

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 17th July 1979

Sterling again rocketed skywards today with heavy demand especially from New York, with a prominent Middle East flavour. Elsewhere, the dollar remained weak but there were few other features. Gold set new records. Sterling's ERI closed at a new high of 72.1.

The pound was in strong demand in New York yesterday and closed at 2.2565. This morning it began at 2.2497 and soon recovered the overnight level as the dollar turned down again. Demand for sterling was reasonable and 2.2640 was paid but, once the market sensed official support for the dollar, rates turned tail and sterling ran into some commercial selling before setting around 2.2590 for the rest of the morning. With the return of New York, however, the pound moved ahead and strong demand once again emerged. Rumours of Middle East interest, following receipt of recent ore royalties, were rife. Sterling surged ahead to 2.2755 - a new four-year high - before closing at 2.2730. Three months' cover cost 3 1/16% p.a. and this left a small intrusion premium for sterling.

The pound gained 1/2% against the Swiss franc (3.70 3/4), 3/4% against the French franc (9.59 3/8) and 7/8% against the deutschemark (4.11 1/2) which, as often, bore the brunt of the dollar's official support. The Federal Reserve sold marks equivalent to \$373 mn. yesterday and this morning the Bundesbank bought \$50 mn. The Fed. returned to the fray from an early hour. The month advanced to 1.8104, the Swiss franc to 1.6312 and the French franc to 4.2207. The Bank of France sold a further \$30 mn. worth of marks and the franc improved against the mark to 2.44 1/8. Otherwise the snake went untroubled and the Danish Krone (5.2122) and deutschemark spanned a 2%-wide band at the close. The lira (816 3/8) remained around 3 1/2% above the floor. The punt (2.0892) was at 8 3/4% discount on sterling. In Tokyo, the yen closed at 216.80 and in London at 216.25.

Gold opened very strongly and, despite some later profit-taking, set a new record fixing level of \$296.50 this morning. The New York market opened very weakly, with talk of massive liquidation orders in the wings. The price held up well, however, and was fixed this afternoon at \$296.30. Later still, the metal was bid sharply higher and touched \$298.75 just before the close.

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|-------------|---------------|---|-------------|
| Operations: | Market | + | \$96 mn. |
| | FRB o/h India | - | 23 |
| | Bangladesh | - | 29 |
| | Government | - | 11 |
| | Sundries | - | 1 |
| | | | <hr/> |
| | | + | 578 mn. |
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