

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday 26 June 1979

The dollar staged a strong technical recovery today, spurred by Blumenthal's timely announcement that the U.S. aims to achieve a sharp reduction in oil imports. Sterling retreated without any panic and suffered somewhat less than other major currencies. The ERI finished the day unchanged at 68.9, having posted a record 69.1 this morning.

The pound closed at 2.1584 in New York yesterday and opened at 2.1575 this morning. Good general demand for pounds took the rate to 2.1670 on the early exchanges - another four year high. At that juncture however, Blumenthal's comments hit the newswires and the dollar turned sharply. Sterling eased quickly, but without any problem, and had fallen over two cents before midday. Early this afternoon, the pound traded briefly down to 2.1315 but, with New York showing little interest, sterling staged a partial recovery over the rest of the day and closed at 2.1515. Forward margins widened, the three months to 3½% p.a. discount; this left an intrinsic discount of 1/4%.

The pound gained 3/4% against the Swiss franc (3.57 5/8) and nearly 1/4% on the deutschemark (3.98) but was barely changed against the French franc (9.21 3/4). The Bundesbank sold \$50 mn. as the mark retreated to 1.8497. The Swiss sold \$87 mn. (and swapped in \$105 mn.) their franc came back to 1.6612. Yesterday the Federal Reserve bought \$91 mn. against marks. The snake was again little troubled, the Danish krone (5.3310) again finishing at the bottom. The Danes sold \$8 mn. of marks. The krone was 71 and the Belgian franc 81 on the divergence indicator. The punt (2.0365) was 5 5/8% discount on sterling. The yen closed at 215.60 in Tokyo and 215.70 in London.

Gold eased nervously in the face of the firmer dollar. Fixings were \$281.90 and \$281.45.

Operations:	Market	+ \$20 mn.
	Ireland	+ 22
	Interest	+ 11
	I.D.A.	+ 10
	Sundries	- 8
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		+ \$55 mn.
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JGH
27 June 1979
J.G.H.