

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 5th September 1979

Despite another turn in the interest rate screw in the USA yesterday, the dollar eased back to-day. Sterling seemed reluctant to join the trend at first but buyers later appeared to ensure a better close. The ERI edged up to 71.5. Gold moved sharply higher again.

The pound closed quietly in New York at 2.2389 and began to-day as quietly at 2.2355. The dollar soon began to drift off but sterling showed little movement and seemed becalmed around 2.2375 for a while. Some interest eventually appeared from the Continent and sterling advanced to 2.2455. New York returned as small buyers of pounds but the rate gained nothing more and as conditions slackened sterling relapsed to 2.2396 before closing at 2.2425. Forward margins narrowed as euro-dollar hardened in the wake of the Federal Reserve's latest increase in the Federal Funds rate. Three months' cover cost 1 11/16% p.a. and the adverse covered differential was 1/16%.

Sterling firmed fractionally against each of the Swiss franc (3.70½), French franc (9.52½) and deutschemark (4.08½). These were all firmer on the dollar at 1.6533, 4.2460 and 1.8202 respectively. The Swiss sold \$155 mn. - a factor which continues to disturb the market - and \$33 mn.-worth of marks, while swapping in \$210 mn. The cross-rate was held tightly around the closing SF 0.9083 to the DM. The French, too, kept the DM cross-rate steady around 2.3325 by selling marks equivalent to \$22 mn. The Bundesbank bought \$20 mn. The Danish krone (5.2567) remained at the foot of a fully-stretched snake, the Danes expending \$27 mn. and \$17 mn. - worth of marks. The Belgians, too, sold marks worth \$25 mn. On the divergence indicator the krone finished at 76 and the Belgian franc at 77. The lira (815 1/8) was almost 4 1/2% above the krone. The punt (206 5/8) was at 7 7/8% discount on sterling. The Japanese sold a further \$92 mn. in Tokyo this morning and the yen closed at 221.75. In London it firmed to 221.38.

Gold moved sharply higher this morning to set a new record fixing level of \$329.25. This afternoon the price topped \$330 briefly but determined selling around the higher levels brought the price back to \$329 at the fix.

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|-------------|--------------|-------------------|
| Operations: | Market | + \$19 mn. |
| | Post Office | + 10 |
| | (PSB G'teed) | |
| | Interest | + 5 |
| | | <u> </u> |
| | | + \$34 mn. |
| | | <u> </u> |
| | Overnight | + \$5 mn. |
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