

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 7th September 1979

On an otherwise dull day, the dollar finished the week in poor shape following further increases in US prime rates. Sterling closed near the day's best levels, although the ERI was unchanged at 71.5. The "snake" continued perplexed.

The pound closed at 2.2495 in New York yesterday and began the morning at 2.2477. The day was fairly featureless. Sterling dipped to 2.2435 this morning and recovered as quickly to 2.2495. This afternoon business was effected up to 2.2515 and sterling closed at 2.25. Forward margins narrowed in response to yet firmer eurodollar rates. Three months' cover cost $1\frac{1}{8}\%$ and the covered differential was $1/16\%$ against London.

Sterling was barely changed against the deutschemark ($4.07\frac{1}{2}$) and French franc (9.51) but lost $\frac{1}{8}\%$ to a very firm Swiss franc ($3.66\frac{1}{2}$). The Swiss franc was again unsupported and closed at 1.6295 to the dollar and 0.90 to the mark. The deutschemark advanced to 1.8106, the Bundesbank buying \$30 mn. Yesterday the Federal Reserve took in \$401 mn. against marks. The Belgian franc (29.09) and Danish krone ($5.23\frac{1}{2}$) closed at 75 and 77 respectively on the divergence indicator and both were heavily supported again. The Belgians sold marks equivalent to \$47 mn. and the Danes spent \$25 mn. and \$127 mn.-worth of marks. The Germans took in \$56 mn.-worth of Danish kroner. The French, too, sold \$14 mn. of marks and let the DM cross-rate ease towards $2.33\frac{1}{2}$. Against the dollar the French franc firmed to 4.2265. The lira (812.42) was $4\frac{1}{8}\%$ above the floor. The punt (2.0767) stood at $7\frac{1}{8}\%$ discount on sterling. The yen closed at 220.85 in Tokyo and five points cheaper in London.

Gold was again a chaotic market with wide and random fluctuations in the price the order of the day. Fixings were \$331.15 and \$329.15.

Operations:	Market	+ \$11 mn.
	Nigeria	- 45
	Sundries	+ 1
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		- \$33 mn.
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