

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 9th May 1979

Sterling encountered some healthy two-way activity this morning but retreated this afternoon in the wake of the Banking Statistics. The yen continued its recovery behind Morinaga's vocal support. Sterling's ERI eased to 66.7.

The pound closed better at 2.0698 in New York yesterday but opened rather nervously at 2.0675 this morning. A clutch of small sellers soon appeared from the Continent, keen to resume yesterday's trend, and sterling fell in short order to 2.0635. At the lower levels, however, good buying interest developed, both from London and abroad, and the pound recovered as quickly to 2.0693. A well-balanced market then developed around the opening level and this persisted into the afternoon. The Banking Statistics were not well received and sterling traded swiftly down to 2.0633 before steadying to close at 2.0644. Forward margins widened a touch. Three months' cover cost $1\frac{1}{2}\%$ p.a. and the adverse covered differential was $\frac{1}{4}\%$.

Sterling shaded fractionally lower against the deutschemark (3.91 $\frac{1}{2}$), Swiss franc (3.53 $\frac{1}{2}$) and French franc (9.03 $\frac{1}{2}$). Only the yen moved markedly against the dollar, firming to 214.75 in Tokyo (after 216.40 and official sales of \$66 mn.) and 213.07 in London. This followed Morinaga's assertion that the yen was undervalued at current levels. The Belgian franc (30.31) and Danish krone (5.3322) continued to bracket the slimmer snake which was barely 2% in width at the close. The lira (846 $\frac{1}{4}$) was 4 $\frac{1}{2}\%$ above the franc; the Italians took in \$50 mn. On the divergence indicator, the Belgian franc moved out to 83. The punt (2.0007) closed at a discount of 3 $\frac{3}{16}\%$ on sterling. The deutschemark (1.8962), French franc (4.3755) and Swiss franc (1.7135) were all barely changed.

Gold recovered gradually throughout the day from yesterday evening's depressed levels. Fixings were \$247.00 and \$247.95.

Operations:

Market	- \$7 mn.
Ireland	+ 21
Interest	+ 9
British Gas	+ 5
(PSB G'teed)	
Bangladesh	- 10
	<hr/>
	+ \$18 mn.
	<hr/>
Overnight	- \$4 mn.
	<hr/>

JGH
9th May 1979.

J.G.H.