

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS  
Tuesday, 4th September 1979

The tone of the Trades Union Congress occasioned a swift bear raid on sterling early this morning and sentiment was soft for much of the day. There was little activity, however, once the sellers had departed and the ERI, having fallen to 71.4 this morning, remained at that level throughout. Gold set new records.

Sterling opened today a cent cheaper than yesterday's close after Swiss professionals unloaded pounds in the Far East. Others joined the movement, once London opened, and sterling fell to 2.2343 before short-covering finally brought some respite. Most dealers seemed to be focussing on the TUC but the fear of a sizeable increase in the Banking figures was doubtless also abroad. Sterling settled around 2.2375 and began to climb through 2.24 once New York returned from holiday. The Banking statistics induced some momentary nervousness but the August Reserves, published immediately after, restored calm and the pound saw 2.2410 before closing quietly at 2.2377. Forward margins widened this morning as sterling weakened but recovered to close unchanged. Three months' cover cost 2% p.a. and this produced interest parity on the covered comparison.

Sterling gave up  $\frac{1}{2}\%$  to both the Swiss franc (3.70 $\frac{1}{2}$ ) and the French franc (9.51 $\frac{1}{2}$ ) and  $\frac{3}{8}\%$  to the deutschemark (4.08 $\frac{1}{2}$ ). The mark was a little better against the dollar at 1.8240 while the French franc (4.2520) was a shade easier and the Swiss franc (1.6560) barely changed. The Swiss, however, sold \$215 mn. and \$11 mn.-worth of marks, keeping the key cross-rate almost rigid around 0.9080 to the mark. The Danish krone (5.26 $\frac{1}{2}$ ) closed at the full 2 $\frac{1}{4}\%$  distance from the mark but the Danes suffered little pressure during the day, selling only \$10 mn. The Belgians, too, sold \$16 mn.-worth of marks and the French \$16 mn.-worth. The krone finished at 77 on the divergence indicator. The lira (817) was 4 $\frac{1}{2}\%$  above the floor. The punt (2.0620) was at 7 $\frac{1}{2}\%$  discount on sterling. The Japanese gave \$108 mn. of support to the yen in Tokyo. It closed there at 221.40 and in London at 220.95.

Gold set new records at each fixing with levels of \$323.90 and \$325; it finished the day around the latter level. Earlier this morning, business was seen up to \$325 $\frac{1}{2}$  but this level evidently proved a stumbling-block.

Operations: Market - \$19 mn.  
Sundries + 5  

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- \$14 mn.  

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*JGH*  
4th September 1979.  
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