

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 22 August 1979

The pound traded quietly within a narrow range, closing 0.2 up in effective terms at 70.8. The yen and the Swiss franc, on the other hand, came on offer. Gold broke records in heavy turnover.

Sterling closed at 2.2170 in New York, opened at that level in London, and traded steadily through the day between there and 2.2200, closing at 2.2183. There were no features. The cost of cover fell further to 2 1/8%, leaving sterling at an intrinsic premium of 3/16% on the usual comparison.

The pound made modest gains on the Continent, closing at 4.06 1/4 against the mark and at 9.45 1/4 in Paris. The dollar was slightly easier in these centres, the mark hardening to 1.8313 and the French franc to 4.2607. The Danish krone (5.2782, and 74 on the divergence indicator) was a rather tight 2 1/8% below the mark in the snake, but the other EMS currencies were comfortable. The Irish pound closed at 2.0562, a 7 1/4% discount on sterling. The lira improved to 817 1/2, 4 5/8% above the krone; the Banca d'Italia bought another \$52 mn. However, there was more action outside the snake. It took \$100 mn. of support to hold the Swiss franc around 90.60 against the mark - it closed at 1.6586 against the dollar. The yen was also under considerable pressure, closing over 3/4% lower at 219.45 after 219.77.

Gold rose sharply in very active trading. The price touched \$312 outside the fixings, which were at \$311 1/2 (\$4 1/2 above the previous record) and \$311. Yesterday the U.S. Treasury auctioned 750,000 ozs. in coin bars at an average of \$301.08, equivalent to about \$301 3/4 per oz. in good delivery form. Dresdner Bank bought 96% of it.

Operations:-

Market	+ \$32 mn.
Interest	+ 6 mn.
Sundries	- 3 mn.

+ \$35 mn.

Overnight

+ \$22 mn.

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P.A.B.