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MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 15th August 1979

Sterling was in good demand again, at least until clear signs of tighter monetary policy switched attention to the dollar. The ERI closed unchanged at 71.2 after 71.3 at noon.

Having closed at 2.2365 in New York, sterling opened to-day at 2.2322 and traded down to 2.2307 before renewed buying interest from the Continent brought a recovery to 2.2415 in the late morning. Buyers returned in some force during the early afternoon, led by one East European, and the pound advanced to 2.2471 before profit-taking brought an orderly retreat to 2.2320 at the close. The cost of cover fell to 2½%, eliminating the intrinsic discount on sterling despite higher euro-dollar rates.

Sterling gained a touch on the mark, to 4.09½, but was unchanged in France at 9.51½. After a slightly weaker start, the dollar gained across the board this afternoon when it became clear that the Fed. have tightened monetary policy following yesterday's FOMC meeting. Some major banks raised prime rate to 12%. The mark closed at 1.8336 (after 1.8285), remaining top of the narrow band in the snake at 2% above the Danish krone (5.2812, and 73 on the divergence indicator). The Danes sold \$6 mn. The Assumption Day holiday made for quiet trading in many continental currencies. The French franc closed at 4.2637 and the lira, overall top of the snake, at 818.60, 4½% above the krone. The Irish pound improved slightly to 2.0577, a 7½% discount on sterling. The Swiss franc eased to 1.6590; the yen closed at 216½ in Tokyo and later at 216.90 in London.

Gold fixed at \$300½ and \$301.85 on heavy turnover, but later fell back in untidy trading.

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|-------------|----------------|-------------|
| Operations: | Market | + \$23 mn. |
| | Post Office | + 4 |
| | (PS borrowing) | |
| | Nigeria | - 45 |
| | Ghana | - 10 |
| | Sundries | + 1 |
| | | <hr/> |
| | | - \$27 mn. |
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