

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 31st August 1979

End-week, end-month and an impending holiday in the United States combined to give both dollar and pound a quiet time today with both finishing modestly better. The snake, however, was well-stretched and both the Belgian and Danish currencies were under some pressure. Sterling ERI rose to 71.9.

The pound closed at 2.2520 in New York yesterday and opened at 2.2498, touching 2.2528 on the early exchanges. The morning was very quiet. Sterling traded down to 2.2462 and back up to opening levels by the afternoon when some modest demand in a thin market saw business up to 2.2555. Thereafter the market was dull and the pound closed at 2.2545. Forward margins widened, the three months' to 1 15/16% p.a. discount; the intrinsic premium was 3/16%.

Sterling regained 1/8% in Paris (9.59 1/2) and Frankfurt (4.11 1/2) and 3/8% in Switzerland (3.73 1/2). With rumours of EMS realignment abroad, the Danish krone (5.2682) was a full 2 1/2% from the deutschemark (1.8252) for most of the day. The Danes sold \$19 mn. and \$86 mn.-worth of deutschemarks while the Bundesbank bought \$30 mn. and \$3 mn.-worth of kroner. The krone closed at 80 on the divergence indicator. The Belgian franc (29.29) also suffered a speculative attack and the Belgians shelled out marks worth \$57 mn. The French, too, sold \$24 mn. as their franc ease to 4.2557. The lira (816 1/4) was 4 1/2% above the floor. The punt (2.0615) stood at just over 8 1/2% discount on sterling. Elsewhere the Swiss franc softened to 1.6566; the Swiss sold \$20 mn., \$11 mn.-worth of marks and \$10 mn.-worth of guilders. The yen closed at 220.05 in Tokyo and 220.60 in London.

Having fixed somewhat lower this morning at \$317.75, gold had a very difficult session this afternoon as the silver price was marked down sharply in New York. The yellow metal was eventually fixed at \$315.10 but closed in London some \$2 higher.

Operations:	Market	+ \$4 mn.
	Government	+ 5
	Ghana	- 6
	Sundries	+ 1
		<u>          </u>
		+ \$4 mn.
		<u>          </u>
	Overnight	+ \$7 mn.
		<u>          </u>

The result for August is a reserve loss of \$194 mn. to a level of \$23,305 mn. This is struck after net new public sector borrowing of \$77 mn., and a repayment of \$127 mn. under the German offset agreement. The overbought forward position was increased by \$173 mn. to \$1,732 mn.

*JGH* 31st August 1979.  
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