

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 6th July 1979

Profit-taking took sterling down sharply this morning, and the rate dropped further in late afternoon on a rumour that exchange controls are to end. The effective index fell 0.3 from Thursday's close to 70.8, having opened at 71.3. After a weak start, the dollar gained on the day in most centres without support.

Having weakened against a better dollar in late trading on Thursday, sterling recovered to 2.23½ in New York and opened around that level in London. At first it traded up to 2.24½, although on little business; but profit-takers, at first professional but soon joined by others, drove the rate down steadily over the rest of the morning. 2.22½ was the low point, and, the sellers satisfied, sterling traded quietly between that level and 2.22½ for most of the rest of the day. Just before the official close, however, it was rumoured that exchange control will be abolished this weekend, and the rate fell sharply to 2.2155 before recovering to close at 2.2182. The cost of forward cover edged up to 3% but the covered premium in favour of London remained 1/16%.

Sterling lost ground to the main continental currencies, falling about ½% against both the mark and the French franc, to 4.06½ and 9.46 respectively. Although last night's US money supply figures were as expected flat (and the Fed bought a mere \$11 mn.) the dollar was generally weaker this morning but strengthened during the afternoon perhaps helped by only modest growth in producer prices. Over the day, the mark lost about ¼% to 1.8335, but remained comfortably top of the 2½% band in the snake at 2 1/16% above the Belgian franc (29.43, and 75 on the divergence index). The Belgians sold \$40 mn. and \$12 mn.-worth of marks. The Danes gave their krone (5.2682) only a modicum of support. The guilder softened to 2.0210, without intervention; the French, however, although higher in the snake, sold \$67 mn.-worth of marks. Their franc closed at 4.2647 (2.32% against the mark). The lira (823½) remained in top place, 3½% above the Belgian franc. The Irish pound (2.0587) improved slightly to 7½% discount against sterling. The central bank sold £5 mn. Outside the snake, the Swiss franc (½% down at 1.6555) and the yen (217.20 after a Tokyo close of 217) were quiet.

Gold set records, fixing at \$290.20 and \$290.25 on substantial turnover. It traded as high as \$291.10 during the morning.

Operations:	Market	- \$13 mn.
	EEC	- 58
	India	+ 22
	Interest	+ 8
	Iran	+ 5
	Sundries	+ .7
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		- \$29 mn.
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	Overnight	- \$13 mn.
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