

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th August 1979

Sterling faded after a bright start, closing 0.3 lower in effective terms at 71.2 after 71.6 this morning. The dollar in contrast improved as the day went on.

The pound ended a quiet session in New York at 2.2472, and opened this morning in London at 2.2531 against an easier dollar. Early continental buyers took the rate to 2.2570, but sterling then drifted back to 2.2498 before 2.2531 at noon. The tone changed after lunch, perhaps as the market began to focus on the retail price figures due out later this week, and nervous selling from North America (some of it thought to be on the IMM) and Europe took the rate down 2 cents to 2.2332 before a slight recovery to 2.2358 at the close. The cost of forward cover rose to 3 1/16%, widening the discount on the usual comparison to 1/2%.

Sterling lost ground on the continent, closing 3/8% lower against the mark (4.08 1/4) and the French franc (9.50 1/2). In Switzerland it fell to 3.69 1/4. The dollar, which the Fed had supported to the tune of \$249 mn. on Friday, opened lower in Europe today but went on to gain in most centres. Over the day, the mark fell back to 1.8261, the Bundesbank having bought \$30 mn. early on. It remained top of the 2 1/2% band in the snake, 2 1/16% above the Danish krone (5.2607 and 73 on the divergence indicator). The Danes sold \$15 mn. The French franc (4.2530) moved alongside the mark; the central bank sold \$6 mn. worth of marks to keep the cross-rate around 2.3290. The lira eased to 817.60, 4 1/4% above the krone. The Irish pound closed at 2.0585, a slightly narrower discount on sterling. The central bank sold £7 mn. and \$3 mn. Elsewhere, the Swiss franc eased to 1.6516 and the yen to 216.55, having closed in Tokyo at 216.15.

Gold magnified the dollar's movements, fixing at \$304.10 this morning and subsequently at \$298.75 in heavy turnover.

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| Operations: | Market | - \$49 mn. |
| | Post Office | |
| | (PSB G'teed) | + 16 |
| | Interest | + 11 |
| | Bangladesh | - 9 |
| | | <u>- \$31 mn.</u> |

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| | Overnight | - <u>\$7 mn.</u> |
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PAB