

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 24th August 1979

The pound ended the week on a firm note, helped by some late demand in advance of the long weekend. The ERI rose to 71.2. Elsewhere the dollar was easier after the latest CPI increase. The gold rush continued.

In New York yesterday sterling closed at 2.2275. After an opening quotation in London this morning of 2.2260 it eased in extremely quiet conditions to 2.2234 in mid-morning. As buying activity picked up during the afternoon, the rate topped out at 2.2368 before closing at 2.2335. Forward margins narrowed further, to 1 13/16% p.a. for three months, leading to a rise in the covered premium (in London's favour) to 3/16%.

Sterling gained further ground in Europe, rising to 4.08½ in Germany, 9.50½ in France and 3.69½ in Switzerland. The deutschemark strengthened to 1.8274 and the Danish krone to 5.2662 (still at 75 on the divergence indicator) leaving the system 2 1/16% wide. The Germans bought \$25 mn. The cross-rate between the deutschemark and French franc threatened the 2.33 level and the Bank of France sold \$19 mn. of German currency, the franc closing at 4.2570/2.3295. The lira firmed up to 816.90, the punt to 2.0620 (7½% discount) and the Swiss franc to 1.6536. The Japanese intervened for the first time in two months, selling \$44 mn. in Tokyo, where the yen closed at 219.30. It was little changed in London tonight at 219.22.

Successive record fixing prices were set for gold in London. After trading up to \$315.50 this morning it was fixed at \$314.70. Although easing later, it then clung to silver's lining as the white metal breached 1,000 cents an ounce for the first time: and the price for the yellow metal at the second fixing was \$314.75.

Operations:	Market	+ \$26 mn.
	NCB (PSB)	+ 75
	Interest	+ 7
	Ghana	- 7
	Sundries	- 5
		<u>+ \$96 mn.</u>
	Overnight	<u>+ \$18 mn.</u>

24th August 1979.
DAHB

DAHB