

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 14th August 1979

Sterling was firmer today, closing unchanged at 71.2 in effective terms after 71.0 this morning. Expectations of tighter monetary policy brought demand for the dollar.

Like most other currencies, sterling eased back in New York, to close at 2.2330. It opened in London this morning at 2.2298, and soon met professional selling from the Continent which took the rate below 2.22½. Good two-way business then developed: and renewed demand from the Netherlands helped the rate to drift up to 2.2283 at noon. Early selling from New York drove it back to 2.22 after lunch but buyers showed themselves again, some of them perhaps turning earlier sales, and the pound rose to 2.2346 before closing just below the best at 2.2335. One large commercial buyer of pounds against marks appeared shortly after lunch. The cost of forward cover eased to 2 15/16%, reducing the intrinsic discount on sterling on the usual comparison to 3/16%.

Sterling improved slightly on the Continent, to 4.09 against the mark and 9.51½ against the French franc. The dollar closed some way below its best levels of the afternoon, but still managed to show gains on the day as many dealers looked forward to tighter monetary policy after today's FOMC meeting. The mark fell ¼% to 1.8315, remaining top of the 2½% band in the snake at 2 3/16% above the Danish krone (5.2827, and at 74 on the divergence index). The Danes sold \$8 mn. The lira closed 4 7/16% above the krone at 819½, the central bank having bought \$57 mn. The Dutch sold \$10 mn. The French franc softened to 4.2615 in quiet holiday trading; the Irish pound closed at 2.0567 at an unchanged discount of just under 8% against sterling. Outside the snake, the Swiss franc went lower to 1.6569 after \$40 mn. of support, and the yen closed at around 216½ both in Tokyo and later in London.

Gold was again very volatile, fixing at \$293 and \$292 before topping \$297 in late trading.

Operations: Market	+ \$47 mn.
Sundries	+ 4
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	+ \$51 mn.
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