

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 24th September 1979

The EMS realignment took many by surprise and caused considerable confusion within the system itself. At the end of the day, however, the dollar was little changed against the major currencies but sterling was weaker overall as sellers tended to predominate. The ERI fell from 68.2 to 67.9.

The pound rose to close at 2.1690 in New York on Friday but opened this morning no better than 2.1597. On the early exchanges the dollar tended firmer in response to the EMS realignment and sterling moved up in sympathy to 2.1645. Soon enough, however, this trend was reversed and both dollar and pound went into rapid decline. Sterling was sold, in particular, from a host of Middle East banks. The late morning saw a further, general wave of selling, sparked, it seemed from Scandinavia, and the pound dipped as low as 2.1508. Profit-taking, allied with some commercial demand, brought a recovery to 2.1612 early this afternoon but American selling caused a relapse to 2.1520 before the close came at 2.1545. Forward margins were little changed. Three months' cover cost 1½% p.a. and sterling's intrinsic discount was ½%.

Sterling lost ¾% to the French franc (8.95) and ½% to each of the Swiss franc (3.39½) and the deutschemark (3.81½). The EMS realignment naturally took the Danish krone (5.1420) to the top of the band - and at -75 on the divergence indicator - and the deutschemark (1.7704) towards the bottom. However, the Belgian franc (28.48) continued to prop up the system as many dealers felt the adjustment to be insufficient. The Belgians sold \$83 mn. of Danish kroner while the Danes bought \$5 mn. of Belgian francs. The band was well-stretched at the close. Otherwise, the guilder and French franc remained together a little above the mark. The French recouped \$100 mn., though their franc eased slightly to 4.1540; the DM cross-rate improved to 2.34½. The Bundesbank sold \$17 mn. (On Friday, the Federal Reserve had bought \$107 mn. against marks.) The lira slipped within the 2½% margins for a while but the Italians sold \$70 mn. and it closed at 807.45, 2½% above the floor. The Irish sold a further \$38 mn. and \$20 mn.-worth of sterling and the punt (2.1242 - 1½% discount on sterling) rose above the mid-point of the band. Elsewhere, the Swiss bought \$95 mn., although their franc eased to 1.5769. Against the mark it was a touch softer. The yen weakened to 222.85 in London. Japanese markets were closed.

Gold firmed in the Far East over the weekend but saw little activity this morning. The fixing, however, saw very heavy turnover and set a level of \$377. This afternoon found the price somewhat firmer, although volume was again somewhat subdued. The fixing was \$380.40, a new record.

Operations:	Market	- \$15 mn.
	IDA	+ 11
	Interest	+ 6
	Mauritius	+ 5
		<u>+ \$7 mn.</u>
	Overnight	<u>+ \$7 mn.</u>

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