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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th August 1979

Sterling followed yesterday's pattern today with a quiet morning giving way to good buying interest this afternoon. The yen and Swiss franc remained under pressure. Sterling's ERI rose to 72.1.

The pound was marked down in New York yesterday following release of the US trade figures which bettered expectations. Having closed there at 2.2435, it opened this morning at 2.2485 and traded quietly through the morning, touching 2.2466 at worst. As yesterday, the early afternoon produced a burst of broad-based buying and sterling was pushed quickly up through 2.25. Americans joined the fray and the pound touched 2.2580 before a general advance in the dollar brought a relapse to 2.2560 at the close. Eurodollar rates opened sharply higher, following yesterday's round of Prime Rate increases, but closed below best levels. Forward margins narrowed in response and three months' cover cost 1 9/16% p.a. leaving an intrinsic premium for sterling of 1/8%.

Sterling gained 1/8% on the French franc (9.62 1/2), 1/8% on the deutschemark (4.13) and 1/8% on the Swiss franc (3.75). The Swiss franc, though easing to 1.6625 only, was evidently under some pressure. The Swiss National Bank sold \$240 mn. and swapped in \$650 mn., abandoning their erstwhile support level of 90.60 to the mark. The French franc picked up following announcement of the new fiscal package, closing slightly better at 4.2655. The deutschemark (1.8309) and Danish krone (5.2772) spanned a snake which closed at 2 1/2% in width. The Bundesbank swapped out \$1 bn. The Belgian franc earlier touched 75 on the divergence indicator and the Belgians responded by selling \$14 mn.-worth of marks. The lira (817 1/2) stood 4 1/2% above the floor; the Italians took in \$17 mn. The punt (2.05 1/2) was at 9% discount on sterling. The yen continued unwanted, closing in Tokyo at 221.45. The Japanese sold \$42 mn. In London, the yen fell below 222 before closing at 221.80.

Gold moved erratically. At times yesterday's record levels were again tested but profit-taking seemed to restrain any further advance. Fixings were \$314.05 and \$315.20.

Operations:	Market	+ \$39 mn.
	Interest	+ 39
	Iraq	+ 11
	Sundries	+ 5
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		+ \$94 mn.
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