

SECRET

MR. McMAHON

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 11th September 1979

Most exchange markets continued in the doldrums today with little significant movement in rates. Sterling was a little soft this morning but later staged a modest recovery. The ERI closed unchanged at 71.3 after dipping to 71.2 this morning.

The pound closed at 2.2455 in New York yesterday. This morning, however, it was sold in the Far East by local banks and the opening level in London was 2.2390. Sterling drifted to 2.2383 on the opening exchanges but these levels prompted some cheap buying interest and 2.2440 was paid for pounds shortly after. Thereafter, the pound traded without feature around 2.2425, finishing the day at 2.2419. Three months' forward cover cost $1\frac{1}{2}\%$ p.a. and interest parity still prevailed on the usual comparison.

Sterling gained a shade only on the French franc (9.47 $\frac{1}{2}$) but was $\frac{1}{2}\%$ better on the deutschmark (4.06 $\frac{1}{2}$) and $\frac{1}{2}\%$ firmer against the Swiss franc (3.66). Central banks were rather less active. The Federal Reserve bought \$45 mn. for deutschmarks yesterday and the Bundesbank took in only \$9 mn. today. The deutschmark eased to 1.8113. The Swiss purchased \$26 mn. late yesterday but were idle today. Their franc weakened to 1.6323 against the dollar and 0.90 $\frac{1}{2}$ to the mark. The French franc closed lower on the dollar at 4.2270 but improved to 2.33 $\frac{1}{2}$ to the mark. The snake was rather less anguished than of late, though closing fully-stretched with the Danish krone (5.2290) in last place. The Danes sold \$9 mn.-worth of marks and the Bundesbank bought \$6 mn.-worth of kroner. The Belgians spent marks worth \$55 mn. On the divergence indicator, the Belgian franc finished at 75 and the Danish krone at 77. The lira (813.30) closed 4 $\frac{1}{2}\%$ above the base. The punt (2.07 $\frac{1}{2}$) was at 7 $\frac{1}{2}\%$ discount on sterling. The yen weakened further to 221.10 in Tokyo and to 221.40 in London.

Gold was generally firmer. After an indecisive morning, with the fixing level at \$338.65, the price advanced more surely this afternoon. The later fixing was \$339.50 and \$340 was breached again towards the end of the day.

Operations:	Market	- \$1 mn.
	Ireland	+ 22
	Sundries	+ 7
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		+ \$28 mn.
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	Overnight	- \$31 mn.
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