before rising even more steeply to \$303½ this afternoon.

10th August 1979.

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\$ mns.

EEA TRANSACTIONS

The result for July was an increase in the reserves of 1,429 to 23,499 after net public sector and IMF debt repayments of 276. The gold/ECU swap contributed 349 (purely the effect of valuation). The overbought forward position was reduced by 286 to 1,559, but this was more than accounted for by the forward leg of the EMCF swap.

For August, the figures at the close today were:

<u>spot reserves</u>	<u>overbought forward position</u>	<u>total*</u>
- 156	+ 1,293	- 422

Intervention

	*of which	
Italy	Market	- 85
Germany	India	+ 114
	SAMA	+ 68
Denmark	Ireland	+ 45
	Iraq	+ 34
	Nigeria	- 77
	EEC	- 50
	Debt repayments	- 184

[as sent to
the City Governor]

TABLE 2

EXCHANGE RATES

	close <u>27. 7.79</u>	close <u>10. 8.79</u>
against dollar		
sterling	2.3145	2.2495
DM	1.8190	1.8220
Swiss franc	1.6423	1.6455
French franc	4.2350	4.2437
yen	215.25	215.98
against sterling		
DM	4.21	4.09½
French franc	9.80½	9.54½
sterling ERI	73.5	71.5

Intervention

Switzerland	- \$255 (and - \$27 worth of DM)
Italy	+ \$404
Germany	- \$87
Denmark	- \$163

EXCHANGE RATES

	<u>close</u> 20. 7.79	<u>close</u> 10. 8.79
against dollar		
sterling *	2.2745	2.2495
DM	1.8187	1.8220
Swiss franc	1.6435	1.6455
French franc	4.2412	4.2437
yen	217.02	215.98
against sterling		
DM	4.13 $\frac{1}{2}$	4.09 $\frac{1}{2}$
French franc	9.64 $\frac{1}{2}$	9.54 $\frac{1}{2}$
sterling ERI *	72.3	71.5
*Highest of period:	2.3360, 74.0 (26th July)	
Lowest of period:	2.2035 (8th August), 70.5 (7th August)	

Intervention

Switzerland	- \$255 (and -\$27 worth of DM)
Italy	+ \$309
Germany	- \$47
Denmark	- \$161