

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 17th August 1979

Last night's increase in Fed discount rate improved the dollar's appearance, and sterling lost rather more ground than other currencies. The ERI fell 0.3 to 70.7 after 70.6.

The increase in US discount rate to 10½% strengthened the dollar in New York, and sterling closed there nearly 1½ cents lower at 2.2120. It opened this morning at 2.2127, and traded up to 2.2185 before easing back on the retail price figures to 2.2155. New York's opening brought some interest in pounds, pushing the rate to a high of 2.2255; but the news that regulation of some domestic oil prices in the USA will be ended brought a sharp fall to 2.2095 until the market had second thoughts and took the rate back to 2.2165 at the close, 1 cent down on the day. Trading was generally light. The cost of forward cover eased further to 2½%, but a small rise in euro-dollar rates brought a 1/16% intrinsic discount on sterling on the usual comparison.

The pound yielded ¼% to the mark and the French franc, to 4.06½ and 9.45½. It closed at 3.67½ in Switzerland. The dollar opened better in most centres, and on balance gained over the day, helped by the signature of the bill to free some domestic oil prices. The mark weakened ½ pfennig to 1.8341, remaining top of the narrow band in the snake at 2% above the Danish krone (5.2815, and 75 on the divergence indicator, after \$57 mn. of support). The French franc eased back to 4.26½, and the lira to 818½, 4½% above the krone. The Italians bought \$58 mn. The Irish pound closed at 2.0532, 7½% discount on sterling. The Swiss franc ended the day at 1.6587 and the yen at 217.32, after 217.55 in Tokyo.

Gold fixed at \$298.70 and \$300.55.

Operations:	Market	+	\$5 mn.
	Interest	+	7
	Botswana	-	18
	Government	-	11
	Sundries	-	3
			<u> </u>
			- \$20 mn.

	Overnight	-	\$2 mn.
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