

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday 27th June 1979

Judgement was suspended today pending the outcome of the OPEC meeting and the latest U.S. trade figures. Nonetheless, rumour was sufficient to reverse most of yesterday's rally for the dollar. Sterling traded comfortably in a relatively narrow range. The ERI rose slightly to 69.0.

The pound closed at 2.1447 yesterday in New York where the dollar continued to improve. This morning, however, the dollar opened easier and drifted down through the morning. Some evidence of diversification was still to be seen. Sterling opened at 2.1485, touched 2.1479 then advanced quickly, settling down around 2.1550 for the rest of the morning's trading. The pound was bid up to 2.1585 early this afternoon but, while the dollar continued to drift lower elsewhere, sterling marked time and eventually closed at 2.1560. Three months' cover cost 3 9/16% p.a. and the intrinsic discount for sterling was 5/16%.

The pound finished little changed against the Swiss franc (3.57½) and French franc (9.21½) and was only a touch easier against the deutschemark (3.97½). The Swiss bought \$38mn. and swapped in \$1,065mn. over the turn of the half-year as their franc firmed to 1.6587. Otherwise Central Banks were largely idle (the Dutch selling a mere \$11mn.). The mark was 1.8437 and the French franc 4.2760. The Danish krone (5.3217) closed at the bottom of a well-stretched snake, though no intervention was necessary. The lire (832.95) was 3½% above the floor. The punt (2.03½) was at 5½% discount on sterling. On the divergence indicator, the Danish krone was 76 and the Belgian franc 84. The yen closed at 216.40 in Tokyo and 216.30 in London.

Gold was subdued and advanced reluctantly against the dollar. Fixings were \$281.00 and \$281.80.

Operations:	Market	+\$48mn.
	PSB (G'teed)	+28
	British Air	+25
	Post Office	+3
	Ireland	+22
	India	+11
	Australia	+7
	Sundries	-7

+\$109mn.

Overnight: +32

JGH 28th June 1979.

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