

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 31st May 1979

The unexpectedly large U.S. trade deficit for April took the shine off the dollar today, as dealers began to open positions for the new month. Some ground was recovered later, however, following further indications of a slowing economy. Sterling was very firm with the N.I.E.S.R. report proving at least a disincentive to sellers. The ERI advance to 67.4.

The pound opened at 2.0675 this morning and met some good two-way business trading up to 2.0695 and back to 2.0639 as the dollar recovered from somewhat depressed opening levels. This afternoon, however, sterling ran into strong demand even before New York returned from a day's holiday. The pound quickly scaled 2.07 and, despite a steady dollar, advanced strongly to 2.0750 before closing at 2.0720. Three months' cover again cost 1 1/4% p.a. and interest parity once more prevailed.

Sterling gained almost 1/4% against the deutschemark (3.95 1/4) and French franc (9.14 1/2) but was little changed against the Swiss franc (3.57 1/8). The Swiss sold \$45 mn., mostly for capital exports, and swapped in \$400 mn.; their franc closed at 1.7237. The deutschemark closed at 1.9076 following a 1/2% increase in Lombard Rate by the Bundesbank to 5 1/2%. The snake was fully-stretched for much of the day. The Germans bought \$7 mn.-worth of Belgian francs and the Belgians sold \$56 mn.-worth of marks. Their franc closed at 30.64 and was 90 on the divergence indicator. The Danish krone (5.48 1/2) closed only 1/4% off the floor. The lira (854 3/8) was 4 3/8% off the base and the Italians took in \$15 mn. The French bought \$19 mn.; their franc was 4.41 3/8. The punt (1.9757) was at 4 7/8% discount on sterling.

Gold was again a frenetic market. Having traded up to a record \$279 this morning, it was fixed at a record \$277.15 but then traded off and was fixed at \$274.50 this afternoon.

Operations: Market	+ \$38 mn.	
B.I.S. o/a	- 62	(for May)
Nigeria		
I.D.A.	+ 7	
Sundries	+ 3	
	<u>- \$14 mn.</u>	

The result for May is a reserve increase of \$65 mn. to \$21,532 mn. after net public sector debt repayments of \$238 mn. The overbought forward position was reduced by \$222 mn. to \$1,335 mn.

JGH
31st May 1979.
J.G.H.