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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 22nd June 1979

The dollar took another battering today despite substantial support in some quarters. Indeed, perhaps for this very reason, attention was now turned on the once hapless yen, which turned in the day's best performance and in this, as in other areas recently, there were distinct signs of Middle East diversification. Sterling, though still firm, failed to keep pace with the front-runners and the ERI came back from yesterday's 68.9 to 68.6.

The pound closed firmer at 2.1460 yesterday in New York where the dollar was again weaker. This morning sterling began at 2.1425 and met a high volume of two-way business in the opening hour. The pound was traded down to 2.1408 but, as the dollar began to weaken elsewhere, sterling picked up quickly and touched 2.1470 before first signs of central bank support for the dollar brought a turn. Thereafter, sterling traded steadily through the day in a narrow band around 2.1450. A large selling order early this afternoon was readily absorbed but trading in sterling was otherwise relatively subdued and the pound closed at 2.1435. Three months' cover cost 3 1/8% p.a. and this produced interest parity on the covered comparison.

Sterling lost 1/4% to the deutschemark (3.97 1/8), 1/2% to the French franc (9.19 5/8) and 5/8% to the Swiss franc (3.53 1/8). The Swiss National Bank bought a further \$164 mn. late yesterday before adding \$314 mn. to this sum today. Their franc closed at 1.6472, over 11% premium on the deutschemark. The Bundesbank took in only \$71 mn. today (following Federal Reserve purchases of \$520 mn. for marks yesterday) and the mark advanced to 1.8526. The dollar's decline began in Paris with a large conversion order into French francs. The Bank of France took in \$98 mn. in response to this but sold \$35 mn. of marks to maintain the franc's improvement in the cross-rate. This closed at 2.31 5/8, while against the dollar the franc was 4.2905. The Dutch, too, sold \$8 mn. of marks and the Danes lost \$8 mn. and \$11 mn. of marks. Their krone (5.3420) was at the tail of the snake throughout. The punt (2.0350) was at 5 3/8% discount on sterling. The yen closed at 217.80 in Tokyo and was relatively sluggish through the European morning. Later, however, it ran into speculative demand from Middle East and Swiss sources and this sparked further interest from New York and the Chicago I.M.M. The yen closed here at 215.50.

Gold was a little hesitant this morning, fixing at \$281.95, but met strong demand once New York opened. The afternoon fixing set a record \$283.45 and subsequently traded up to \$284 before closing back at \$282.

Operations:	Market	+ \$12 mn.
	Government	- 37
	I.D.A.	+ 7
	Sundries	+ 3
		<u>- \$15 mn.</u>

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