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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st May 1979

The new week began as the old had finished. The dollar made further strides and met further stiff Central Bank resistance. Gold paradoxically leapt to new unprecedented heights. Sterling again struggled to keep a brave face and finished a scrappy day somewhat easier. The ERI fell from 66.8 to 66.6.

The pound closed at 2.0515 in New York on Friday and opened this morning at 2.0485. Before long, all currencies began giving ground to the dollar and sterling retreated, not without some professional selling from the Continent, to a low of 2.0393 in mid-morning. By early afternoon, the pound had recovered to around 2.0425 on some cheap buying interest and, when returning Americans viewed the dollar as a little too expensive, sterling improved further to 2.0450 before easing back late in the day to close at 2.0423. Business was at a low level throughout the afternoon. Three months' forward cover cost an unchanged $1\frac{1}{8}\%$ p.a. and the intrinsic discount was $\frac{1}{8}\%$.

Sterling lost $\frac{1}{8}\%$ to both the Swiss franc (3.55 $\frac{1}{2}$) and deutschemark (3.92 $\frac{3}{8}$) and was a fraction easier also against the French franc (9.09 $\frac{1}{8}$). All three were heavily supported. The Swiss sold \$343 mn. (of which only \$19 mn. were for capital exports) and swapped in \$450 mn. The Bundesbank sold \$195 mn. (following Federal Reserve sales of \$82 mn. for marks on Friday). The Swiss franc eased to 1.7403 and the deutschemark to 1.9210 (after 1.9255). Partly no doubt in response to the continuing official support, the deutschemark moved up to the top of the snake, closing 2 $\frac{3}{8}\%$ above the Belgian franc (30.84). The franc finished at 90 on the divergence indicator. The Belgians sold \$18 mn. and deutschemarks equivalent to \$2 mn. while the Dutch sold \$10 mn. The French franc (4.4514) was the most pressured, however, and the authorities sold \$45 mn. and \$60 mn. of marks as the cross-rate eased from 2.31 $\frac{1}{8}$ to 2.31 $\frac{3}{8}$. The lira closed only 4 $\frac{1}{8}\%$ above the floor of the band, after the Italians had bought in \$50 mn. The punt (1.9625) was at 4 $\frac{1}{16}\%$ discount on sterling. In Tokyo the yen closed at 219.30 and in London at 218.85 (after 220.10). The Japanese sold \$42 mn. in New York on Friday and a modest \$18 mn. this morning.

Gold cleared the \$260 hurdle in the Far East this morning and went on to set successive new record fixing levels of \$261.05 and \$262 before trading up to \$263.75.

Operations: Market	- \$10 mn.
Ireland	+ 20
India	+ 10
IDA	+ 5
Sundries	+ 3
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	+ \$28 mn.
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