

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 6th September 1979

German selling of sterling for deutschemarks brought pressure on the pound and dollar today although both had recovered some ground by the close. Pressures on the snake mounted still further. Sterling's ERI closed unchanged at 71.5.

The pound closed better in New York yesterday at 2.2474. This morning it began at 2.2455 and rose to 2.2520 on the opening exchanges in the face of a drifting dollar. Later, however, as the dollar's decline gathered pace, sterling too eased off. German banks were seen to be selling pounds for marks, probably on commercial account. The pound fell nervously to 2.2425 before stabilising - possibly as the Bundesbank moved to support the dollar. By this afternoon sterling had regained the 2.2450 level and the later session passed quietly with the close at 2.2465. Three months' cover cost $1\frac{1}{8}\%$ p.a. and this produced interest parity on the covered comparison.

The pound gave up $\frac{1}{8}\%$ to each of the French franc (9.50 $\frac{1}{8}$) and deutschemark (4.07 $\frac{1}{8}$) and lost $\frac{1}{8}\%$ to the Swiss franc (3.69). The Swiss gave no support today as their currency rebounded to 1.6423 against the dollar and 0.9056 against the mark. The deutschemark itself reached 1.8102 before closing at 1.8133. Yesterday the Federal Reserve bought \$202 mn. against marks. Today, the Bundesbank bought \$55 mn. and \$46 mn.-worth of Danish kroner. The krone was the full $2\frac{1}{8}\%$ from the mark throughout, closing at 5.23 $\frac{1}{8}$ and 79 on the divergence indicator. The Danes sold \$12 mn. and \$94 mn.-worth of marks. The Belgians sold \$158 mn.-worth of marks to keep their currency within the divergence threshold. The French spent marks equivalent to \$59 mn. to effect a close of 2.33 $\frac{1}{8}$ to the mark. Against the dollar their franc was 4.2292. The lira (812 $\frac{1}{2}$) finished 4 $\frac{1}{8}\%$ above the floor. The punt (2.07 $\frac{1}{8}$) stood at 7 $\frac{1}{8}\%$ discount on sterling. The yen closed in Tokyo at 220.75 and in London at 220.95.

Following a successful IMF auction yesterday which produced an average price of \$333.24, gold took off again this morning and reached a new high of \$343 before fixing at \$340.85, another record. This afternoon the price collapsed and, after fixing at \$335.50, closed in London at \$331. Later in New York business was seen as low as \$322.

Operations:	Interest	+ \$13 mn.
	Sundries	+ 4
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		+ \$17 mn.
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