

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 3rd September 1979

No hostilities broke out in the exchange markets today, the American Labor Day holiday helping the afternoon's peace along. Sterling retreated a little on balance, causing the ERI to slip back to 71.8.

There was some demand for pounds in New York on Friday evening, the rate rising to close the month at 2.2585. The new week began in London at 2.2530 but conditions were extremely quiet. After a low of 2.2469 this morning, sterling closed at 2.2489. The cost of three months' cover edged up to 2% and the covered comparison was at parity.

In Europe, the pound lost Friday's gains to close against the deutschemark at 4.10½, the French franc at 9.56½ and the Swiss franc at 3.72½. There was little easing of tension in the EMS, the Danish krone (5.26½) ending 2 3/16% away from the deutschemark (1.8253), with a divergence indicator of 79. It was the Belgians who intervened, however, selling German currency worth \$37 mn.: their franc closed at 29.25. The French sold \$9 mn. of deutschemarks, their franc ending a touch firmer at 4.2541. The Swiss franc closed at 1.6559, the lira at 816.65 and the punt at 2.06 (8¼% discount). The Japanese spent \$6 mn. this morning in Tokyo, the yen closing at 221.10.

Frantic dealing in gold brought new records at the successive fixings of \$319.30 and \$322.90. It closed yet higher, at \$323.25.

Operations:	Market	+ \$4 mn.
	Interest	+ 17
	EEC	- 5
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		+ \$16 mn.
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