

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 12th June 1979

The radical nature of the budget proved much to the market's liking, and, with the monetary measures particularly encouraging, sterling was widely bought. The dollar firmed at first with sterling but wilted later under the pressures of the flows into London and closed little changed. Sterling's ERI advanced from 67.3 to 68.0.

The pound continued wanted in New York yesterday and closed there at 2.0715. Today it began at 2.0685 and traded around 2.07 for much of the morning on fair, two-way business. Later, some more positive interest from Continental Europe took sterling higher and early this afternoon 2.0765 was paid for pounds as early New Yorkers combined with good Swiss and Scandinavian demand to boost the rate. By the time the Chancellor announced the 2% increase in M.L.R., sterling had eased to 2.0741 but from then on the market's enthusiasm was fired. The pound surged strongly forward on widespread and sizeable demand, pausing only at 2.0880 before the close was taken at 2.0870. Later business was seen up to 2.0950 but at the very end of the day, sterling was trading around 2.09. Forward margins were marked sharply wider in response to the increase in M.L.R. Three months' cover cost 2% p.a. at the close, but, with sterling deposit rates having adjusted rather more so, this left a notional intrinsic premium for sterling of over 1%.

The pound gained 1% on the deutschemark (3.99 1/4), 1 1/8% on the Swiss franc (3.61 7/8) and almost 1 1/4% on the French franc (9.24 7/8). These all closed a little easier against the dollar at 1.9130, 1.7344 and 4.43 1/8 respectively. The Bundesbank sold \$30 mn. and the Swiss \$10 mn. (in addition to swapping in \$250 mn.). The snake was again well-stretched with the Belgian franc (30.75) again on the base throughout. The Belgians sold \$25 mn. and deutschemarks equivalent to \$36 mn. The Danes sold \$9 mn. On the divergence indicator the Belgian franc was 88 and the Danish krone 78. The punt (1.9717) moved out to 5 7/8% discount on sterling. The Japanese yen closed at 219.40 in Tokyo and 219.57 in London.

Gold encountered substantial profit-taking both at the morning fixing - which set a level of \$278.90 - and later when New York opened. Following the afternoon fix (\$277.75) the price stabilised.

Operations:	Market	+ \$66 mn.
	Ireland	+ 42
	Iraq	+ 37
	Interest	+ 5
	Post Office	+ 2
	(PSB G'teed)	+ 2
	BIS o/a Nigeria	- 21
	Sundries	+ 1
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		+ \$132 mn.
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	Overnight	+ \$13 mn.
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*JG* 12th June 1979.

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