

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 21st August 1979

Only a spell of selling this afternoon disturbed sterling's peace. The ERI fell by 0.3 to 70.6. Other currencies were quiet, but gold rose sharply in late trading.

In New York sterling failed to hold the gains of yesterday afternoon, and closed at 2.2145. It opened this morning at 2.2177, but there was very little business and the rate idled between 2.21½ and 2.22 until lunchtime. One substantial but unidentified seller broke the calm of the August afternoon, leaving the market slightly uneasy. Sterling closed at 2.2125 after 2.2115. The cost of forward cover eased to 2 7/16%, but there was no further rise in euro-dollars and the intrinsic discount on sterling narrowed to 1/16%.

Sterling slipped back on the Continent, to 4.05½ against the mark and 9.43½ in Paris. The dollar was steady in most centres. The mark closed at 1.8322 after a 0.7% rise in wholesale prices, still top of the 2½% band in the snake at 2% above the Danish krone (5.2767 and 72 on the divergence indicator). The French franc receded to 4.2632; the lira, on the other hand, improved slightly to 818½, another \$27 mn. having been taken into the reserves. The Irish pound was supported to the tune of £9 mn. before closing at 2.0532, a 7½% discount on sterling. The Swiss franc closed at 1.6584 and the yen at 217.65, the same as in Tokyo. The Canadian dollar firmed on expectations of a rise in bank rate.

Gold fixed at \$298.90 and \$300½, before rising to \$305½ in hectic trading late in the afternoon.

Operations:	Market	+ \$7 mn.
	Iraq	+ 22
	Sundries	+ 4
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		+ \$33 mn.

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