

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 23rd August 1979

Sterling sustained its higher overnight level until modest selling depressed the rate. Over the day, the effective index increased 0.2 to 71.0 after 71.2 this morning. Markets were generally quiet.

Buying from Chicago caused sterling to rise to 2.2305 at the close in New York, and the rate opened yet higher, at 2.2323, and soon traded up to 2.2340 on modest buying interest. Sterling eased back to 2.2316 at noon. Some selling pressure developed in mid-afternoon, at first from the Continent, and subsequently from New York too, and the rate fell to 2.2247 before closing at 2.2262. The cost of cover fell again to 2%, but a rise in euro-dollars cut the intrinsic premium on sterling to 1/16%.

Sterling gained about 1/4% on the Continent, to 4.07 1/2 against the mark and 9.48 1/2 against the French franc. On the whole the dollar was a fraction weaker on the day. The mark closed slightly stronger at 1.8303; the Bundesbank's decision to restrict access to Lombard credit had no apparent effect on the rate. The mark remained top of the 2 1/4% band in the snake, 2 1/16% above the Danish krone (5.2727, and at 75 just on the threshold of divergence). Other snake currencies were comfortable enough, the French franc at 4.2593 and the lira 4 1/2% above the krone at 817.65. The Italians bought another \$34 mn. The Irish pound closed at 2.0602, a 7 1/2% discount on sterling. The Swiss franc had an easier day, ending at 1.6571 (90 1/2 against the mark) without support; but the yen improved only slightly from yesterday's levels, closing at 218.90 in Tokyo and subsequently 219.15 here.

Gold remained high, though trading was much steadier and less frenzied than yesterday. Fixings were at \$309.60 and \$310.05.

Operations:	Market	+ \$8 mn.
	Post Office	+ 15
	(PS Borrowing)	
	Interest	+ 10
	Sundries	- 1
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		+ \$32 mn.
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