**The original documents are located in Box 8, folder "Economic - International Financial Developments: Malkiel Memos (2)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.**

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 25, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

As has been the case since the beginning of the year, foreign exchange market activity over the past month has been dominated by events taking place in Europe. The value of the U.S. dollar rose against most European currencies but weakened against the Swiss franc, the Canadian dollar and the Japanese yen. On balance, the trade weighted value of the dollar was little changed from its mid-May level, and during the current week was 14 percent above its value a year ago.

Sterling continued under very heavy selling pressure virtually throughout June, despite the agreement in principle between the government and the Trade Union Congress on the wage ceiling, a sharp increase in the Bank of England Minimum Lending Rate and substantial intervention by the Bank of England in May. Market concern over the substantially higher U.K. inflation rate compared with that in the U.K.'s major trading partners, however, continued and was one factor driving the sterling rate down to the historical low of $1.70 on June 3, a 16 percent devaluation since the beginning of the year.

The announcement on June 7 of the $5.3 billion financial support package initially caused a strong rebound in the pound which at one point the following day rose to $1.80. However, apparent feeling in the market that the credits could only prolong the time until appropriate measures are implemented in the United Kingdom caused pressure on the pound to resume quickly. Sterling fell back to slightly above $1.77 and was held at that rate for the following two weeks by major support operations by the Bank of England. The Bank sold almost $1.2 billion from June 7 to date and also has been engaging in a considerable amount of forward swaps with private participants in the foreign exchange market.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Wednesday morning the pound fell below \$1.77 reportedly on the basis of statements recently made by U.S. officials on the economic situation in the United Kingdom. The Bank of England intervened strongly bringing the rate again slightly above \$1.77, and has begun to draw on the \$5.3 billion credit line.

The value of the lira held rather steady this month -- around 853 to the dollar -- although there were some fluctuations during the election campaign. Since the election results were announced early this week, the value of the lira has moved up slowly, reaching 843 per dollar this morning. The Bank of Italy has been intervening moderately on both sides of the market this month, transactions which thus far amount to a very small net sale of dollars.

The Dutch guilder has been near the low intervention point against the DM within the European "snake" currency arragement since the middle of last month, when April's CPI increase of over 2 percent was released. Recently released trade figures for April showed a \$200 million deficit. This, together with other recent indicators, reenforced the view that the recovery is faltering, but inflation rates and imports are remaining high, and increased the pressure on the guilder. The Netherlands Central Bank has reportedly sold almost \$1 billion since mid-May in order to maintain the permissible 2-1/4 percent margin in the "snake," and has increased its discount rate on two occasions this month to its present level of 5 percent.

The Swiss franc has been extremely strong over the past few weeks and the Swiss authorities have instituted numerous measures in order to keep the rate from rising too strongly vis-a-vis the dollar and the DM. The discount rate was cut to 2 percent; exchange controls were tightened; and the central bank has encouraged the commercial banks to sell francs against marks and then loan the marks to the German government. In addition, over the past four weeks the Swiss National Bank has made a net purchase of about \$600 million, which brings net purchases since the beginning of the year to nearly \$1-1/2 billion.

The value of the Canadian dollar has been bid up this month by 1-3/4 percent against the U.S. dollar apparently because of continued Canadian borrowing in the U.S. market, increased demand for Canadian dollars by tourists who will be attending the Olympics and a recent statement of Governor Bouey of the Bank of Canada that the target range for Canada's monetary expansion soon will be reduced. The central bank has been actively intervening this week in an attempt to damp the rise in the Canadian dollar rate.

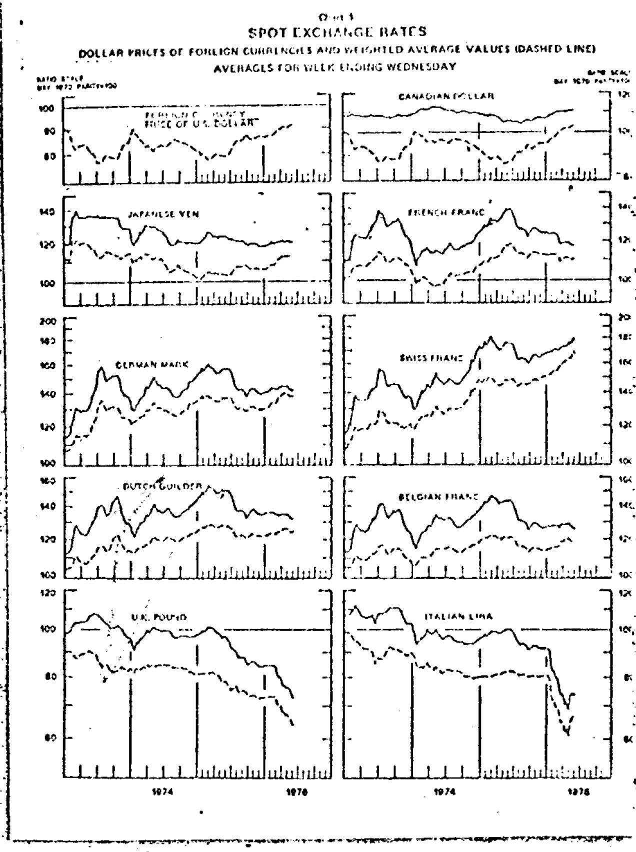
The price of gold was little affected by the IMF sale early this month and in fact had traded until this week within a very narrow range. About 20 percent of the total auction value of $92 million was taken up by the BIS, partly on behalf of the central banks of Switzerland and France. Gold was fixed this morning at $124.80, down $1.05 from last Friday's level.

Burton Malkiel

Burton G. Malkiel

Date: 6/24/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9638<br>¢ 103.76 | 3.8 | 2.9 | 2.1 |
| British Pound | .384<br>¢260.571 | .5644<br>¢ 177.19 | -32.0 | -31.8 | -32.4 |
| German Mark* | 3.222<br>¢ 31.032 | 2.5714<br>¢ 38.89 | 25.3 | 25.3 | 24.4 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4728<br>¢ 40.44 | 55.3 | 54.7 | 56.2 |
| French Franc* | 5.116<br>¢ 19.548 | 4.7348<br>¢ 21.12 | 8.0 | 7.8 | 8.3 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.7330<br>¢ 36.59 | 18.7 | 18.6 | 18.0 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.5070<br>¢ 2.5312 | 13.5 | 13.1 | 12.7 |
| Italian Lira | 581.500<br>¢ .172 | 844.5946<br>¢ .1184 | -31.2 | -31.7 | -31.0 |
| Japanese Yen | 308.000<br>¢ .325 | 297.1768<br>¢ .3365 | 3.5 | 2.9 | 2.6 |

* Currencies floating together relative to the U.S. dollar.

Date: 6/24/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.47 | -1.85 |
| LAST WEEK | -12.16 | -1.54 |
| 4 WEEKS AGO | -11.95 | -1.34 |
| 6 MONTHS AGO | -12.40 | -1.88 |
| YEAR AGO | -17.03 | -6.39 |

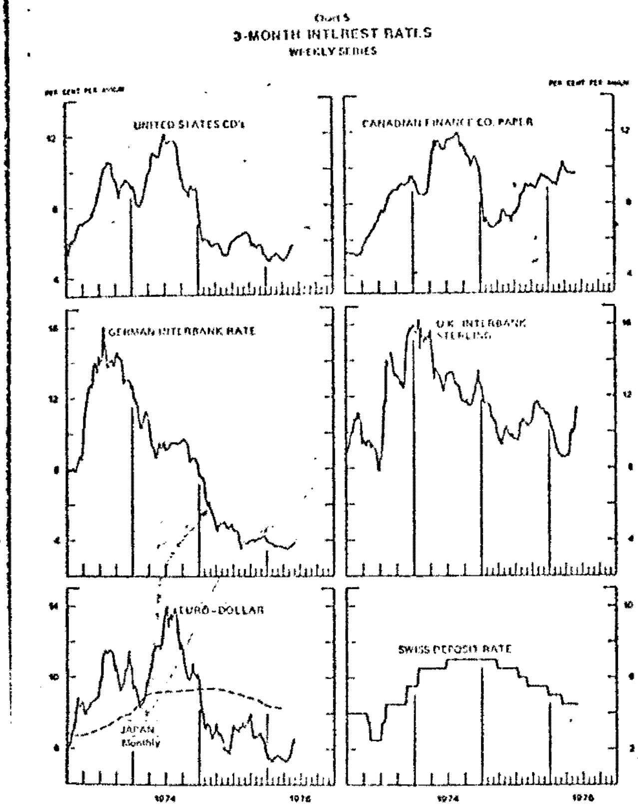
## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 124.50 | 255.7 |
| 125.85 | 259.6 |
| 125.50 | 258.6 |
| 140.50 | 301.4 |
| 164.50 | 370.0 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

Date: 6/24/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.80 | - | 5.80 | |
| Eurodollars | 90 Day Bank Deposit | 5.938 | - | 5.938 | |
| U.K. | Interbank Loan Rate | 11.25 | -7.51 | 3.74 | -2.06 |
| Canada | Finance Company Paper | 9.50 | -2.28 | 7.22 | +1.42 |
| Germany | Interbank Loan Rate | 4.20 | +1.89 | 6.09 | + .29 |

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

July 2, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

In the wake of the Puerto Rico Economic Summit, the British pound and the Italian lira strengthened considerably in exchange markets. Both the Bank of England and the Bank of Italy bought dollars during the week - the Bank of England a small amount and the Bank of Italy a very significant amount. The Netherlands guilder also strengthened during the week, partly because of a considerable rise in interest rates - 100 basis points as compared with last week and 225 basis points compared with four weeks ago. The yen moved fractionally higher, as the Japanese authorities - despite the considerable concern regarding their possible reluctance to let the yen appreciate which was expressed in Puerto Rico - bought a small amount of dollars on Tuesday (the day after the Summit), their first intervention since the beginning of May. As a result of these exchange rate movements coupled with a continued strengthening of the Swiss franc, the trade-weighted value of the dollar fell by 0.3 percent over the week.

The recent firming of sterling - aside from the effect of the earlier heavy support purchases by the Bank of England and the large volume of forward swaps engaged in by the Bank of England - may in part reflect a growing conviction that the authorities may be prepared to tighten up on public expenditures before the end of the year. The lira, which had already been firming after the election results became known, was given further support by reports that financing aid for Italy had been discussed at the Summit. Confidence in the lira apparently was not affected by the fact that it now appears virtually certain that no formation of a government will be possible before mid-August at best.

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The extreme pressure on the Netherlands guilder that was evident over the past few weeks eased and the guilder was replaced at the bottom of the "snake" currency arrangement by the Belgian franc. The strengthening of the guilder is apparently in large part due to higher Dutch interest rates, as the 3-month interbank rate has climbed to 8-1/4 percent from 7-1/4 percent one week ago and 6 percent last month.

The price of gold was fixed at $122.80 yesterday afternoon, its lowest level in 2-1/2 years, and $1.00 below last Friday.

The U. S. merchandise trade balance(census basis) registered a $396 million surplus in May, compared with a $202 million deficit in April. The large swing was primarily due to a sharp decline in imports of petroleum and petroleum products rather than to a change in underlying trends.

Burton Malkiel

Burton G. Malkiel

Date: July 2, 1976

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.64 | -2.01 |
| LAST WEEK 6/25 | -12.52 | -1.89 |
| 4 WEEKS AGO 6/4 | -11.73 | -1.11 |
| 6 MONTHS AGO 7/2 | -12.32 | -1.79 |
| YEAR AGO 7/3 | -16.32 | -5.69 |

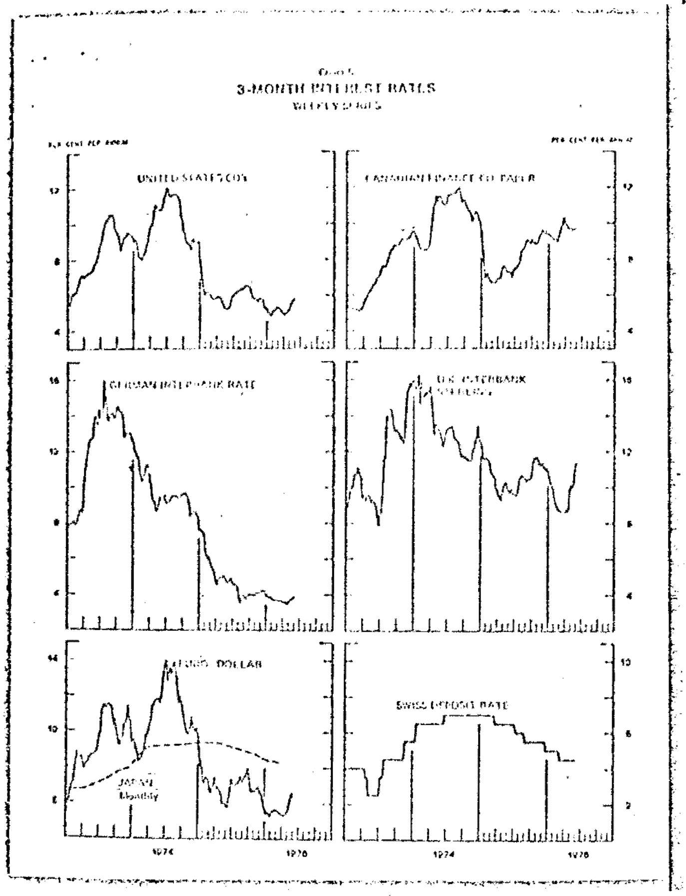
## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 123.25 | 252.1 |
| 124.85 | 256.7 |
| 126.60 | 261.7 |
| 140.35 | 301.0 |
| 164.00 | 368.6 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

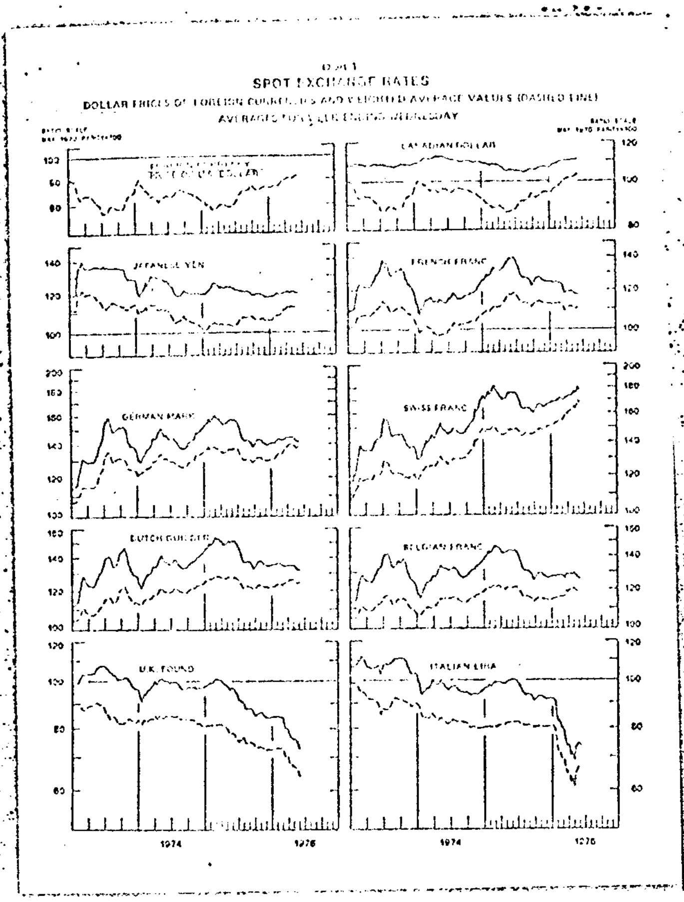
Date: July 2, 1976



| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.725 | - | 5.725 | |
| Eurodollars | 90 Day Bank Deposit | 6.00 | - | 6.00 | |
| U.K. | Interbank Loan Rate | 11.125 | -7.63 | 3.495 | -2.230 |
| Canada | Finance Company Paper | 9.50 | -3.71 | 5.79 | +.065 |
| Germany | Interbank Loan Rate | 4.10 | +1.98 | 6.08 | +.355 |

Date: July 2, 1976

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | 6/25 WEEK AGO | 6/4 MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9705<br>¢ 103.04 | 3.0 | 3.3 | 2.2 |
| British Pound | .384<br>¢260.571 | .5576<br>¢ 179.35 | -31.2 | -32.0 | -34.1 |
| German Mark* | 3.222<br>¢ 31.032 | 2.5767<br>¢ 38.81 | 25.1 | 25.1 | 25.1 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4679<br>¢ 40.52 | 55.6 | 54.6 | 56.6 |
| French Franc* | 5.116<br>¢ 19.548 | 4.7416<br>¢ 21.09 | 7.9 | 7.8 | 8.1 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.7263<br>¢ 36.68 | 19.0 | 18.5 | 18.4 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.6668<br>¢ 2.5210 | 13.0 | 13.0 | 12.0 |
| Italian Lira | 581.500<br>¢ .172 | 837.5209<br>¢ .1194 | 30.6 | -31.2 | -31.3 |
| Japanese Yen | 308.000<br>¢ .325 | 297.0003<br>¢ 3367 | 3.6 | 3.3 | 2.5 |

* Currencies floating together relative to the U.S. dollar.

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

July 16, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

The trade weighted value of the dollar rose 1/2 percent this week, reflecting rather wide and divergent swings in the currencies of some of the major U.S. trading partners. The Japanese yen rose about 1 percent over the week, while the French franc fell 2 percent and the British pound and Canadian dollar fell about .6 percent. Net intervention by foreign central banks amounted to a small purchase of $40 million, but this figure masks very large gross intervention, with strong activity on both sides of the market.

The French franc began to come under strong downward pressure 10 days ago apparently on the basis of upward revisions in the forecast for the inflation rate plus the expectation that the drought in Europe would seriously affect the French trade balance. French authorities offered strong support in the latter part of last week and continued heavy selling pressure this week led the Bank of France to supply nearly $1/2 billion in support operations. News that the French trade deficit narrowed from $159 million in May to $22 million in June had little calming effect on the franc market.

The pound was under downward pressure this week, and in particular today when the Bank of England sold over $100 million in order to slow the decline. The weakness in sterling is apparently in part a reaction to a widened trade deficit in June.

The Japanese yen was extremely strong over the week, with the Bank of Japan buying nearly $400 million in order to damp the currency's rise. The recent upward pressure on the yen began following the Summit in late June where other governments expressed their concern over the apparent reluctance of the Japanese authorities to allow the yen to appreciate. The pressure intensified this week following reports that the Ministry of International Trade and Industry was urging the central bank to allow an appreciation of the currency.

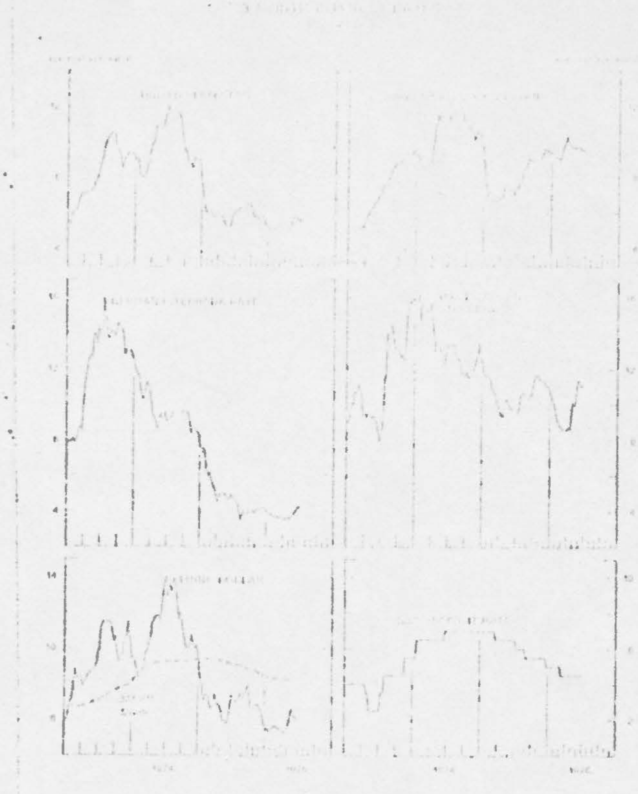
The release of June's trade figures, showing a surplus of $296 million, up from a $20 million surplus in May, increased yen buying activity in foreign exchange markets.

The lira continues to show strength as has been the case since the June election and the Puerto Rico Summit, which engendered hopes of further financing aid for Italy. Since June 21, the lira has risen 1-1/2 percent against the dollar, with the Bank of Italy buying very significant amounts of dollars throughout the period in order to stem the currency's advance. The EC Commission this week approved a 3-month extension of the Italian import deposit scheme which was due to expire on August 5.

The price of gold has fallen very sharply since Wednesday's IMF auction, with today's close in the London market at $116.75, a 30-month low. Immediately following the fund's sale, (780,000 ounces of gold at $122.05 an ounce) gold dealers expected little softening in the market price since the offering was over-subscribed and the common price was little different from that in the London market. However, widespread selling began on Thursday and continued very strongly today.

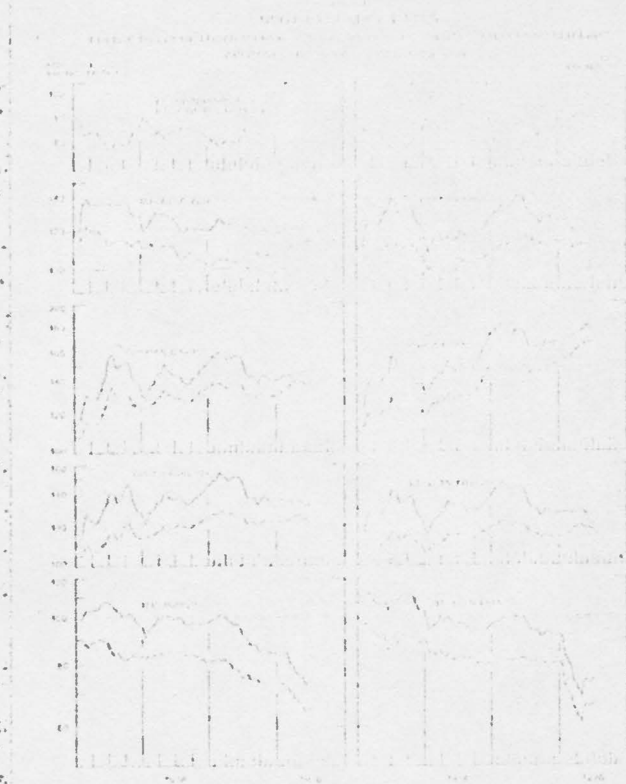
Burton Malkiel

Burton G. Malkiel



| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a.r.) | Net Covered Yield | Net Arbitrage Incentive |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.45 | ----- | 5.45 | |
| Eurodollars | 90 Day Bank Deposit | 5.813 | --- | 5.813 | |
| U.K. | Interbank Loan Rate | 11.188 | -7.71 | 3.478 | -1.972 |
| Canada | Finance Company Paper | 9.50 | -3.89 | 5.61 | +.16 |
| Germany | Interbank Loan Rate | 4.40 | +1.49 | 5.89 | +.44 |

CHANGE IN VALUE OF FOREIGN CURRENCIES
IN TERMS OF U.S. DOLLAR



| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9744<br>¢102.63 | 2.6 | 3.3 | 2.9 |
| British Pound | .384<br>¢260.571 | .5633<br>¢177.53 | -31.9 | -31.5 | -31.8 |
| German Mark* | 3.222<br>¢ 31.032 | 2.5753<br>¢ 38.83 | 25.1 | 25.0 | 25.3 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4832<br>¢ 40.27 | 54.6 | 55.1 | 54.7 |
| French Franc* | 5.116<br>¢ 19.548 | 4.8662<br>¢ 20.55 | 5.1 | 7.3 | 7.8 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.7367<br>¢ 36.54 | 18.6 | 19.0 | 18.6 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.7772<br>¢ 2.5140 | 12.7 | 12.8 | 13.1 |
| Italian Lira | 581.500<br>¢ .172 | 837.5209<br>¢ .1194 | -30.6 | -30.7 | -31.7 |
| Japanese Yen | 308.000<br>¢ .325 | 293.8584<br>¢ .3403 | 4.7 | 3.7 | 2.9 |

* Currencies floating together relative to the U.S. dollar.

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

Date: July 16, 1976

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.69 | -2.06 |
| LAST WEEK 7/9 | -12.74 | -2.11 |
| 6/18 4 WEEKS AGO | -12.16 | -1.54 |
| 7/16 6 MONTHS AGO | -12.80 | -2.27 |
| 7/18 YEAR AGO | -15.02 | -4.43 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 117.85 | 236.7 |
| 122.50 | 250.0 |
| 125.85 | 259.6 |
| 130.80 | 273.7 |
| 164.00 | 368.6 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 23, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

Market attention was focused this week on the sharp drop in the price of gold, the continuing downward pressure on the French franc and the public expenditure cuts in the United Kingdom. The trade weighted value of the dollar was virtually unchanged over the week, with intervention by foreign central banks amounting to a small net purchase of about $50 million.

The price of gold fell $16 from the IMF auction on July 14 to Tuesday of this week when it hit a low of $105.50. Since then, the price has recovered somewhat and was quoted at the second fixing today in London at $111.00. The reason behind the precipitous drop in the price is not entirely clear, but apparently is in part related to the second IMF auction which drew a reduced number of bidders and lower submitted prices compared with the first auction. In addition, the market may feel that central banks will not support the price from declining further.

Donwnward pressure continued on the French franc which fell another 1-1/4 percent against the dollar over the week, after a 2 percent decline last week. In contrast to last week, the Bank of France offered negligible intervention support. On Wednesday, however, it raised the discount rate from 8 to 9-1/2 percent.

The Italian lira continues very strong and again the Bank of Italy quite actively intervened in order to slow the increase in its value. Dollar purchases amounted to over $350 million this week ($1-1/2 billion purchase since the election) and the Bank of Italy repaid $250 million of its $500 million swap debt with the Federal Reserve.

On Thursday, the British Government announced public sector spending cuts of £1 billion for the fiscal year

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

begnning next April. A wide range of programs will be affected including national industries' capital spending, road construction, housing, health services, food subsidies and the defense budget. In addition, a 2 percent increase in employers' national insurance contributions was announced, which should yield about £ 900 million for FY 77-78.

These measures are designed to bring the growth of public sector expenditures under control while freeing resources for investment expansion in the private sector. Public expenditures in the United Kingdom have grown rapidly over the past 20 years. In 1955 they accounted for about 37 percent of total GDP at market prices, increasing to 40 percent in 1965 and 55 percent last year. The public sector borrowing requirement rose from an average of 2-1/4 percent of GDP in 1961-71 to about 8 percent in 1974 and 10-1/4 percent in 1975.

The Government anticipates that the measures taken, plus the expected upturn in domestic economic activity, should reduce the borrowing requirement to about £ 9 billion or less for the fiscal year beginning April 1977. This compares with a forecast £ 11-1/2 billion borrowing requirement this fiscal year (recently revised downwards from £ 12 billion) and a £ 10-1/2 billion borrowing requirement during the last fiscal year.

In addition to the expenditure cuts and payroll tax changes, the Government announced several measures to aid British industry, including additional resources for the National Enterprise Board and a request to the Bank of England to monitor bank lending to give priority to exports and investment in productive capital. In addition, the price code for industry was relaxed as the percentage of new investment which can be used for allowable price increases was raised from 35 to 50 percent.

International concern over the size of the U.K. budget deficit has been growing, particularly over the last few months. The $5 billion stand-by arranged for the United Kingdom in early June will expire in December, at which time the British Government will likely draw on the IMF which is expected to insist on substantial public expenditure cuts as a condition for credit extension.

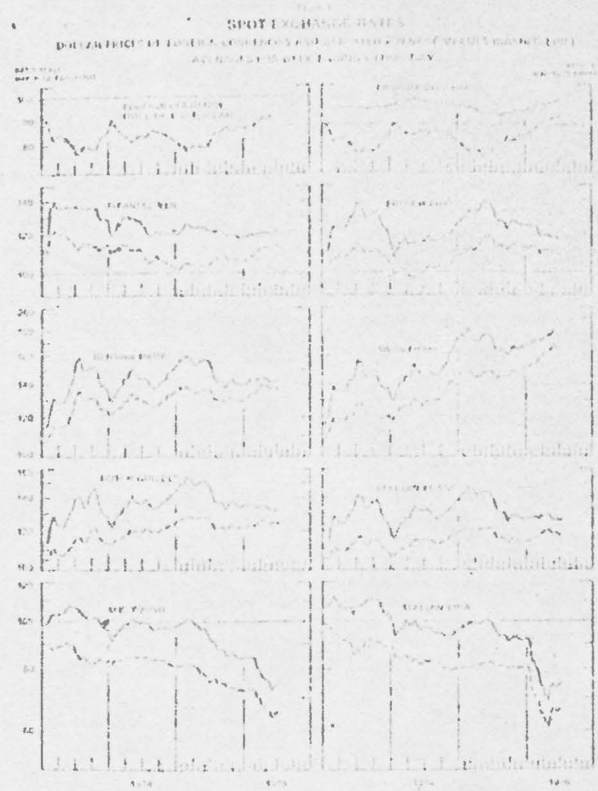
Market reaction to the British measures was, on net, slightly negative. The Bank of England sold about $100 million over the week, and more than 1/2 of the support operations took place since the measures were announced. The value of sterling declined slightly since yesterday, closing this afternoon at $1.7823.

Burton Malkiel

Burton G. Malkiel

Date: 7/23/76

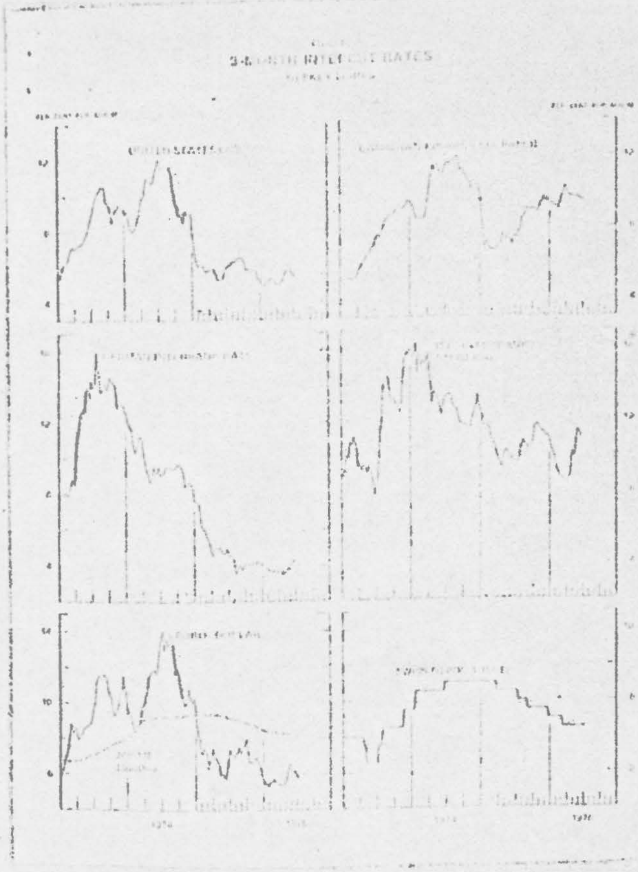
# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR



| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT: SMITHSONIAN | UNITS PER U.S. $ / U.S. ¢ PER UNIT: TODAY | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN: TODAY | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN: WEEK AGO | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN: MONTH AGO |
|---|---|---|---|---|---|
| Canadian Dollar | 1.000<br>¢100.000 | .9742<br>¢ 102.65 | 2.7 | 2.6 | 3.3 |
| British Pound | .384<br>¢260.571 | .5611<br>¢ 178.23 | -31.6 | -31.9 | -32.0 |
| German Mark* | 3.222<br>¢ 31.032 | 2.5767<br>¢ 38.81 | 25.1 | 25.1 | 25.1 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.5094<br>¢ 39.85 | 53.0 | 54.6 | 54.6 |
| French Franc* | 5.116<br>¢ 19.548 | 4.9310<br>¢ 20.28 | 3.7 | 5.1 | 7.8 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.7360<br>¢ 36.55 | 18.6 | 18.6 | 18.5 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.7314<br>¢ 2.5169 | 12.8 | 12.7 | 13.0 |
| Italian Lira | 581.500<br>¢ .172 | 835.4219<br>¢ .1197 | -30.4 | -30.6 | -31.2 |
| Japanese Yen | 308.000<br>¢ .325 | 293.9447<br>¢ .3402 | 4.7 | 4.7 | 3.3 |

* Currencies floating together relative to the U.S. dollar.

Date: 7/23/76



| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.475 | - | 5.475 | |
| Eurodollars | 90 Day Bank Deposit | 5.75 | - | 5.75 | |
| U.K. | Interbank Loan Rate | 11.25 | -7.27 | 3.98 | -1.495 |
| Canada | Finance Company Paper | 9.50 | -3.62 | 5.88 | + .405 |
| Germany | Interbank Loan Rate | 4.40 | +1.31 | 5.71 | + .235 |

Date: 7/23/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.49 | -1.86 |
| LAST WEEK | -12.69 | -2.06 |
| 4 WEEKS AGO | -12.52 | -1.89 |
| 6 MONTHS AGO | -12.83 | -2.29 |
| YEAR AGO | -14.24 | -3.67 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 111.00 | 217.1 |
| 117.85 | 236.7 |
| 124.85 | 256.7 |
| 129.00 | 268.6 |
| 166.25 | 375.0 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).
** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 30, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

The trade weighted value of the dollar moved down steadily this week to a level this afternoon .7 percent below that of last Friday. The depreciation against the German mark over the week was 1.8 percent. Net intervention by foreign central banks amounted to a small purchase.

The downward pressure on the dollar appeared to result from a combination of factors. On Tuesday, trade results for June were announced showing a deficit of $378 million against a surplus in May of $395. A sharp increase in petroleum product imports, from May's low level, was the largest single factor contributing to the size of the deficit. Besides the trade results, the value of the dollar was affected by the cuts in prime rates by several major U.S. banks and the release of the leading indicators for June which showed the smallest monthly increase since last November.

The value of the German mark, meanwhile, was influenced in addition by one very large sell order for dollars against marks, apparently originating from an OPEC member outside the Middle East, and also the fact that German money market rates are moving upwards. The European "snake" is now fully extended with the DM at the upper margin and four other currencies at their lower intervention points against the mark.

After hitting a recent low of 4.94 francs per dollar on Monday, the French franc firmed 1 percent by mid-week (at one point the Bank of France <u>bought</u> dollars), at least in part due to the release of June's CPI which showed a 0.4 advance over May, the smallest monthly increase in over three years. In addition, French interest rates are firming -- last week the discount rate was increased to 9-1/2 percent and the 3-month interbank rate has risen from 7-3/4 to 9-1/4 percent over the month.

The Italian lira continued firm and the Bank of Italy continued intervening in foreign exchange markets in order to slow the currency's rise. The Bank of Italy this week repaid (before maturity) the remaining $250 million of the swap debt with the Federal Reserve. A first payment of $250 million was made last week.

In a quiet market for pounds over the week, sterling firmed slightly against the dollar, but fell slightly on a trade-weighted basis. The market apparently has been little influenced by the budgetary cuts made last week by the British Government.

The price of gold held rather steady over the week compared to preceding weeks, fluctuating in the $111-115 range. The second fixing in London this afternoon was $112.50, up $1.50 from last Friday's level.

Burton Malkiel

Burton G. Malkiel
Member

Date: 7/30/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.61 | -1.98 |
| LAST WEEK | -12.49 | -1.86 |
| 4 WEEKS AGO | -12.64 | -2.01 |
| 6 MONTHS AGO | -12.83 | -2.29 |
| YEAR AGO | -13.61 | -3.05 |

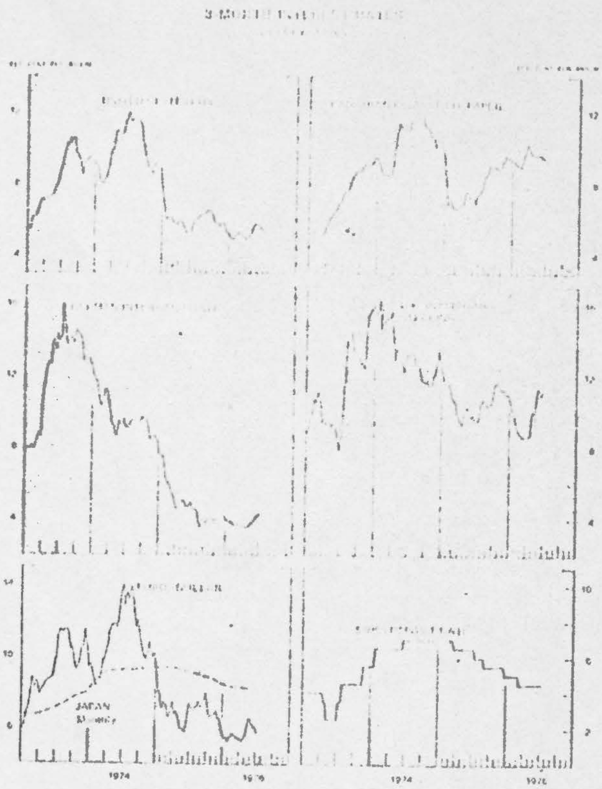
PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 112.50 | 221.4 |
| 111.00 | 217.1 |
| 123.25 | 252.1 |
| 128.15 | 266.1 |
| 166.75 | 376.4 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

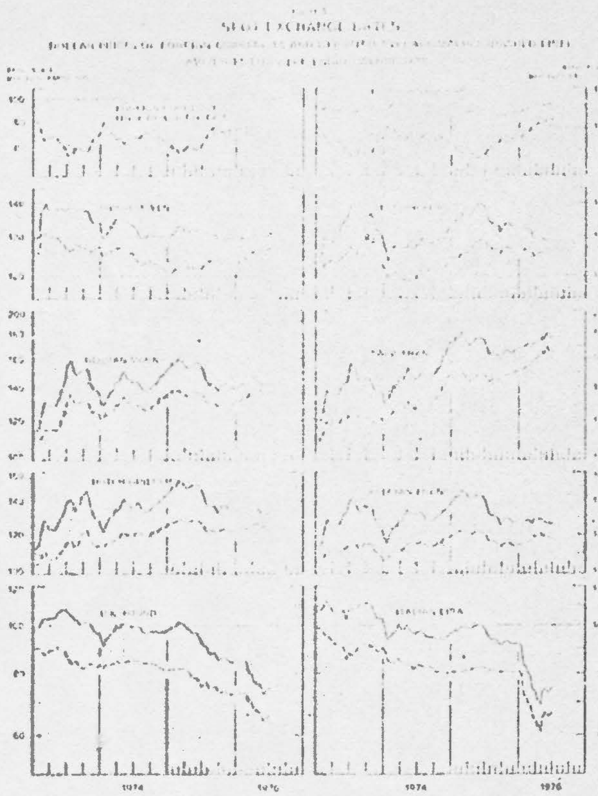
Date: 7/30/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.25 | - | 5.25 | |
| Eurodollars | 90 Day Bank Deposit | 5.625 | - | 5.625 | |
| U.K. | Interbank Loan Rate | 11.125 | -7.20 | 3.925 | -1.325 |
| Canada | Finance Company Paper | 9.50 | -4.00 | 5.50 | + .25 |
| Germany | Interbank Loan Rate | 4.40 | +1.33 | 5.73 | + .48 |

7/30/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR



| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000 | .9754 | | | |
| | ¢100.000 | ¢ 102.52 | 2.5 | 2.7 | 3.0 |
| British Pound | .384 | .5601 | | | |
| | ¢260.571 | ¢ 178.55 | -31.5 | -31.6 | -31.2 |
| German Mark* | 3.222 | 2.5304 | | | |
| | ¢ 31.032 | ¢ 39.52 | 27.4 | 25.1 | 25.1 |
| Swiss Franc | 3.840 | 2.4740 | | | |
| | ¢ 26.042 | ¢ 40.42 | 55.2 | 53.0 | 55.6 |
| French Franc* | 5.116 | 4.9116 | | | |
| | ¢ 19.548 | ¢ 20.36 | 4.2 | 3.7 | 7.9 |
| Dutch Guilder* | 3.245 | 2.6983 | | | |
| | ¢ 30.819 | ¢ 37.06 | 20.3 | 18.6 | 19.0 |
| Belgian Franc* | 44.816 | 39.1742 | | | |
| | ¢ 2.231 | ¢ 2.5527 | 14.4 | 12.8 | 13.0 |
| Italian Lira | 581.500 | 834.0284 | | | |
| | ¢ .172 | ¢ .1199 | -30.3 | -30.4 | -30.6 |
| Japanese Yen | 308.000 | 293.0832 | | | |
| | ¢ .325 | ¢ .3412 | 5.0 | 4.7 | 3.6 |

* Currencies floating together relative to the U.S. dollar.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

August 9, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

The trade weighted value of the dollar rose 0.3 percent over the week, which in large part reflected a 1-1/2 percent decline in the value of the Canadian dollar and a 1-1/2 percent depreciation of the French franc. Net intervention by foreign central banks amounted to a sale of about $225 million.

The Canadian dollar was under downward pressure all week, with the Bank of Canada intervening heavily in an effort to stem the decline. A major factor that could have been influencing the easing of the Canadian currency over the week was the low level of conversion of funds borrowed in the U. S. market compared with preceding weeks.

The value of the French franc dropped sharply towards the end of the week apparently in response to a growing conviction that the French authorities were not opposed to the relative fall in the value of the franc, indeed the Bank of France as in the preceding week offered very little support to the franc in foreign exchange markets. A further factor may have been the continuing stream of pessimistic assessments for the price outlook in France - assessments that were fairly well known earlier in official and in banking circles, but that are gaining wider currency at this time as they are being repeated in various bank and forecasting letters.

Although some of the strain on the European "snake" currency arrangement seemed to have eased over the week, pressures deriving from the variance in domestic inflation rates among the snake member countries continue to be felt. The central banks of the four countries which were last week at their lower intervention points against the mark -- Belgium, Denmark plus Norway and Sweden (the latter two are formally outside the snake, but align their currencies to it) -- this week again had to intervene in order to keep their respective currencies within the permissible band.

The value of the lira held steady over the week, again influenced by moderate purchases of dollars by the Bank of Italy. The Italian central bank has reportedly bought over $2 billion since the June 21 elections. Italian Prime Minister Andreotti delivered his new Government's program to Parliament on Wednesday. The program had been discussed in detail among the several political parties and there is general expectation that it will be accepted, and the Government confirmed, with the Communist Party agreeing tacitly by abstaining from the vote. The economic program is relatively vague on the generally agreed broad policy aims of reduction in the rate of inflation, stabilization of the external deficit, defense of the exchange rate for the lira and improvement in the levels of production and employment. Achievement of these aims is understood to imply a need to transfer resources from consumption to investment and exports.

The current economic problems in Italy largely relate to a public sector deficit that is out of control and to inflationary pressures stemming from a wage push spiral that is continually reinforced by tight indexation provisions. The economic program clearly recognizes these two problem areas. The program aims at reducing the Treasury cash requirement from 12-1/2 percent of GDP in 1975 to about 4 percent in 1979 (a reduction by two-thirds). Expenditures, particularly in the current account, are to be curtailed, but the major emphasis will be put on increasing revenues largely by limiting tax evasion and partly by some changes in tax laws. The controversial area of the role that local expenditures and local tax collection procedures play in the size of the overall deficit, however, was not touched upon in the draft program.

Proposals aimed at controlling wage increases include progressive reduction of cost of living adjustments for medium and high level wages and salaries and a temporary freeze on indexation for the highest wage brackets (the definition of medium and high wage brackets is yet to be determined). It is to be understood that the current proposals form only the general outline of what will eventually be a more specific government program. The timing of specific tax initiatives and more far-reaching proposals is not clear. Prime Minister Andreotti told Parliament that the Government will resume discussions in September with the IMF on the conditions under which the remaining $500 million under Italy's regular credit tranches could be drawn. This might imply that the Government could be ready to use the conditions the IMF would be likely to impose as part of the specific formulation of its own program, since clearly no specific Government program could be ready by September. In addition, the Bank of Italy will need to negotiate a roll-over of the $2 billion German credit which falls due in September. Since it would be difficult to obtain further foreign credits without some assurance that the general economic proposals put forward by the Government will actually be translated into specific legislation, the September dates are crucial for ascertaining the firmness as well as the viability of the current Government.

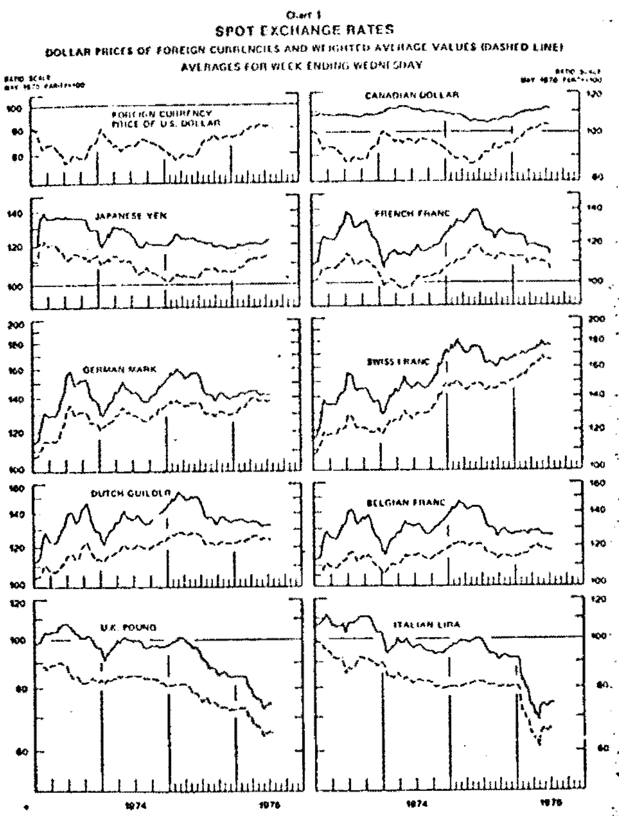
The price of gold was little changed from July 30, up 30¢ to $112.80 at the second fixing in London Friday afternoon.

Burton Malkiel

Burton G. Malkiel

8/6/76

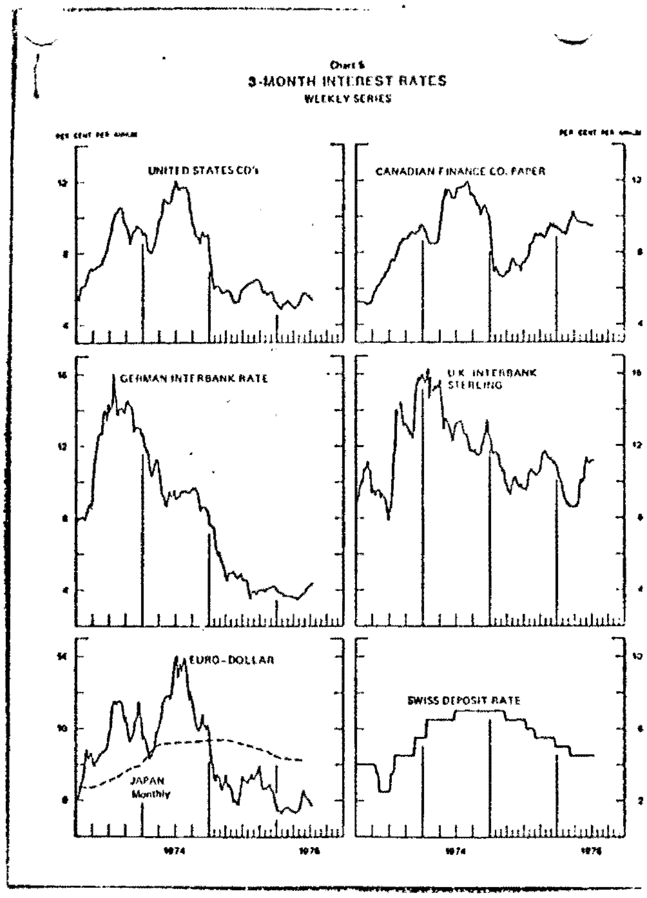
# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9881<br>¢ 101.20 | 1.2 | 2.5 | 3.3 |
| British Pound | .384<br>¢260.571 | .5587<br>¢ 178.98 | -31.3 | -31.5 | -31.5 |
| German Mark* | 3.222<br>¢ 31.032 | 2.5387<br>¢ 39.39 | 26.9 | 27.4 | 25.0 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4845<br>¢ 40.25 | 54.6 | 55.2 | 55.1 |
| French Franc* | 5.116<br>¢ 19.548 | 4.9727<br>¢ 20.11 | 2.9 | 4.2 | 7.3 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.6976<br>¢ 37.07 | 20.3 | 20.3 | 19.0 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.2650<br>¢ 2.5468 | 14.2 | 14.4 | 12.8 |
| Italian Lira | 581.500<br>¢ .172 | 834.7245<br>¢ .1198 | -30.3 | -30.3 | -30.7 |
| Japanese Yen | 308.000<br>¢ .325 | 292.9115<br>¢ .3414 | 5.0 | 5.0 | 3.7 |

* Currencies floating together relative to the U.S. dollar.

Date: 8/6/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.55 | - | 5.55 | |
| Eurodollars | 90 Day Bank Deposit | 5.813 | - | 5.813 | |
| U.K. | Interbank Loan Rate | 11.063 | -7.28 | 3.783 | -1.767 |
| Canada | Finance Company Paper | -9.625 | -4.11 | 5.515 | - .035 |
| Germany | Interbank Loan Rate | 4.60 | +1.49 | 6.09 | + .54 |

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.57 | -1.93 |
| LAST WEEK | -12.61 | -1.98 |
| 4 WEEKS AGO | -12.74 | -2.11 |
| 6 MONTHS AGO | -13.13 | -2.57 |
| YEAR AGO | -13.30 | -2.74 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 112.80 | 222.3 |
| 112.50 | 221.4 |
| 122.50 | 250.0 |
| 130.60 | 273.1 |
| 164.35 | 369.6 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 29, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

The trade-weighted value of the dollar in foreign exchange markets was little changed during this week as it has been, on average, during the entire month. This relative stability, however, contrasts with considerable activity in other currencies.

Through most of August, there was considerable strain on the European currencies linked in the "snake" arrangement as rumours about the growing likelihood of a revaluation of the German mark continued to circulate. These rumours were founded on the favorable price performance in Germany (wholesale prices were stable in June and July) compared with its snake partners. Pressures receded this week as the Belgian franc and the Dutch guilder strengthened significantly in the wake of appreciable increases in short-term interest rates. A rise in the German trade surplus for July, announced this week, appeared to have had no influence on market trends.

The French franc, after falling to a recent low of just over 5 francs to the dollar, strengthened this week as the political situtiaton became clearer. Prime Minister Chirac, whose resignation had been rumoured for weeks, was replaced by Trade Minister Raymond Barre, a career economist. M. Barre is known to favor strong anti-inflationary measures and by making an essentially non-political appointment, President Giscard d'Estaing appeared to support the view that the economic problems of France need to be given priority in the government's concerns.

The British pound came under renewed selling pressure this week and depreciated by about 1/2 percent against the dollar despite heavy intervention by the Bank of England. Economic news appeared to indicate a rather weaker demand situation than had been expected: unemployment rose again in August -- to 5.5 percent of the labor force -- and preliminary data indicated that capital spending by industry had fallen slightly in real terms during the second quarter. In addition, the July trade deficit was well above that registered in preceding months, partly because of special factors, but partly because of an increasingly clear slow-down in the growth of exports. These developments combined to lead the market to believe that interest rates may well decline in the near future, a belief that may have contributed to the weakness of the pound. An additional factor may have been the large expansion in M3 during July. Rising by 2.1 percent over the month, the quarterly rate of expansion of the money supply broadly defined, exceeded the Chancellor's 12 percent target growth. Given the large borrowing requirement of the public sector, the market for long-term government bonds may come under strain, bringing about a further move into liquid assets in the expectation of higher coupon rates and possibly leading to more short-term financing of government debt.

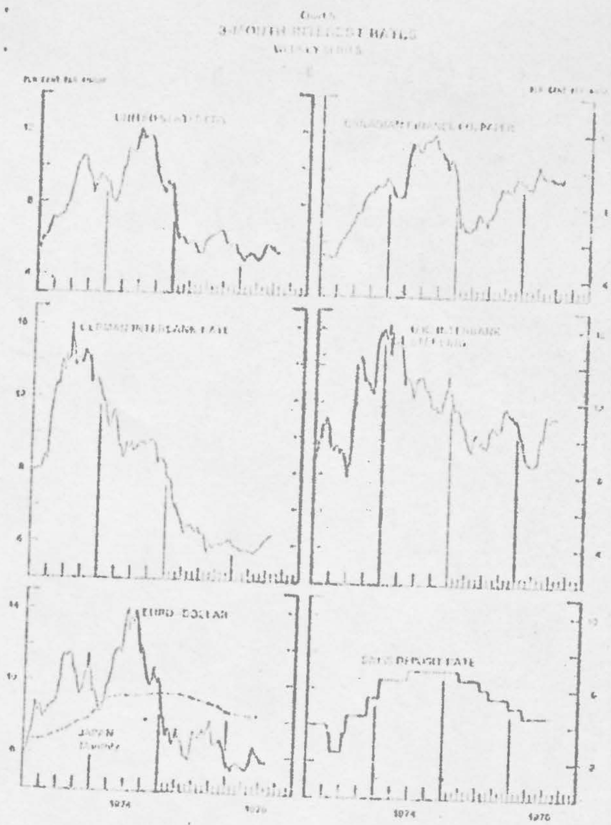
Gold prices continued to fall during the week closing at $104.20 on Friday. The announcement that the International Monetary Fund would proceed with its third gold auction as scheduled on September 15, although under somewhat different rules, appears to have been a depressing factor.

The U.S. trade figures for July were announced this week. The deficit, on a balance of payments basis, at $1,074 million was the highest so far recorded this year. A continued increase in petroleum imports was a major factor in the increase in the trade deficit, but imports of other goods also continued on an upward trend. Thus, the rise in imports outstripped a relatively healthy increase in exports. The cumulative deficit for this year is running at an annual rate of $6.6 billion, a figure that is likely to prevail for the year as a whole.

Burton Malkiel

Burton G. Malkiel

8/27/76



| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.325 | - | 5.325 | |
| Eurodollars | 90 Day Bank Deposit | 5.563 | - | 5.563 | |
| U.K. | Interbank Loan Rate | 11.125 | -7,74 | 3.385 | -1.940 |
| Canada | Finance Company Paper | -9.625 | -4.01 | 5.615 | + .290 |
| Germany | Interbank Loan Rate | 4.50 | +1.11 | 5.610 | + .285 |

Date: 6/27/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.86 | -2.20 |
| LAST WEEK | -12.79 | -2.13 |
| 4 WEEKS AGO | -12.61 | -1.98 |
| 6 MONTHS AGO | -13.37 | -2.80 |
| YEAR AGO | -13.07 | -2.52 |

PRICE OF GOLD ON THE LONDON GOLD MARKET

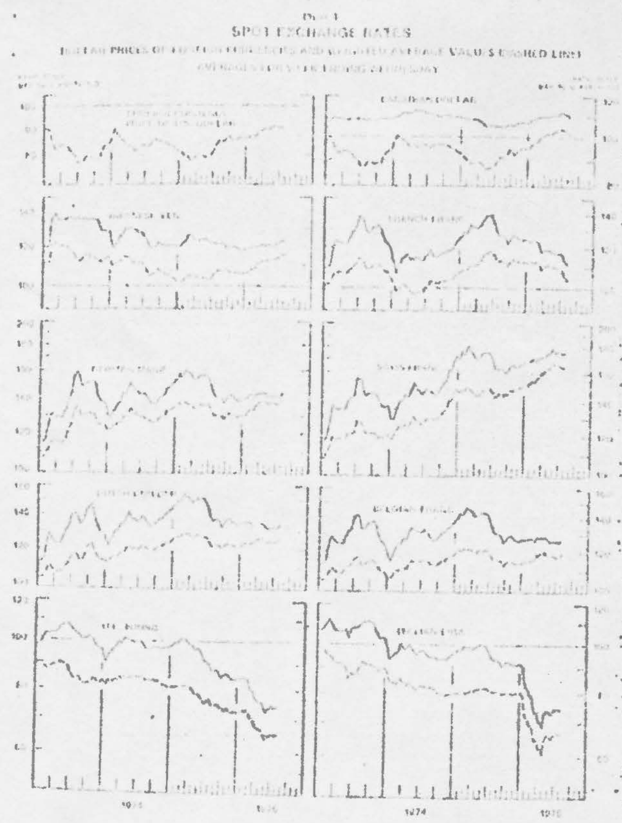
| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 104.20 | 197.7 |
| 109.00 | 211.4 |
| 112.50 | 221.4 |
| 132.30 | 278.0 |
| 159.80 | 356.6 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

Date: 8/27/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000 | .9843 | | | |
| | ¢100.000 | ¢ 101.59 | 1.6 | 1.4 | 2.5 |
| British Pound | .384 | .5648 | -32.1 | -31.6 | -31.5 |
| | ¢260.571 | ¢ 177.05 | | | |
| German Mark* | 3.222 | 2.5233 | | | |
| | ¢ 31.032 | ¢ 39.63 | 27.7 | 27.9 | 27.4 |
| Swiss Franc | 3.840 | 2.4777 | | | |
| | ¢ 26.042 | ¢ 40.36 | 55.0 | 55.0 | 55.2 |
| French Franc* | 5.116 | 4.9432 | | | |
| | ¢ 19.548 | ¢ 20.23 | 3.5 | 2.6 | 4.2 |
| Dutch Guilder* | 3.245 | 2.6309 | | | |
| | ¢ 30.819 | ¢ 38.01 | 23.3 | 20.9 | 20.3 |
| Belgian Franc* | 44.816 | 38.7898 | | | |
| | ¢ 2.231 | ¢ 2.5780 | 15.6 | 15.1 | 14.4 |
| Italian Lira | 581.500 | 841.0429 | | | |
| | ¢ .172 | ¢ 1189 | -30.9 | -30.5 | -30.3 |
| Japanese Yen | 308.000 | 288.5170 | | | |
| | ¢ .325 | ¢ .3466 | 6.6 | 6.3 | 5.0 |

* Currencies floating together relative to the U.S. dollar.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 1, 1976

ALAN GREENSPAN CHAIRMAN
PAUL W MacAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

## Summary

Exchange market activity this week was dominated by a sharp fall in sterling, which was halted by the announcement that the British Government would draw on its conditional credit in the IMF and by speculation on a revaluation of the German mark after Sunday's election.

Burton Malkiel
Burton G. Malkiel

R H 10/4/76

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Detailed Analysis

The pound sterling this week reached an historical low of $1.631 per pound. Towards the end of the week the pound recovered to $1.675. The recovery of the rate was associated with the announcement that the British Government would apply to the IMF for all remaining credit available. The total amount available is $3.9 billion, equalling three conditional credit tranches plus the 45 percent temporary increase in quotas agreed upon until the general quota increases adopted last January in Jamaica are ratified.

The sterling rate started its recent fall on September 9, when the Bank of England ceased intervening. During the weeks of September 13-23 intervention was only moderate and when market pressure on the pound began to intensify from September 24 onward the Bank of England offered little resistance. Nevertheless, in September so far total intervention by the Bank of England has exceeded $1/2 billion. The exchange rate, in terms of U.S. dollars, has depreciated by 5-1/2 percent since September 8.

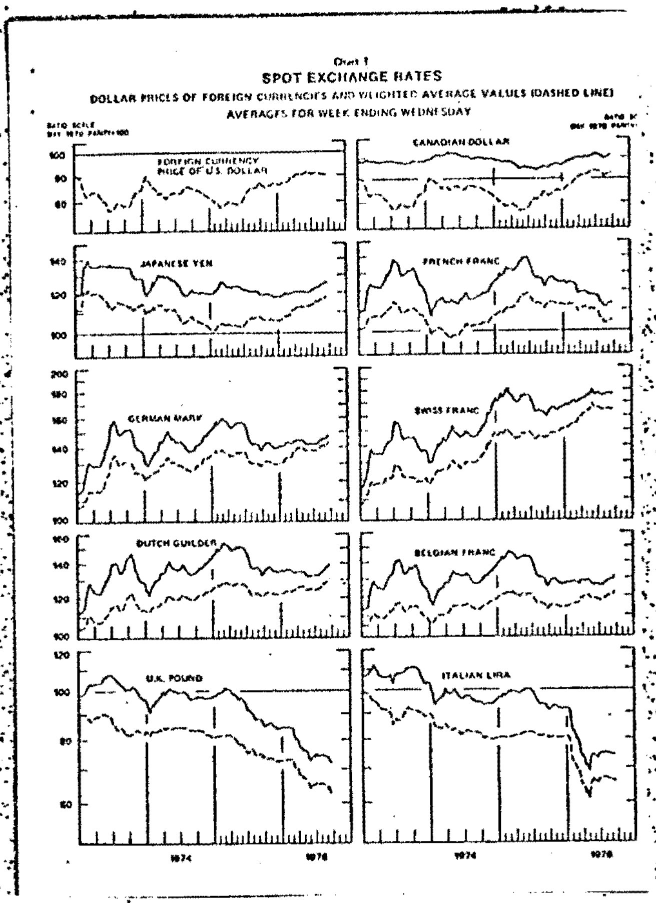
The downward pressure on the pound appeared to reflect mainly a weakening of confidence in the ability of the British Government to continue to receive political support for its wage and public expenditures policies. The settlement of the threatened seamen's strike last week could be potentially inflationary. In addition, the increase in the money supply for the three months' period ending mid-August, at a 16 percent annual rate, was well above the target rate of 12 percent. Furthermore, balance of payments data for the second quarter showed a withdrawal of foreign exchange reserves held in sterling of £905 million. These data as well as continued low economic activity rates and an acceleration in the inflation rate, all added to the weakening of confidence in the British economic outlook. Under these circumstances, the vote of the Labor Party Conference in Blackpool this week to nationalize banks and insurance companies and its dissatisfaction with the Government's restraint of the growth of public expenditures clearly affected the exchange rate. The Government's stated determination to adhere to its policies, and to eschew the imposition of import controls, coupled with the knowledge that IMF credit will be conditional upon a policy review, brought about the slight strengthening of the exchange rate later in the week.

Towards the end of the week the sterling rate, as well as the rate for other European currencies, was affected by expectations that a revaluation of the German mark was virtually inevitable after next Sunday's elections. Provisional data on the September cost of living index show a slight decline from August to a year-over-year rate of 4 percent; a clear indication of the continuing dichotomy in the development of inflation rates between Germany and neighboring countries.

With the approach of the German election this Sunday, pressures on the European "snake" joint float arrangement intensified. The Swedish krona, the Danish krone and the Belgian franc all were at their lower intervention points against the mark. The value of total intervention required amounted to more than $3/4 billion. The continued intervention needed to maintain the "snake" in view of the strength of the German mark is likely to make it difficult for the Bundesbank to remain within its target rate for the expansion of money supply.

The weakness of sterling and the strength of the German mark produced a weakening of the Italian lira. After considerable intervention in the market, the Italian Government announced that it had instituted a 1/2 percent levy on bank deposits to reduce bank liquidity. In addition, the Govern-announced that the 50 percent import deposit requirement, which was due to expire this month would be phased out gradually over the next 6 months.

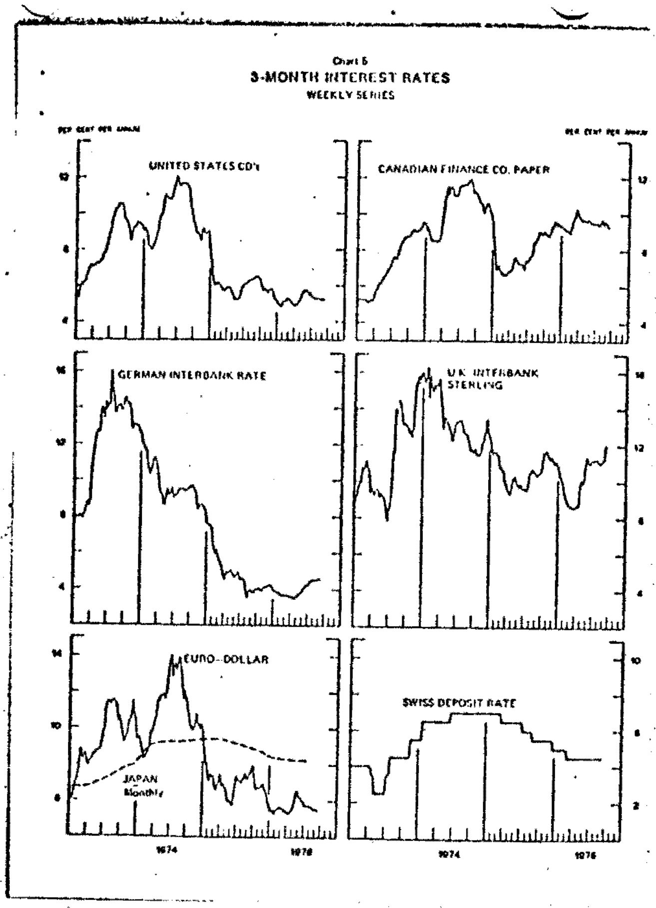
## CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLA




| CURRENCY | UNITS PER U.S. \$ / U.S. ¢ PER UNIT — SMITHSONIAN | UNITS PER U.S. \$ / U.S. ¢ PER UNIT — TODAY | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN — TODAY | WEEK AGO | MONTH AGO |
|---|---|---|---|---|---|
| Canadian Dollar | 1.000<br>¢100.000 | .9720<br>¢ 102.88 | 2.9 | 2.8 | 2.1 |
| British Pound | .384<br>¢260.571 | .5970<br>¢ 167.50 | -35.7 | -34.6 | -31.9 |
| German Mark* | 3.222<br>¢ 31.032 | 2.4450<br>¢ 40.90 | 31.8 | 30.5 | 27.7 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4486<br>¢ 40.84 | 56.8 | 55.6 | 54.8 |
| French Franc* | 5.116<br>¢ 19.548 | 4.9188<br>¢ 20.33 | 4.0 | 4.4 | 3.9 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.5648<br>¢ 38.99 | 26.5 | 25.5 | 23.2 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 39.0320<br>¢ 2.5620 | 14.8 | 17.4 | 15.5 |
| Italian Lira | 581.500<br>¢ .172 | 843.8819<br>¢ .1185 | -31.1 | =31.5 | -30.8 |
| Japanese Yen | 308.000<br>¢ .325 | 287.1088<br>¢ .3483 | 7.2 | 7.0 | 7.0 |

* Currencies floating together relative to the U.S. dollar.

Date: 10/1/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.275 | - | 5.275 | |
| Eurodollars | 90 Day Bank Deposit | 5.688 | - | 5.688 | |
| U.K. | Interbank Loan Rate | 13.188 | -11.16 | 2.028 | -3.247 |
| Canada | Finance Company Paper | 9.375 | -3.85 | 5.525 | + .250 |
| Germany | Interbank Loan Rate | 4.60 | +1.07 | 5.670 | + .395 |

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.27 | -2.80 |
| LAST WEEK | -12.32 | -2.86 |
| 4 WEEKS AGO | -11.93 | -2.43 |
| 6 MONTHS AGO | -11.62 | -2.08 |
| YEAR AGO | -11.33 | -1.76 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 116.00 | 231.4 |
| 119.15 | 24.04 |
| 107.40 | 206.9 |
| 129.10 | 268.9 |
| 138.90 | 296.9 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

October 8, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

Summary

Exchange markets were considerably quieter this week than last. On a trade weighted basis, the dollar remained virtually unchanged over the week. Among the European currencies, upward pressure on the German mark eased amid post-election announcements that the DM would not be revalued and as central bank officials of the "snake" countries reaffirmed their continued commitment to the snake operation. The Italian lira strengthened after the announcement of new economic policy measures as did the British pound after measures to tighten money market conditions were instituted.

Burton Malkiel
Burton G. Malkiel

Detailed Analysis

Snake currencies had been under considerable pressure over past weeks, partly because of speculation regarding a revaluation of the DM and partly because domestic inflation rates in a number of the smaller snake countries remained high and external payments positions eroded. Last week's pressure, involving sales by snake central banks of over $1 billion worth of DM to the market, brought about measures to tighten monetary conditions in Denmark and Sweden.

Early this week the discount rate in Denmark was raised by 2-1/2 percentage points to 11 percent and in Sweden by 2 percentage points to 8 percent. Following these measures and the quieting of revaluation rumors regarding the DM, pressure on the Danish krone and the Swedish krona subsided. Nevertheless, the longer run outlook for the stability of the Swedish and especially for the Danish currency does not seem bright. The Danish current account deficit for this year, before the latest measures, was expected to be $1.7 billion. This compares with a deficit of $0.5 billion last year. In large part the deterioration in the Danish current account stems from a rise in the trade deficit, as imports increased while exports remained relatively stable. So far, the deficit is being financed largely by foreign borrowing. Total external debt currently amounts to $5-3/4 billion, of which $1.3 billion was incurred this year. In view of the traditionally low level of external reserves, which currently amount to about $0.7 billion, this level of external debt may begin to appear excessive to some potential lenders.

The Italian lira strengthened by about 2 percent after the Italian authorities announced their new economic policy measures a week ago. These measures include a rise in the discount rate by 2 percentage points to a record 15 percent, an increase in certain taxes and public sector prices expected to raise government revenues by an amount equal to 2-1/2 percent of national income, reductions in cost of living increases graduated according to income levels and a reduction in the number of paid holidays. In addition, exchange controls were tightened and a 10 percent tax on all foreign currency transactions was instituted for the period October 4 to October 15. The major economic measures, so far, appear to have the tacit approval of the Communist faction in Parliament, without which no program could become effective. Nevertheless, institution of these measures may still founder as details move through the parliamentary process.

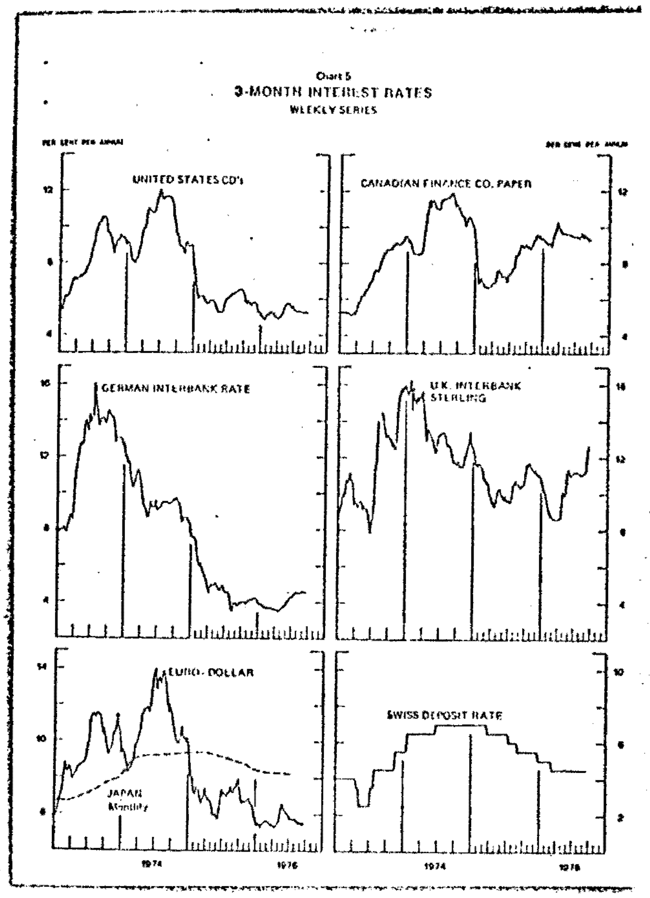
Sterling recovered toward the end of the week when the Bank of England moved to tighten monetary conditions. The minimum lending rate was increased to a record high of 15 percent and special deposit requirements on commercial banks were raised reducing bank liquidity by about $1.2 billion. The Bank of England acted after it became known that September data might show an expansion of money supply at an annual rate of 20 percent -- almost twice the 12 percent target rate set earlier this year. The new measures thus will need to absorb the excess liquidity accumulated so far as well as to bring future increases in money supply down to levels acceptable to the forthcoming IMF mission. However, reduction of credit availability in the United Kingdom, at current needs of government financing, cannot but crowd out private demand.

The attached table on changes in lending rates of central banks shows the considerable upward movement of interest rates in many European countries and Canada. In many instances, these changes raise the question whether reliance on monetary instruments to reduce external imbalances and domestic inflation rates may not be excessive, particularly in view of the need that exists in many countries to encourage private investment and to bring public sector deficits under control.

Central Bank Lending Rates

| | Current Rate | | Previous Rate | | Recession Low | |
|---|---|---|---|---|---|---|
| | Percent | Date | Percent | Date | Percent | Date |
| United Kingdom | 15 | 10/7/76 | 13 | 9/76 | 9 | 3/76 |
| Italy | 15 | 10/4/76 | 12 | 3/76 | 6-1/2 | end-73 |
| Denmark | 11 | 10/5/76 | 8-1/2 | 3/76 | 7-1/2 | 8/75 |
| France | 10-1/2 | 9/23/76 | 9-1/2 | 7/76 | 8 | 9/75 |
| Canada | 9-1/2 | 3/8/76 | 9 | 9/75 | 7-1/2 | end-73 |
| Belgium | 9 | 8/13/76 | 8 | 7/76 | 6 | 8/75 |
| Sweden | 8 | 10/4/76 | 6 | 6/76 | 5 | end-73 |
| Netherlands | 7 | 8/20/76 | 6-1/2 | 8/76 | 4 | 2/76 |
| Japan | 6-1/2 | 10/24/75 | 7-1/2 | 8/75 | Current | |
| Norway | 6 | 9/6/76 | 5 | 10/75 | 4-1/2 | end-73 |
| United States | 5-1/2 | 1/19/76 | 6 | 5/75 | Current | |
| Austria | 4 | 6/10/76 | 5 | 1/76 | Current | |
| Germany | 3-1/2 | 9/12/75 | 4 | 9/75 | Current | |
| Switzerland | 2 | 6/8/76 | 2-1/2 | 1/76 | Current | |

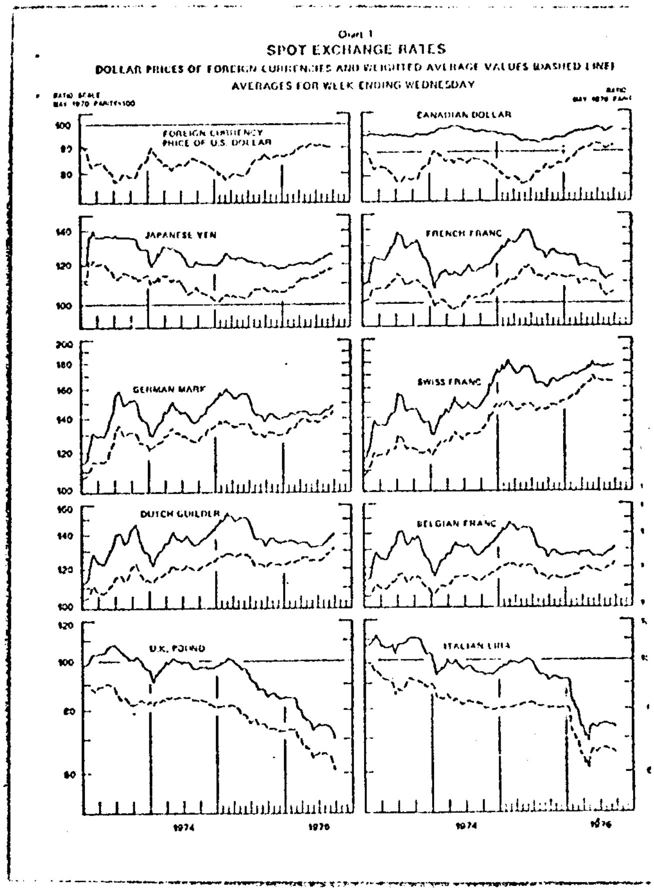
Date: 10/8/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.275 | - | 5.275 | |
| Eurodollars | 90 Day Bank Deposit | 5.563 | - | 5.563 | |
| U.K. | Interbank Loan Rate | 14.50 | -12.88 | 1.62 | -3.655 |
| Canada | Finance Company Paper | 9.375 | -3.91 | 5.465 | +.190 |
| Germany | Interbank Loan Rate | 4.80 | +.98 | 5.78 | +.505 |

Date: 10/8/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000 | .9732 | | | |
| | ¢100.000 | ¢ 102.75 | 2.8 | 2.9 | 2.3 |
| British Pound | .384 | .6008 | | | |
| | ¢260.571 | ¢ 166.45 | -36.1 | -35.7 | -32.7 |
| German Mark* | 3.222 | 2.4408 | | | |
| | ¢ 31.032 | ¢ 40.97 | 32.0 | 31.8 | 28.4 |
| Swiss Franc | 3.840 | 2.4510 | | | |
| | ¢ 26.042 | ¢ 40.80 | 56.7 | 56.8 | 54.9 |
| French Franc* | 5.116 | 4.9628 | | | |
| | ¢ 19.548 | ¢ 20.15 | 3.1 | 4.0 | 3.8 |
| Dutch Guilder* | 3.245 | 2.5608 | | | |
| | ¢ 30.819 | ¢ 39.05 | 26.7 | 26.5 | 23.7 |
| Belgian Franc* | 44.816 | 37.4181 | | | |
| | ¢ 2.231 | ¢ 2.6725 | 19.8 | 14.8 | 15.6 |
| Italian Lira | 581.500 | 839.6306 | | | |
| | ¢ .172 | ¢ .1191 | -30.8 | -31.1 | -30.8 |
| Japanese Yen | 308.000 | 288.6003 | | | |
| | ¢ .325 | ¢ .3465 | 6.6 | 7.2 | 7.3 |

* Currencies floating together relative to the U.S. dollar.

Date: 10/8/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.37 | -2.91 |
| LAST WEEK 10/1 | -12.27 | -2.80 |
| 4 WEEKS AGO 9/10 | -12.12 | -2.64 |
| 6 MONTHS AGO 4/9 | -11.54 | -2.00 |
| YEAR AGO 10/10 | -11.62 | -2.09 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 114.00 | 225.7 |
| 116.00 | 231.4 |
| 115.70 | 230.6 |
| 127.70 | 264.9 |
| 142.25 | 306.4 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 16, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

Summary

The trade weighted exchange value of the dollar increased by 1/2 percent during this week. Exchange rate activity, as in past weeks largely focused on the European currencies, but there also was downward pressure on the yen and the Canadian dollar.

Burton Malkiel
Burton G. Malkiel

Detailed Analysis

Over the past four weeks the average exchange value of the dollar has risen by 1/2 percent and would have risen more but for net sales of $1-1/4 billion by foreign central banks. This overall movement in the value of the dollar masks disparate movements in the currencies of our trading partners. Over the past month, the dollar has risen by 5 percent against the pound sterling, by about 2 percent against the French franc and the Japanese yen, but has declined by over 2 percent against the Swiss franc and the currencies adhering to the "snake" arrangement.

The pound sterling continued to decline this week reaching a low of $1.639 yesterday, but strengthened somewhat today partly because of heavy intervention by the Bank of England in the forward market. Pressure on sterling this week continues to reflect the dissatisfaction of the market with the economic policy measures instituted so far. The heavy concentration on the use of monetary policy clearly is continuing to weaken confidence in the private sector. In addition, the trade figures released this week showed a relatively large rise in imports -- which may in part be due to some precautionary buying related to expectations of further declines in the rate and to the possibility of future import restrictions. However, the unexpected feature in the trade figures was the very small increase in exports. With continued discussion of an "undervalued" pound and the low rate of domestic capacity utilization, expectations were for an above-average growth in exports.

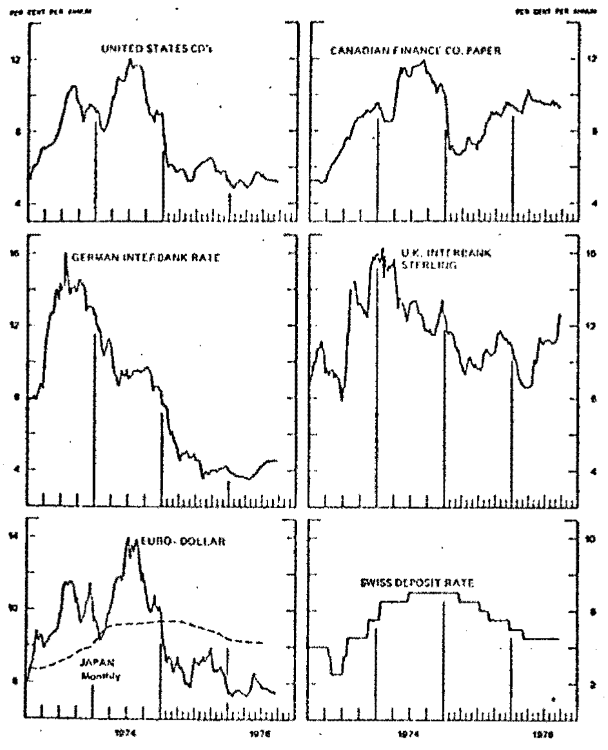
The Italian lira was little changed over the week as the Bank of Italy continued to purchase dollars. Over the past two weeks the lira has moved up 1.4 percent against the dollar and the Bank of Italy has purchased about $3/4 billion. The developments in the exchange market reflect the reaction to the economic policy measures announced earlier and changes in exchange control measures. The 10 percent tax on purchases of foreign currencies instituted two weeks ago expires today. In its place the Italian authorities have moved to prohibit banks from extending credit to foreigners. Thus, foreign sales of lira can only be effected from current holdings.

The French franc came under pressure this week and depreciated by nearly 2 percent against the dollar. The Bank of France sold about $0.1 billion to the market. The weakening of the franc apparently reflects growing disenchantment with the economic stabilization measures proposed by Mr. Barre. The package relies heavily on voluntary agreement by the unions to hold wage demands within a 6-1/2 percent guideline. However, political realities do not augur well for any such voluntary cooperation. In fact, part of the current concern is based on anticipation of rising social unrest. The tax parts of the Barre program seem to take away with one hand what they give with the other. Rough estimates of their effects would put the amount of investment incentives granted more or less equal to the increases in corporation income tax and the revenues expected from the so-called anti-inflation levy. The commitment to keep public sector charges stable comes after relatively large increases in such charges and thus is not viewed as a real support to consumer purchasing power. All in all, the program's immediate effect appears to have been an increase in caution in investment planning by private enterprise. This caution also is likely to become greater over time as currently there seems to be a rising conviction that a Socialist/Communist coalition could well win the next election.

The Japanese yen depreciated by 1-1/2 percent against the dollar this week. The Bank of Japan made small sales of dollars to the market to support the rate. The decline in the exchange rate came despite the announcement of the very large -- over $1/2 billion -- trade surplus in September. Exports in September were 34 percent above the year ago level, while imports were up only 18 percent. The weakening of the yen reportedly was associated with the expectations of an increase in the export price of oil by OPEC in December and the announcement of the opening of the Japanese capital market to large-scale borrowing by a number of developing countries. However, these two factors had been under discussion for some time and appear not sufficient to explain the current market pressures on the yen.

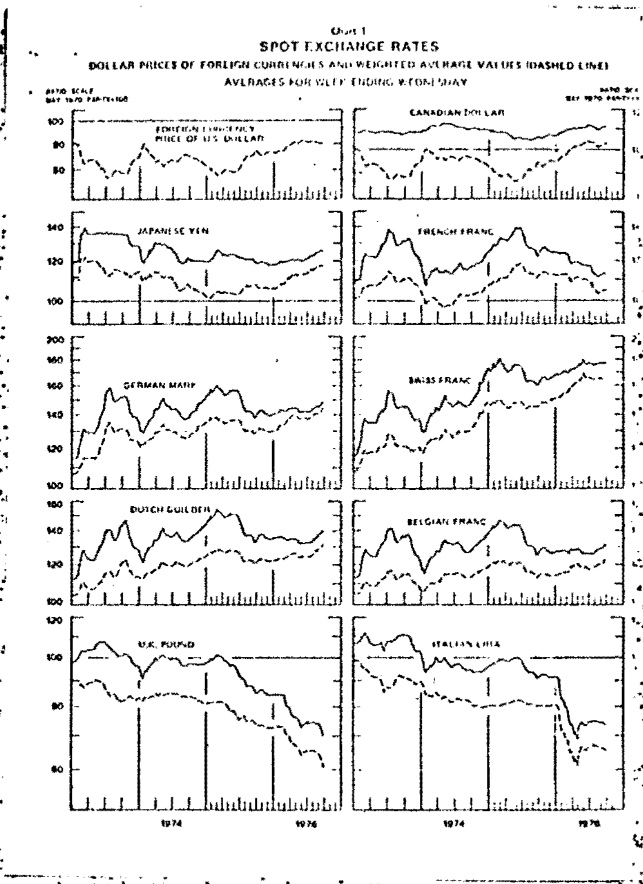
Date: 10/15/76

Chart 5
3-MONTH INTEREST RATES
WEEKLY SERIES




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.075 | - | 5.075 | |
| Eurodollars | 90 Day Bank Deposit | 5.438 | - | 5.438 | |
| U.K. | Interbank Loan Rate | 14.813 | -14.54 | .273 | -4.802 |
| Canada | Finance Company Paper | 9.375 | -3.94 | 5.435 | + .360 |
| Germany | Interbank Loan Rate | 4.80 | + .78 | 5.58 | + .505 |

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLA




| CURRENCY | UNITS PER U.S. \$<br>U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9732<br>¢ 102.75 | 2.8 | 2.8 | 2.6 |
| British Pound | .384<br>¢260.571 | .6055<br>¢ 165.15 | -36.6 | -36.1 | -33.4 |
| German Mark* | 3.222<br>¢ 31.032 | 2.4426<br>¢ 40.94 | 31.9 | 32.0 | 29.9 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4498<br>¢ 40.82 | 56.7 | 56.7 | 55.2 |
| French Franc* | 5.116<br>¢ 19.548 | 5.0050<br>¢ 19.98 | 2.2 | 3.1 | 4.5 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.5562<br>¢ 39.12 | 26.9 | 26.7 | 24.3 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 37.3832<br>¢ 2.6750 | 19.9 | 19.8 | 17.0 |
| Italian Lira | 581.500<br>¢ .172 | 844.5946<br>¢ .1184 | - 31.2 | -30.8 | -30.8 |
| Japanese Yen | 308.000<br>¢ .325 | 292.8258<br>¢ .3415 | 5.1 | 6.6 | 7.1 |

* Currencies floating together relative to the U.S. dollar

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -12.10 | -2.62 |
| LAST WEEK | -12.37 | -2.91 |
| 4 WEEKS AGO | -12.30 | -2.84 |
| 6 MONTHS AGO | -11.24 | -1.66 |
| YEAR AGO | -11.86 | -2.35 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 115.70 | 230.6 |
| 114.00 | 225.7 |
| 119.50 | 241.4 |
| 127.75 | 265.0 |
| 144.90 | 314.0 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

October 29, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

Foreign exchange activity this week resulted in a further sharp fall in the value of the British pound.

Early this week the exchange value of the British pound dropped by more than 3 percent against the dollar following a weekend press report that the IMF and the U. S. Treasury had agreed that the sterling rate needed to drop to $1.50 before Britain could receive its full IMF credit. The fact that such unlikely rumors could bring about a sharp drop in the sterling value indicates the continued fragility of confidence of market participants in the political will of the British Government to take the necessary measures to stabilize the British economy. Accordingly, the pound sterling suffered a further loss in value when Prime Minister Callaghan made a statement to the effect that no further stabilization measures were needed. At the end of the week sterling recovered on completely unfounded rumors that the British Government was in the process of negotiating a £ 7 - 9 billion loan with the Governments of the United States, Germany and Japan. It is clear that the sterling rate will continue to be unstable and in fact, on balance to erode further until a satisfactory economic program is announced.

The Italian lira was relatively stable during this week as the Italian Government moved further to virtually make the lira unconvertible and the Bank of Italy bought almost $1/4 billion. Although the lira was steady around 864 to the dollar, given the tax charges and deposit requirements on foreign exchange, the actual exchange value of the lira at current interest rates may be about 960 to 980 to the dollar. The Italian Government announced this week, in an unusual move, that the IMF is requiring further anti-inflationary action as a condition for Italy's ability to draw its remaining credit in the IMF. It is clear that the Treasury is using the IMF conditions to help receive agreement in Parliament for its own proposals centering largely on beginning to cut the link between changes in consumer prices and wages.

The Mexican peso was floated again on Wednesday after an initial devaluation of 37 percent effected early in September. Attempts to stabilize the peso at just over 5 U. S. cents required intervention support of over $1 billion. By last Wednesday Mexico's foreign currency reserves were exhausted leaving less than $150 million in gold reserves. After the peso was set to float again it dropped to about 3-3/4¢, which constitutes a depreciation of over 53 percent from its long standing parity of 8¢, which prevailed before September 1. The IMF approved credits to Mexico totaling $963 million on Thursday. This approval may help to facilitate Mexican attempts to raise further funds in the private market, where credit extensions to Mexico had virtually dried up over past weeks.

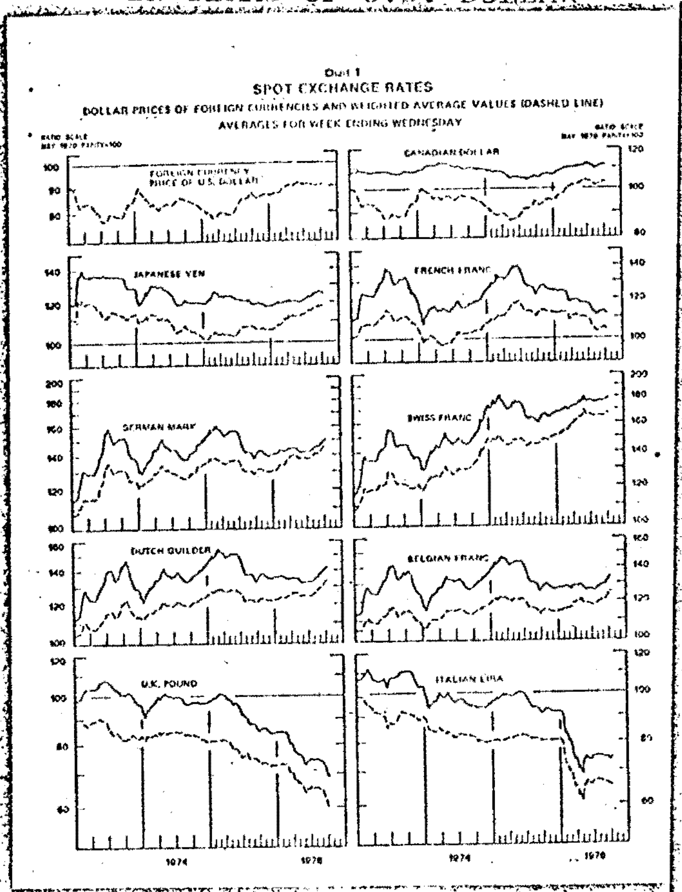
The fourth IMF gold auction was held on Wednesday. The average price at $117.71 an ounce was slightly above the market price of that day. After completion of the auction the gold price jumped $4.90 and currently stands at $123.15.

Burton Malkiel

Burton G. Malkiel
Member

Date: October 29, 1976

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK 10/22 AGO | MONTH 10/1 AGO |
| Canadian Dollar | 1.000<br>¢100.000 | .9718<br>¢102.90 | 2.9 | 2.9 | 2.9 |
| British Pound | .384<br>¢260.571 | .6287<br>¢159.06 | -39.0 | -36.7 | -35.7 |
| German Mark* | 3.222<br>¢ 31.032 | 2.4015<br>¢ 41.64 | 34.2 | 33.2 | 31.8 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4319<br>¢ 41.12 | 57.9 | 57.1 | 56.8 |
| French Franc* | 5.116<br>¢ 19.548 | 4.9925<br>¢ 20.03 | 2.5 | 2.8 | 4.0 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.5107<br>¢ 39.83 | 29.2 | 27.3 | 26.5 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 36.9481<br>¢ 2.7065 | 21.3 | 20.6 | 14.8 |
| Italian Lira | 581.500<br>¢ .172 | 862.8128<br>¢ .1159 | -32.6 | -33.1 | -31.1 |
| Japanese Yen | 308.000<br>¢ .325 | 294.3774<br>¢ .3397 | 4.5 | 4.8 | 7.2 |

* Currencies floating together relative to the U.S. dollar.

Date: October 29, 1976

VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES
AND THE PRICE OF GOLD

TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK 10/29 | -11.90 | -2.39 |
| LAST WEEK 10/22 | -11.92 | -2.42 |
| 4 WEEKS AGO 10/1 | -12.27 | -2.80 |
| 6 MONTHS AGO 4/30 | -11.28 | -1.71 |
| YEAR AGO 10/31 | -12.41 | -2.96 |

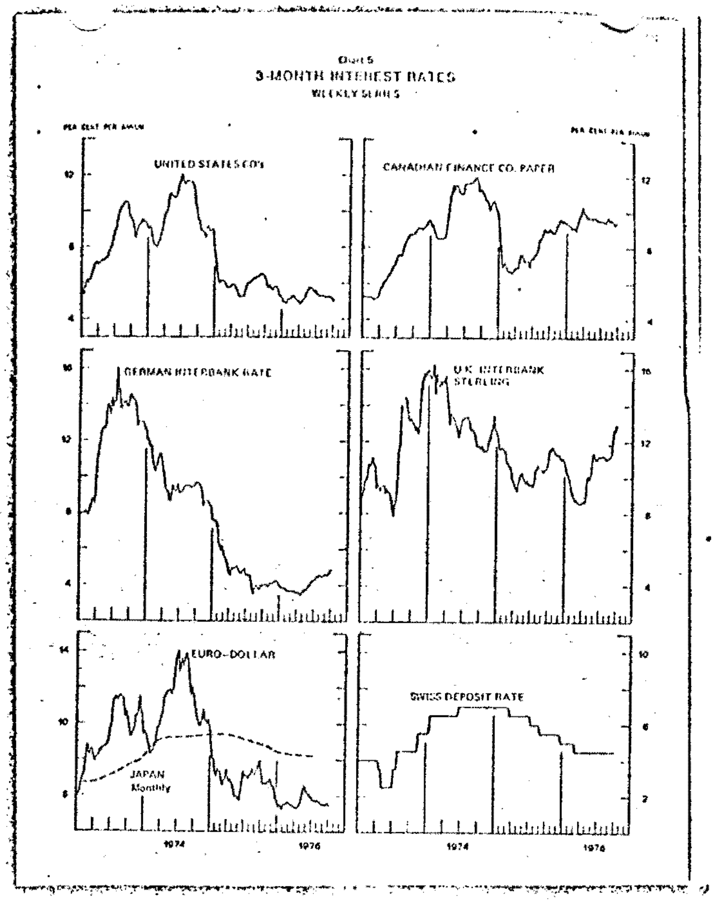
PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 123.15 | 251.9 |
| 115.50 | 230.0 |
| 116.00 | 231.4 |
| 128.40 | 266.9 |
| 142.90 | 308.3 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

Date: October 29, 1976




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.085 | -- | 5.085 | |
| Eurodollars | 90 Day Bank Deposit | 5.375 | --- | 5.375 | |
| U.K. | Interbank Loan Rate | 15.125 | -15.23 | -.105 | -5.190 |
| Canada | Finance Company Paper | 9.375 | -4.02 | 5.355 | +.270 |
| Germany | Interbank Loan Rate | 4.600 | +.87 | 5.470 | +.385 |

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 19, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

Summary

Foreign exchange markets this week were dominated by a significant recovery of the British pound, an apparent strengthening of the underlying trend for the Italian lira and a continued weakening of the Canadian dollar. The value of the dollar fell about 1/2 percent on a trade weighted basis, largely due to the strong advance in the value of sterling. Net intervention by foreign central banks amounted to a purchase of $350 million. The price of gold fell $4.50 to $131.15 at this morning's London fixing.

Burton Malkiel

Burton G. Malkiel
Member

Analysis

Sterling had been moving up throughout the week on press comment that some agreement was being reached on the funding of sterling balances -- comment that clearly was not based on any hard evidence. At the end of the week, sterling rose by another 1-1/2 percent against the dollar, bringing the total rise for the week to 3 percent. The latest strengthening of sterling was in response to measures taken by the British authorities designed to restrain domestic as well as foreign lending of sterling by commercial banks.

The Treasury announced that as of the end of this month British banks would be prevented from financing trade transactions between overseas sterling countries. This action is expected to produce a considerable reflow of overseas sterling credit as well as limit the possibilities for speculation in sterling. The Bank of England reintroduced the special deposit scheme that was first adopted in 1973 and suspended at the end of February last year. Under the scheme, commercial banks will have to place non-interest bearing deposits with the Bank of England if interest-bearing deposit liabilities increase by more than 3 percent during the next six months, and by more than 0.5 percent a month in the two subsequent months. This measure should discourage the growth in bank lending over the next eight months, a significant part of which is thought to have been used to finance speculation against sterling through prepayments of imports. Thus, the measure is designed to help relieve pressures on sterling as well as to help control the growth of the broadly defined money supply ($M_3$), which has exceeded the 12 percent target by more than one half in the third quarter of this year. In addition, it seems to indicate that the Treasury intends to finance the Government's borrowing requirement largely in the bond market and thus is likely to give further rise to the expectation that some sort of indexed bond may soon be issued.

The economic news in the U.K. over the past two weeks was mixed: hourly wage rates remained unchanged in October from the preceding month and industrial production was up 1.2 percent in September. On the other hand, the trade deficit remained large, and in particular exports failed to rise significantly and retail prices posted a 1.8 percent increase over the month. Markets, however, failed to respond to either bad or good news as attention was focussed mainly on the negotiations with the IMF and the future of sterling balance arrangements.

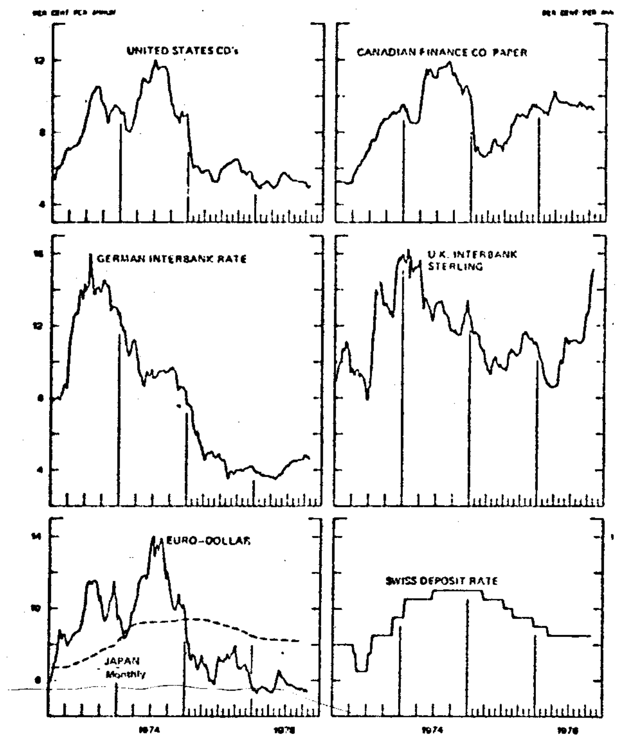
The Bank of Italy again this week made significant purchases of dollars from the market bringing the total of such purchases to over $1 billion since October 25, when the 7 percent tax on purchases of foreign currencies was imposed. The Italian authorities appear to be holding the lira rate steady at about 865 lire to the dollar. The strengthening of demand for the lira may reflect a certain return of confidence associated with the vote of confidence the economic policy package of the Andreotti Government received in Parliament last Friday.

The Canadian dollar had been under downward pressure for some time in anticipation of a possible election gain by the Separatist Party in the Provincial elections in Quebec. But the actual results brought further pressure on the Canadian dollar. The Bank of Canada gave moderate support to the Canadian dollar which closed about 3/4 percent below last Friday's level. Very heavy borrowing in the U.S. capital market by Canadian entities has kept the Canadian dollar at a premium over the U.S. dollar despite a rising current account deficit. The volume of such borrowing according to current indications is expected to continue large.

The French franc weakened slightly over the week after the announcement of a very large trade deficit in October. The deficit, at close to $1 billion for the month, partly reflected rising food imports associated with this summer's drought and large imports of petroleum apparently in anticipation of an increase in the export price of OPEC oil. But in part, rising imports may also reflect a continuing rise in industrial output. Industrial production, after rising by 2-1/2 percent in July/August was up a further 2-1/2 percent in September, resulting in a year-to-year increase of 17 percent.

Date: 11/19/76

Chart 5
3-MONTH INTEREST RATES
WEEKLY SERIES




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 5.095 | - | 5.095 | |
| Eurodollars | 90 Day Bank Deposit | 5.313 | - | 5.313 | |
| U.K. | Interbank Loan Rate | 14.375 | -9.63 | 4.745 | - .350 |
| Canada | Finance Company Paper | 9.0 | -3.60 | 5.40 | + .305 |
| Germany | Interbank Loan Rate | 4.6 | + .97 | 5.57 | + .475 |

Date: 11/19/76

VALUE OF [illegible] DOLLAR IN TERMS OF FORE[illegible]N CURRENCIES
AND THE PRICE OF GOLD

TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -11.70 | -2.17 |
| LAST WEEK | -11.83 | -2.32 |
| 4 WEEKS AGO | -11.92 | -2.42 |
| 6 MONTHS AGO | -11.14 | -1.56 |
| YEAR AGO | -12.05 | -2.56 |

PRICE OF GOLD ON THE LONDON GOLD MARKET

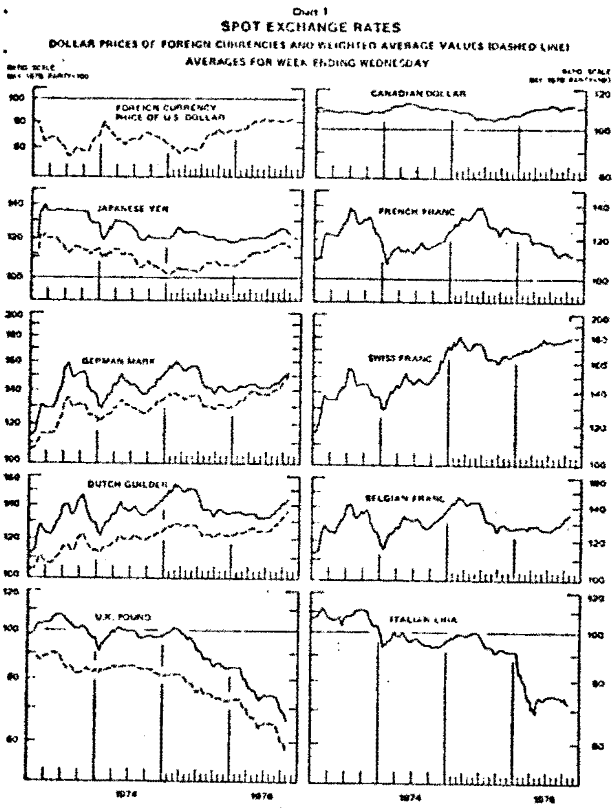
| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 130.20 | 272.0 |
| 135.60 | 287.4 |
| 115.50 | 230.0 |
| 125.80 | 259.4 |
| 141.35 | 303.9 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.

Date: 11/19/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000 | .9863 | | | |
| | ¢100.000 | ¢ 101.39 | 1.4 | 2.3 | 2.9 |
| British Pound | .384 | .5952 | | | |
| | ¢260.571 | ¢ 168.00 | -35.5 | -37.4 | -36.7 |
| German Mark* | 3.222 | 2.4184 | | | |
| | ¢ 31.032 | ¢ 41.35 | 33.2 | 33.4 | 33.2 |
| Swiss Franc | 3.840 | 2.4462 | | | |
| | ¢ 26.042 | ¢ 40.88 | 57.0 | 57.3 | 57.1 |
| French Franc* | 5.116 | 5.0050 | | | |
| | ¢ 19.548 | ¢ 19.98 | 2.2 | 2.7 | 2.8 |
| Dutch Guilder* | 3.245 | 2.5246 | | | |
| | ¢ 30.819 | ¢ 39.61 | 28.5 | 28.4 | 27.3 |
| Belgian Franc* | 44.816 | 37.0206 | | | |
| | ¢ 2.231 | ¢ 2.7012 | -21.1 | 21.0 | 20.6 |
| Italian Lira | 581.500 | 865.0519 | | | |
| | ¢ .172 | ¢ .1156 | -32.8 | -32.8 | -33.1 |
| Japanese Yen | 308.000 | 295.4210 | | | |
| | ¢ .325 | ¢ .3385 | 4.2 | 4.4 | 4.8 |

* Currencies floating together relative to the U.S. dollar.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 29, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: International Financial Developments

Exchange markets this week were mainly focussed on activity in the Canadian dollar and the Mexican peso. In European markets, the British pound was slightly weaker and the continental currencies somewhat stronger against the dollar. Effective November 29, the Australian and the New Zealand authorities devalued their currencies by 17-1/2 and 7 percent, respectively.

Some devaluation of the Australian dollar had been anticipated for some time: inflation, mainly internally generated by overly ambitious social programs leading to runaway government expenditures during the tenure of the previous Australian Government, has remained high. Although some improvement has been registered, the CPI currently still is rising at close to 10 percent (annual rate). At the same time, industrial output has been stagnant, unemployment has been rising and employment has actually declined. On the other hand, the trade balance in recent months has swung again into traditional surplus, but speculative capital outflows have put pressure on the external financial position. (Australia traditionally is a capital importing country). The Government had been resisting a devaluation because of the effects this could have on the internal price level. Given this attitude, the magnitude of the devaluation - 17-1/2 percent - came as a surprise. General expectations had been that a 10 percent depreciation was more likely. The rise of the devaluation raises the question of competitive depreciation and has put pressure on Australia's trading partners, in particular New Zealand, which announced a 7 percent devaluation after the Australian action.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

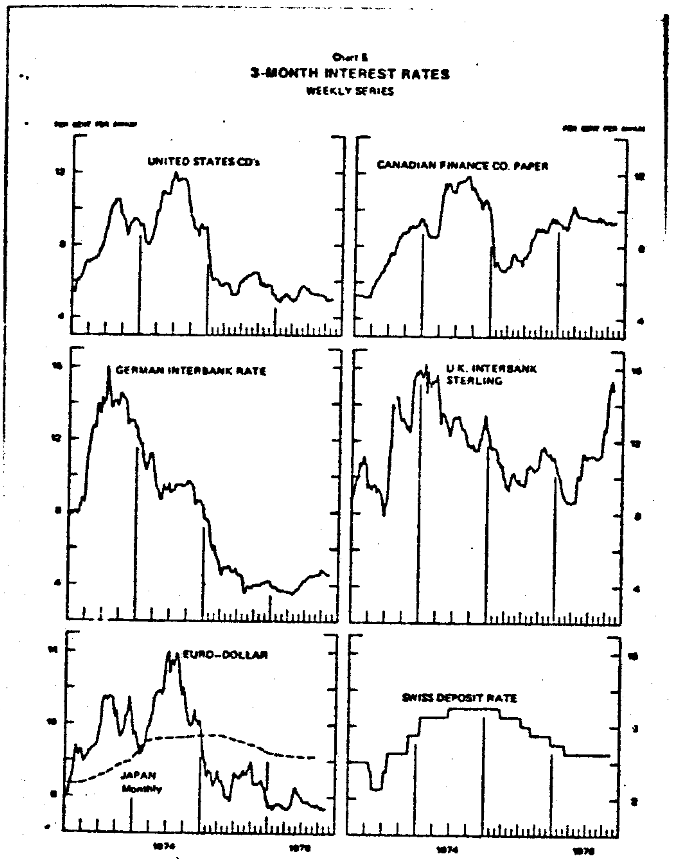
Speculation against the peso reached a peak on November 19, and over the weekend the Mexican authorities suspended intervention in the exchange market and all foreign currency dealings by banks and credit institutions were forbidden. (However, stockbrokers still are able to deal in foreign currencies.) In the week prior to November 22, the Bank of Mexico had purchased $181 million from Federal Reserve Banks in order to finance hoarding of U.S. dollars by Mexican residents. On November 17, the Bank of Mexico had drawn $150 million on its swap lines with the U.S. Treasury and the Federal Reserve System, bringing the total swap debt outstanding to $300 million. But by the end of the week the Bank of Mexico clearly was running out of foreign currencies.

Early this month, after the IMF approved an SDR $837 million standby credit for Mexico, Mexico also obtained an $800 million bank loan from a consortium of U.S. banks. In addition the Mexican state-owned copper company is in the market for a $200 million loan. Banks apparently still are continuing to lend to Mexico, albeit at above market rates in order to compensate for the higher risks. On the whole, short-term bank lending to foreigners by U.S. banks is continuing to rise. For the first eight months of this year, short-term claims on foreigners have increased by $7-1/2 billion, $7 billion of this rise being accounted for by Latin America. The continued extension of bank loans to developing countries is not confined to the United States. European banks, faced with low domestic loan demand, also have increased their liabilities vis-a-vis developing countries. In the medium-term Eurocurrency markets the premium charged developing countries has recently run 5/8 percent at a minimum. This premium raises net returns on loans to developing countries by 45 percent above the net return on other loans.

The value of the Canadian dollar fell by 2-1/2 percent against the U.S. dollar over the week, bringing the decline for the past two weeks to 3-1/2 percent. It appears that unease about the political situation in Quebec has begun to focus exchange market attention on the relatively discouraging economic outlook. Little progress has been made in moderating inflation: underlying rates of rise for the CPI are around 9 percent, although this rise has been obscured by lower food prices. Output has been about flat since the second quarter of this year and cost pressures, therefore, are not relieved by substantial increases in productivity. With costs rising faster than in the United States and the current account in substantial deficit, the strength of the Canadian dollar until recently derived from large capital inflows resulting from heavy borrowing in the U.S. capital market. Some of the decline in the value of the Canadian dollar this week probably reflects the narrowing of interest rate differentials after the discount rate was reduced from 9-1/2 percent to 9 percent on November 22, but most of the movement reflects a belated adjustment to what appear to be the economic realities.

Alan Greenspan

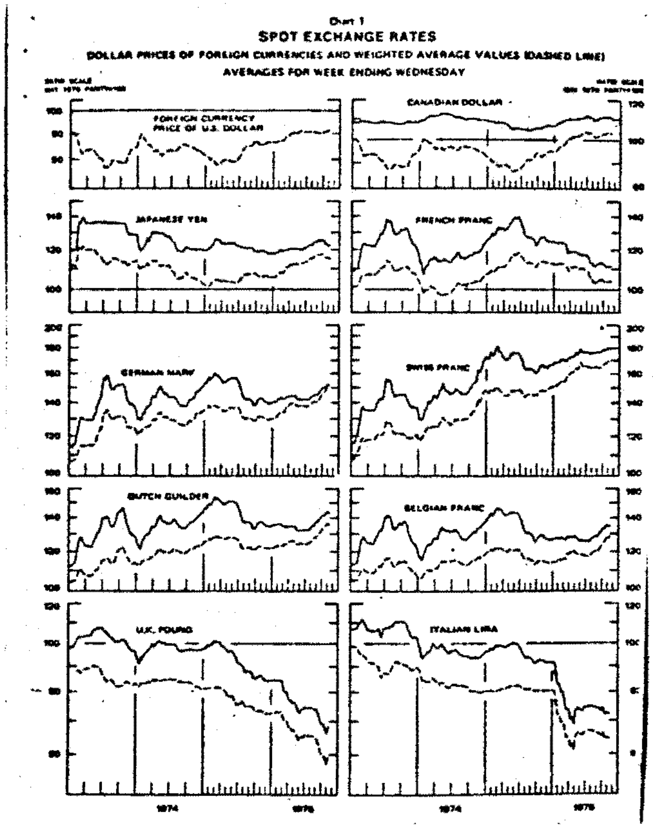
ate: 11/26/76




| Country | Type of Market Instrument | Market Rate | 90 Days Forward Premium(+) Discount(-) (a. r.) | Net Covered Yield | Net Arbitrage Incentive: |
|---|---|---|---|---|---|
| U.S. | 90 Day CD's | 4.825 | - | 4.825 | |
| Eurodollars | 90 Day Bank Deposit | 5.250 | - | 5.250 | |
| U.K. | Interbank Loan Rate | 14.938 | -10.94 | 3.998 | - .827 |
| Canada | Finance Company Paper | 8.500 | - 3.72 | 4.780 | - .045 |
| Germany | Interbank Loan Rate | 4.700 | + .58 | 5.280 | + .455 |

Date: 11/26/76

# CHANGE IN VALUE OF FOREIGN CURRENCIES IN TERMS OF U.S. DOLLAR




| CURRENCY | UNITS PER U.S. $ / U.S. ¢ PER UNIT | | % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN | | |
|---|---|---|---|---|---|
| | SMITHSONIAN | TODAY | TODAY | WEEK AGO | MONTH AGO |
| Canadian Dollar | 1.000<br>¢100.000 | 1.0115<br>¢ 98.86 | -1.1 | 1.4 | 2.9 |
| British Pound | .384<br>¢260.571 | .6061<br>¢ 165.00 | -36.7 | -35.5 | -39.0 |
| German Mark* | 3.222<br>¢ 31.032 | 2.4033<br>¢ 41.61 | 34.1 | 33.2 | 34.2 |
| Swiss Franc | 3.840<br>¢ 26.042 | 2.4396<br>¢ 40.99 | 57.4 | 57.0 | 57.9 |
| French Franc* | 5.116<br>¢ 19.548 | 4.9875<br>¢ 20.05 | 2.6 | 2.2 | 2.5 |
| Dutch Guilder* | 3.245<br>¢ 30.819 | 2.5119<br>¢ 39.81 | 29.2 | 28.5 | 29.2 |
| Belgian Franc* | 44.816<br>¢ 2.231 | 36.7647<br>¢ 2.7200 | 21.9 | 21.1 | 21.3 |
| Italian Lira | 581.500<br>¢ .172 | 866.5511<br>¢ .1154 | -32.9 | -32.8 | -32.6 |
| Japanese Yen | 308.000<br>¢ .325 | 295.3337<br>¢ .3386 | 4.2 | 4.2 | 4.5 |

* Currencies floating together relative to the U.S. dollar.

Date: 11/26/76

# VALUE OF THE DOLLAR IN TERMS OF FOREIGN CURRENCIES AND THE PRICE OF GOLD

## TRADE-WEIGHTED AVERAGE VALUE OF THE DOLLAR IN TERMS OF 14 MAJOR CURRENCIES

| WEEKLY AVERAGE | PERCENTAGE CHANGE IN VALUE FROM: | |
|---|---|---|
| | May 1970* | Smithsonian |
| THIS WEEK | -11.33 | -1.77 |
| LAST WEEK | -11.70 | -2.17 |
| 4 WEEKS AGO | -11.90 | -2.39 |
| 6 MONTHS AGO | -10.99 | -1.39 |
| YEAR AGO | -12.02 | -2.53 |

## PRICE OF GOLD ON THE LONDON GOLD MARKET

| PRICE IN DOLLARS PER OUNCE** | PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971 |
|---|---|
| 130.25 | 272.1 |
| 130.20 | 272.0 |
| 123.15 | 251.9 |
| 125.50 | 258.6 |
| 138.15 | 294.7 |

* Last month in which fixed exchange rates were adhered to by all 14 countries (Canadian dollar floated June 1, 1970).

** On the last working day of the week.