

SECRET

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FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 23rd May 1979

Last night's promises by the Chancellor on public spending took sterling out of the doldrums and, with a following wind from New York, the pound notched some useful gains. Yesterday's news of a sharp fall in US durable goods orders carried the dollar higher but, after further official sales, it lost ground when New York opened. The snake remained perplexed. Sterling's ERI improved from 66.7 to 67.1.

Volume remained modest this morning when the pound opened at 2.0445, having ended higher at 2.0475 in New York yesterday. 2.0488 was paid on the Continent for sterling in the early exchanges but the rate climbed no higher through a quiet morning. Sterling was well bid, however, this afternoon, both from the familiar European professionals and also from returning Americans. The pound soon topped 2.0550 and, as the dollar lapsed later, touched 2.0586 before closing at 2.0580. Forward discounts edged lower and, with the cost of three months' forward cover at  $1\frac{1}{4}\%$  p.a., sterling's intrinsic discount was eliminated.

Pounds were  $\frac{1}{8}\%$  better bid at the close against each of the principal rivals in Europe - the Swiss franc (3.57 $\frac{1}{2}$ ), French franc (9.14 $\frac{1}{8}$ ) and, in lead position still in the snake, the deutschemark (3.94 $\frac{1}{2}$ ). All showed no marked change on the dollar at 1.7375, 4.4440 and 1.9172 following continued sales by the Swiss (\$159 mn.), French (\$21 mn.) and Germans (\$100 mn.) who extended the mark's margin over the Belgian franc (30.83) to a full 2 $\frac{1}{2}\%$ . Most others, too, were active. The Danish, Dutch and Belgian Central Banks found it necessary to sell \$72 mn. and \$49 mn.-worth of marks between them. With the lira (856.90) 4 $\frac{1}{8}\%$  off the floor, the Italians bought \$20 mn. The ailing yen closed at 219.90 in Tokyo and 219 $\frac{1}{2}$  here; the Bank of Japan lost \$54 mn. The punt (1.9675) was at 4 $\frac{1}{8}\%$  discount on sterling.

Extreme nervousness assailed the gold market and prices moved uncertainly, showing no firm trend. Fixings were lower at \$264.40 and \$264.15.

Operations:	Market	+ \$68 mn.
	Iraq	+ 10
	Bangladesh	- 10
	Sundries	+ 5
		<u>+ \$73 mn.</u>

*JGH* 23rd May 1979.

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(with apologies to DAHB - il miglior fabbro)