

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday 11th June 1979

Sterling was quietly firm throughout the day, with dealers generally unwilling to face the budget short of pounds. The latest CGBR and Wholesale Price Index did little to change the mood. The dollar improved a shade on the back of sterling. The ERI rose to 67.3.

The pound closed comfortably at 2.0642 in New York on Friday. This morning it began at 2.0652 but soon tended lower. Around 2.0615 some good two-way business was transacted which left the bulls in the ascendancy until a large professional came in to sell sterling down again. 2.0602 was the lowest level seen and from there sterling quietly regained its poise, eventually regaining the opening level as positions were covered. Early this afternoon some modest professional demand was forthcoming from some who evidently felt over-exposed ahead of the budget. Sterling traded up to 2.0675 and remained in the higher reaches through a quiet afternoon before closing at 2.0666. Three months' cover again cost 1 7/16% p.a. and this yielded a small intrinsic premium for sterling on the covered comparison.

The pound gained a further 1/8% on both the Swiss franc (3.57 3/4) and deutschemark (3.95 1/8) but rather less against the French franc (9.14). The Swiss sold \$16 mn. (of which half was for capital exports) as their franc eased back to 1.7323 but the Bundesbank were idle as the deutschemark fell in line to 1.9122. The French franc was barely changed at 4.4227. The Belgian franc (30.72) supported a fairly well-stretched snake through the day and the Belgians sold \$20 mn. and \$48 mn.-worth of deutschemarks. The lira (853.60) was 4 5/8% above the floor. On the divergence indicator the Belgian franc was 88 and the Danish krone 79. The punt (1.9732) improved to 4 3/4% discount on sterling. The yen closed at 218.80 in Tokyo and 218.82 in London.

Gold set new records this morning trading up to \$283 before fixing at a new high of \$282.40. This afternoon's session set a level of \$282.35 with no definite trend emerging and the tendency still for profits to be taken.

Operations:	Market	+ \$8 mn.
	Post Office	+ 5
	(PSB G'teed)	
	Interest	+ 5
	Sundries	+ 5
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		+ \$23 mn.
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Overnight + \$12 mn.

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