

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 30th August 1979

In a scrappy and difficult session, both sterling and the dollar came under some selling pressure to-day. Various reasons were cited: the inexorable rise in the gold price; rumours of an impending revaluation of the deutschemark; and the possibility of the removal of negative interest in Switzerland. By the close, the dollar was above its worst and sterling had made up a good deal of the ground lost earlier. The ERI fell from 72.1 to 71.8.

The pound closed at 2.2560 in New York yesterday and began at 2.2530 this morning. The early trends were mixed but sterling tended better on balance and touched 2.2555 at one stage. In mid-morning, commercial and professional selling in a thin market took the pound lower and for a while the tone was nervous and soft. However, a subsequent fall in the dollar (which strongly suggested liquidation of long positions in sterling against the European currencies and the yen) brought some recovery to over 2.25. Around midday, the pound was again sold out of Scandinavia, falling sharply to 2.2440. American sellers later joined in and, while there were temporary rallies as the dollar continued to decline, the nervousness continued for much of the afternoon. Business was again seen down to 2.2440. Late in the day, however, transatlantic short-covering brought a sharp rally and the rate touched 2.2520 before closing at 2.2515. Three months' cover cost  $1\frac{1}{4}\%$  p.a. and, with eurodollar rates softening, sterling's intrinsic premium rose to  $\frac{1}{2}\%$ .

Sterling lost  $\frac{1}{2}\%$  to the French franc (9.57 $\frac{1}{2}$ ),  $\frac{3}{8}\%$  to the deutschemark (4.10 $\frac{1}{2}$ ) and  $\frac{1}{4}\%$  to the Swiss Franc (3.72 $\frac{1}{4}$ ). The Swiss sold a further \$80 mn. today, as well as \$10 mn.-worth of Dutch guilders, and their franc rebounded strongly to 1.6536. The deutschemark was 1.8233, the Bundesbank buying \$25 mn. The French, however, sold \$11 mn.-worth of marks as the DM cross-rate moved out to 2.33 $\frac{1}{2}$  (after 2.33 $\frac{1}{4}$ ). Against the dollar, the franc improved to 4.2522. The Belgian franc (29.25) and Danish krone (5.2582) finished on the divergence indicator at 76 and 77 respectively. The Belgians sold \$19 mn. and \$43 mn.-worth of marks: the Danes lost \$21 mn. and \$14 mn.-worth of marks. The krone remained at the tail of the snake which was 2 $\frac{1}{2}\%$  in width. The guilder (1.9976) firmed appreciably and the Dutch took in \$10 mn. and \$8 mn. of marks. The Italians, too, bought \$60 mn. with the lira (816.60) 4 5/16% above the floor. The punt (2.0617) was a little under 8 $\frac{1}{2}\%$  discount on sterling. The Irish sold \$23 mn. and sterling equivalent to \$18 mn. The Japanese lost a further \$49 mn. in New York yesterday and sold \$268 mn. this morning in Tokyo to effect a close of 221.70. In Europe, the yen performed as well as any and bettered 219 before closing at 219.72.

Gold remained in strong demand, with keen Middle East interest suspected. Records were set at each fixing with levels of \$318.65 and \$319.15 and the metal later traded to \$320.

Operations:	Market	- \$22 mn.
	Iran	+ 15
	Post Office	+ 11
	(PSB G'teed)	
	Interest	+ 7
	Botswana	- 7
	Sundries	- 7
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		- \$3 mn.

*Jm*  
30th August 1979.

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