

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th September 1979

The new week began on a dull note. The dollar started easier then held the lower levels comfortably throughout the day. Sterling enjoyed a quiet and steady morning but was marked down this afternoon even though the Wholesale Price Index was quite well taken. The ERI fell from 71.5 to 71.3.

The pound closed quietly at 2.2475 in New York on Friday. Opening this morning at 2.2501 it advanced to 2.2520 on the early exchanges before settling back to find a trading level for the morning at a little under 2.25. The Wholesale Price Index proved better than some had expected but New York returned as small sellers of sterling and, in an otherwise thin market, the pound fell quickly to 2.2450 before settling again to close quietly at 2.2466. Forward margins widened slightly, the three months' to 1 7/16% p.a. discount. This gave interest parity on the covered differential.

Sterling lost  $\frac{1}{2}\%$  to the deutschemark (4.05%) and French franc (9.47%) and fell  $\frac{1}{2}\%$  against the now buoyant Swiss franc (3.64%). The Federal Reserve bought \$220 mn. on Swiss account on Friday but the Swiss did not intervene today and their franc advanced to 1.6236 with the DM cross-rate falling through 0.90. For their own account, the US authorities took in \$235 mn. against deutschemarks, while the Germans bought a modest \$30 mn. today. The mark firmed to 1.8053. The snake was almost fully-stretched throughout but the Danish krone (5.2107) at the bottom required no support. The Belgians, however, sold \$74 mn.-worth of marks as their franc moved nearer the bottom of the band; it closed at 75 on the divergence indicator. The French, too, sold marks equivalent to \$93 mn., holding the cross-rate with the mark at 2.33 $\frac{1}{2}$ . Against the dollar, the franc firmed to 4.2153. The lira's premium continued to narrow and, at 811 $\frac{1}{2}$ , it closed a little over 4% above the Danish krone. The punt (2.0820) stood at 7 $\frac{1}{2}\%$  discount on sterling. The yen closed at 220.25 in Tokyo and 220.57 in London.

Gold rallied strongly in New York late on Friday and opened considerably firmer as a result this morning. Thereafter, however, dealings were somewhat lacklustre and the price moved within a narrow range throughout the day. Fixings were \$336.40 and \$336.30.

Operations:	Market	- \$1 mn.
	Interest	+ 8
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		+ \$7 mn.
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*JGH*  
10th September 1979.  
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