

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 28th August 1979

Sterling provided the only focus of attention on the exchanges today with some good demand emerging this afternoon. The dollar was only slightly better overall but gold advanced further. Sterling's ERI rose from 71.2 on Friday to 71.9.

The pound met modest interest yesterday afternoon from Europe and the US and eventually closed in New York at 2.2440. This morning it opened at 2.2421 and touched 2.2410 on the opening exchanges before picking up in the wake of some small European demand and settling around 2.2450 for the morning. Early this afternoon the buying interest was resumed, though now on a heavier scale, with European - and especially Swiss - professionals prominent. New York reinforced the trend and 2.2525 was paid for pounds on more than one occasion. The increase in several US banks' prime rates took the steam out of the movement and sterling closed comfortably at 2.2510. Three months' cover cost $1\frac{1}{2}\%$ p.a. and sterling commanded an intrinsic premium of $\frac{1}{8}\%$.

Since Friday the pound has gained $1\frac{1}{2}\%$ against both the Swiss franc (3.73 $\frac{1}{2}$) and French franc (9.61) and $\frac{7}{8}\%$ against the deutschemark (4.12). The Bundesbank today swapped out \$1 bn. for a month. The deutschemark closed at 1.8298. The Swiss franc eased to 1.65 $\frac{1}{2}$ and the Swiss sold \$90 mn. and swapped in \$100 mn. The French sold \$24 mn. and \$25 mn.-worth of marks. Their franc finished at 4.2683 to the dollar (after 4.2725) and 2.3325 to the mark. The Danish krone (5.2722) was at the tail of the snake which was 2 $\frac{1}{16}\%$ in width. The punt (2.0565) was at 8 $\frac{1}{2}\%$ discount on sterling. The yen closed at 220.65 in Tokyo and 220.50 in London. The Japanese sold \$72 mn. yesterday and \$68 mn. today.

Gold was again fixed at record levels with \$316.20 and \$316.75 set at the two fixings. The price came off towards the close.

Operations:	Market	+ \$48 mn.
	Government	- 10
	Crown Agents	- 9
	Sundries	+ 3
		<hr/>
		+ \$32 mn.
		<hr/>

JGH
28th August 1979.
JGH