

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 16th August 1979

After a steady start, the pound weakened during the afternoon to close at 71.0 in effective terms, a fall of 0.2 on the day. The dollar shed yesterday's gains in most continental centres.

Like other currencies, sterling closed better in New York, at 2.2410. Early trading today was very quiet, with sterling shading up from the opening 2.2357 to 2.2422 on the back of some buying from the Continent. The prospect of the money figures discouraged buyers, however, and sterling eased back to 2.23 before rising to just over 2.23½ before the figures came out. They were quite well received, and the rate touched 2.2370 in mid-afternoon; but then the bears returned, and sterling retreated to close at 2.2265. There was no clear reason for the selling, which appeared to come from both Europe and America. The weaker tone was not reflected in the cost of cover, which fell to 2 9/16%, leaving sterling at interest parity. There was no further rise in eurodollar rates.

Sterling weakened on the Continent, closing ½% down against both the mark (4.07½) and the French franc (9.47½). The dollar was generally weaker today, after yesterday's interest-rate-induced gains. The mark more than recovered the terrain yielded, closing at 1.8293, 2 3/16% above the Danish krone (5.2767, and back at 76 on the divergence indicator). The Danes sold another \$15 mn. The French franc improved to 4.25½ (2.32½ against the mark). The lira remained atop the snake, 4½% above the krone at 819½; the central bank bought \$43 mn. The Irish pound remained at a 7½% discount against sterling, closing at 2.0557. The Swiss franc hardened a touch to 1.6559, while the yen traded quietly to 217.02 after 217.55 in Tokyo.

Gold had a welcome respite, fixing at \$296½ and \$297.85 in less active conditions.

Operations:	Market	- \$22 mn.
	Ireland	+ 22
	Saudi Arabia	+ 22
	India	+ 11
	Iraq	+ 11
	Post Office	+ 7
	(PS borrowing)	
	Sundries	+ 7
		<u>+ \$58 mn.</u>
	Overnight	<u>- \$31 mn.</u>

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