

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 20th August 1979

The trade figures provided the only colour on a quiet and featureless day. The result for July was much better than expected and sterling, having started nervously, rose sharply. The ERI gained 0.2 over the day to 70.9, after 70.4 this morning.

Having closed at 2.2122 in New York on Friday, sterling opened this morning at 2.2115 and soon traded down to 2.2070 in a nervous market ahead of this afternoon's trade figures. Although still apprehensive, the market moved the rate up to 2.2150 later in the morning, but it stood well below that level, at 2.2105, when the figures were published in mid-afternoon. Sterling leapt over $1\frac{1}{2}$ cents to 2.2235, since the result for the latest month at least exceeded expectations; fell back briefly in reaction; but then improved again to 2.2240 before closing at 2.2237. There was never much volume. An increase in the cost of forward cover to $2\frac{3}{8}\%$ widened the intrinsic discount on the usual comparison to $3/16\%$.

Sterling inched higher on the Continent, to $4.07\frac{1}{2}$ against the mark and $9.47\frac{1}{2}$ in Paris. The dollar was slightly easier against the mark (1.8315) and the French franc (4.2620), but in general very little changed. The mark remained head of the $2\frac{1}{2}\%$ band in the snake, $2\frac{1}{8}\%$ above the Danish krone (5.2805). The lira (818.85) closed $4\frac{1}{2}\%$ above the krone. The Banca d'Italia bought another \$35 mn. The Irish pound stood at 2.0510, a wider $7\frac{1}{8}\%$ discount on sterling. Outside the snake, the Swiss franc softened to 1.6596 (\$5 mn. of support) and the yen closed at 217.40 in Tokyo and at 217.34 in London.

Gold was as quiet a market as foreign exchange. The fixings were at \$299.10 and \$298 $\frac{1}{2}$ in light turnover.

Operations:	Saudi Arabia	+ \$22 mn.
	Interest	+ 13
	Iraq	+ 11
	Devon CC	+ 7
	(PS borrowing)	
	Sundries	- 5
		<hr/>
		+ \$48 mn.
		<hr/>

20th August 1979.
PAB