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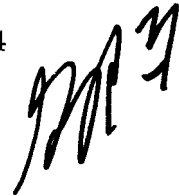
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Central Files

THE PRESIDENT HAS SEEN *W.F.*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 31, 1974



MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Conditions

The U. S. dollar continued its upward trend against major world currencies this week. The fact that this occurred despite news of a large U. S. trade deficit and a large German trade surplus that was made public this week is indicative of the fundamental strength that the dollar has built up in recent weeks.

The German mark continued its downward movement relative to the dollar despite the release this week of German trade figures showing a sharp rise in the country's trade surplus to \$1.7 billion in July from about \$950 billion in June, and from about \$6.0 billion during the first seven months of 1973, to \$11.2 billion during the same period in 1974. This favorable news failed to reverse the bearish sentiments in the market stemming from nervousness about the state of the German banking industry; a failure of yet another small German bank was announced this week, fourth such failure in two months. The German central bank provided support for the sagging exchange rate of the mark by selling \$75 million in the foreign exchange markets, while the U. S. Federal Reserve System, in order to maintain orderly trading in the New York market and to bolster the mark rate, purchased \$50 million worth of German marks.

Currencies of other EC countries participating with Germany in the so-called snake arrangements (by which their exchange rates are maintained at 2-1/4 percent relative to each other) were forced to decline together with the sagging mark, as the central banks of these countries bought about \$50 million worth of German marks with their own currencies to effect their parallel decline.

The French franc that has been withdrawn from the "snake" earlier this year and that has been floating freely relative to the dollar since that time showed some strength this week, but its rise against the dollar was moderated by the authorities through the purchase of \$20 million in the foreign exchange markets.



Of other major currencies, the Italian lira and the Japanese yen were both under considerable downward pressure relative to the dollar this week. The Japanese authorities sold about \$90 million to hold the exchange rate at the last week's level. The intervention by the Italian authorities last week amounted to over \$100 million.

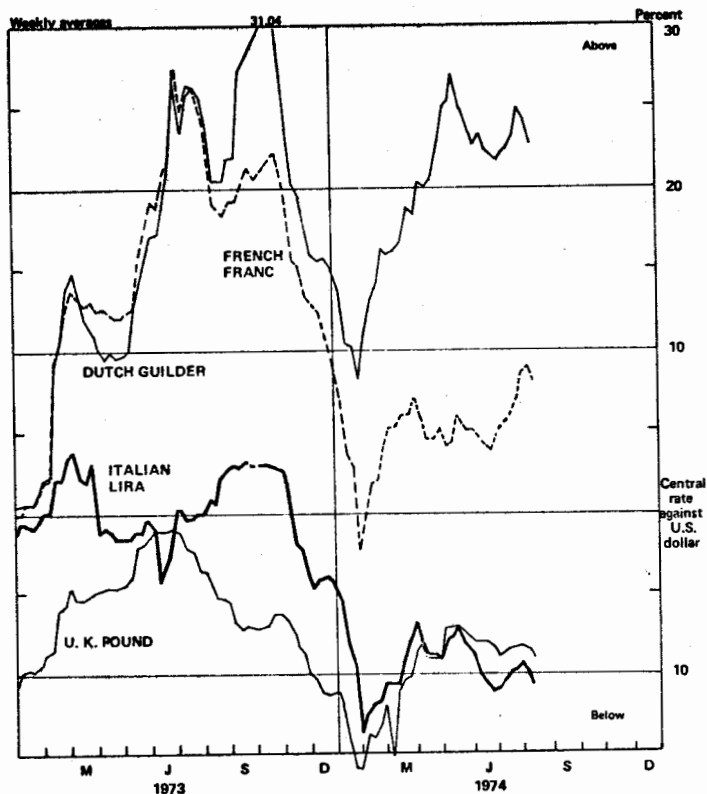
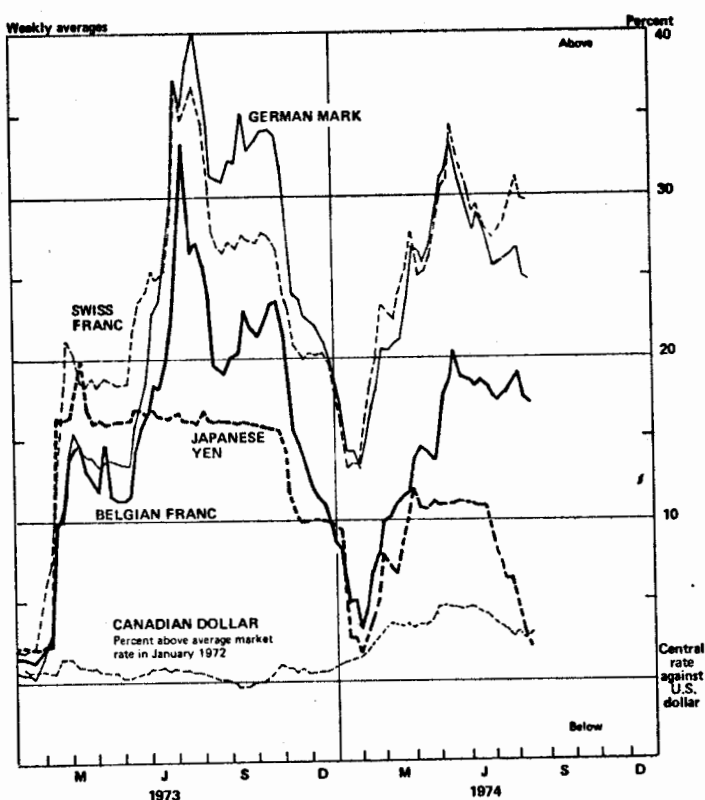
The price of gold on the London gold market rose moderately in rather quiet trading.

A handwritten signature in cursive script that reads "Herbert Stein".

Herbert Stein

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

(Weekly averages of daily offered rates in the U. S. market as percent above or below
central rates as established by Smithsonian agreement, December 1971)

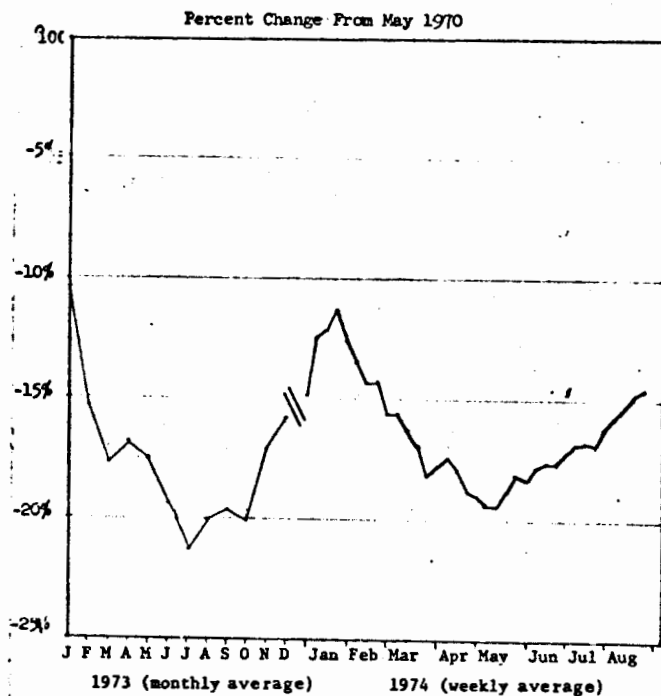


CURRENCY	UNITS PER U. S. \$		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	U. S. ¢ PER UNIT		TODAY	WEEK AGO	MONTH AGO
	SMITHSONIAN	TODAY			
Canadian Dollar	1.000	.9882			
	¢100.000	¢101.19	2.0	2.0	2.5
British Pound	.384	.4317			
	¢260.571	¢231.65	-11.1	-10.8	-8.2
German Mark*	3.222	2.6603			
	¢ 31.032	¢ 37.59	21.1	22.1	25.8
Swiss Franc	3.840	3.0084			
	¢ 26.042	¢ 33.24	27.6	28.0	30.6
French Franc	5.116	4.8170			
	¢ 19.548	¢ 20.76	6.2	6.0	9.3
Dutch Guilder*	3.245	2.7100			
	¢ 30.819	¢ 36.90	19.7	20.7	24.1
Belgian Franc*	44.816	39.3082			
	¢ 2.231	¢ 2.544	14.0	14.8	18.9
Italian Lira	581.500	660.5020			
	¢ .172	¢ .1514	-12.0	-11.6	-9.4
Japanese Yen	308.000	302.7551			
	¢ .325	¢ .3303	1.6	1.6	4.2

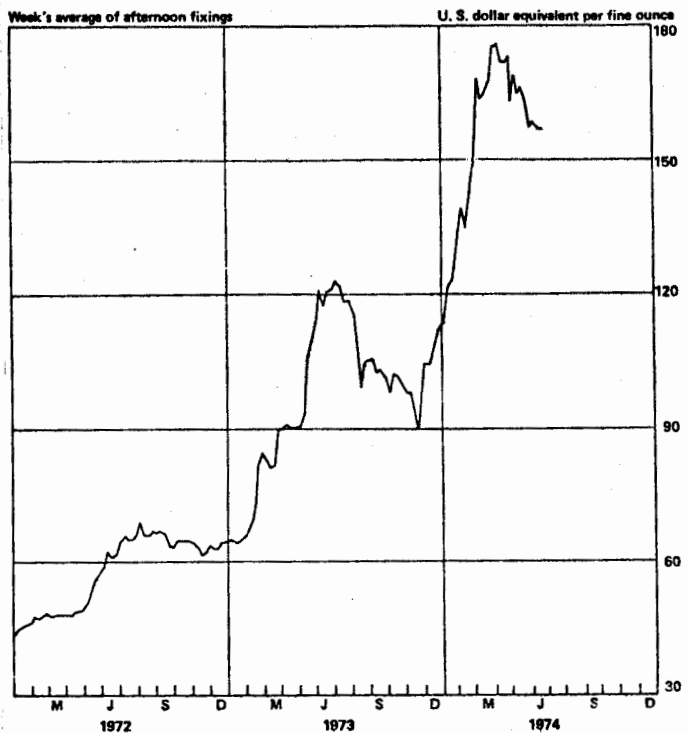
* Currencies floating together relative to the U. S. dollar.

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

Trade Weighted Average Value of the Dollar



GOLD PRICE IN LONDON, 12.5 Kg. BARS



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

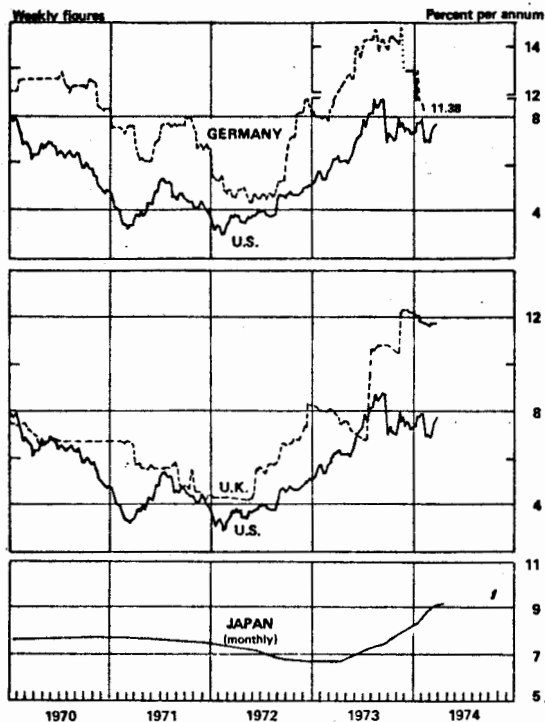
PRICE OF GOLD ON THE LONDON
GOLD MARKET

DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May 1970*	Smithsonian
TODAY	-14.29	-3.68
WEEK AGO	-14.78	-4.16
MONTH AGO	-16.68	-5.99
6 MONTHS AGO	-15.23	-4.57
YEAR AGO	-19.25	-8.59

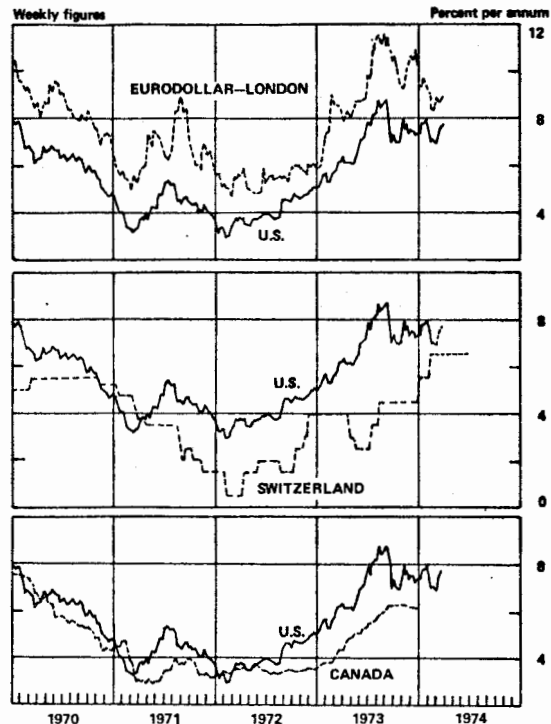
PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
156.00	345.7
154.00	340.0
149.00	325.7
167.50	378.6
103.50	195.7

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

SHORT-TERM INTEREST RATES



U.S., 90-day Treasury bill rate; Germany, interbank loan rate; U.K., 90-day Treasury bill rate; Japan, average rate on bank loans and discounts.



U.S., 90-day Treasury bill rate; Eurodollars, three-month rate; Switzerland, three-month deposit rate; Canada, 90-day Treasury bill rate (adjusted to U.S. quotation).

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	12.35	—	12.35	
Eurodollars	90 Day Bank Deposit	13.875	—	13.875	
U. K.	Interbank Loan Rate	12.50	-2.05	10.45	-1.90
Canada	Finance Company Paper	11.75	1.64	13.39	1.04
Germany	Interbank Loan Rate	9.50	4.90	14.40	2.05
Switzerland	Commercial Bank Prime Rate	8.00	2.65	10.65	-1.70
France	"	14.40	-5.02	9.38	-2.97
Japan	"	9.25	-.61	8.64	-3.71

* 60 days.