

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19 July 1979

Sterling was again the sole feature in an otherwise unusually featureless market. Further strong demand from the US and Middle East carried the pound to new high levels. The ERI closed at 72.8.

The pound was bid back up to 2.2940 in New York yesterday. This morning the pound opened at 2.2877 and, having touched 2.29, began to ease back in little volume, eventually finding a bottom at 2.2820 late in the morning. Early this afternoon, a sizeable buying order from the Middle East took sterling up quickly through 2.29 and, when New York returned, further substantial demand was generated. The pound advanced steadily and set a new four-year high of 2.3040 just before closing at 2.3005. Afterwards, rumours of an increase in the US Discount Rate sent sterling lower. Forward margins continued to narrow slightly. Three months' cover cost 2 13/16% pa. and this gave sterling an intrinsic premium of 1/4% on the covered comparison.

The pound gained 7/8% on the deutschemark (4.15 1/4), nearly 1% on the French franc (9.68) and slightly over 1% on the Swiss franc (3.75 1/4). The dollar had a better day, opening firmer and drifting quietly back to yesterday's levels. No support was given in Europe, although the Federal Reserve yesterday bought a further \$386 mn. against deutschemarks. The deutschemark was unchanged at 1.8053 and the French and Swiss francs were each a shade easier at 4.2080 and 1.6314 respectively. The snake was again very relaxed. The Belgian franc (28.86) fell to the bottom of the band which was 1 5/8% in width. The lira (813.55) slipped to within 3 1/8% of the floor. The punt (2.0922) stood at almost 10% discount on sterling. The yen closed at 214.90 in Tokyo and 215.05 in London.

Gold was quiet and drifted lower. Fixings were \$300.10 and \$299.15.

Operations:

Market	+ \$74 mn.
FRB o/a India	+ 23
Iraq	+ 18
Interest	+ 5
Bangladesh	- 11
Sundries	+ 1
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	<u>+ \$110 mn.</u>

20 July 1979.

J.G.H.