

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 1st June 1979

The impending Whit holiday on the Continent made for generally quieter conditions today, although sterling found some spirited supporters this morning before drifting back to opening levels this afternoon. The dollar improved modestly but the European Monetary System ran into ever deeper problems. Sterling's ERI improved to 67.6 (after 67.7 at noon).

The pound closed at 2.0685 yesterday in New York where the dollar was a good deal better. This morning sterling opened at 2.0705 and tended quietly firmer through the morning. Later there were two flurries of buying interest which took the pound to a peak of 2.0776 early this afternoon but from that point it eased steadily back to close at 2.0715 on little business. Forward sterling was steady. Three months' cover cost 1 3/16% p.a., giving interest parity again on the covered comparison.

Sterling gained 3/8% on the deutschemark (3.96%), rather more on the French franc (9.18%) and a full 1/2% on the Swiss franc (3.58%). The Swiss sold \$16 mn. against capital exports: their franc closed at 1.7325. The French franc was 4.4335 and the deutschemark 1.9160. Neither required support. The snake was heavily embroiled. The Belgians sold \$145 mn.-worth of marks. Their franc closed at 30.80, the full distance from the deutschemark. On the divergence indicator, however, it improved slightly to 89 as other currencies weakened. The Danish krone (5.5290) closed only fractionally above the franc and fell to 83 on the divergence indicator. The Danes sold \$52 mn. and marks equivalent to \$74 mn. The Bundesbank took in \$5 mn. of kroner and \$27 mn. of Belgian francs. The Dutch sold \$15 mn. with the guilder only 1% above the floor. The punt (1.9725) was at 5% discount on sterling. The yen closed at 221.40 in Tokyo and 221.20 in London.

Gold was firm this morning and fixed at \$276.70. This afternoon, a persistent seller held the price down and an active fixing set a level of \$275.10. Thereafter the market was quiet.

Operations:	Market	+ \$376 mn.
	Spot	+203
	Forward	+173
	India	+ 10
	Ghana	- 6
	Sundries	+ 3
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		+ \$383 mn.
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	Overnight	+ \$4 mn.
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*JGH*  
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