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THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

December 6, 1974

*gmc7*

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

The U. S. dollar's value measured against a weighted average of foreign currencies finished this week virtually unchanged from last week, following a moderate rise early in the week, and a decline thereafter.

Gold markets first dropped sharply as a result of the announcement of the U. S. Treasury's intention to auction 2 million ounces of gold early next year but the price of gold recovered quickly to somewhat below its level of last week.

*William J. Fellner*

William J. Fellner  
Acting Chairman



## Supplementary Analysis of This Week's International Financial Conditions

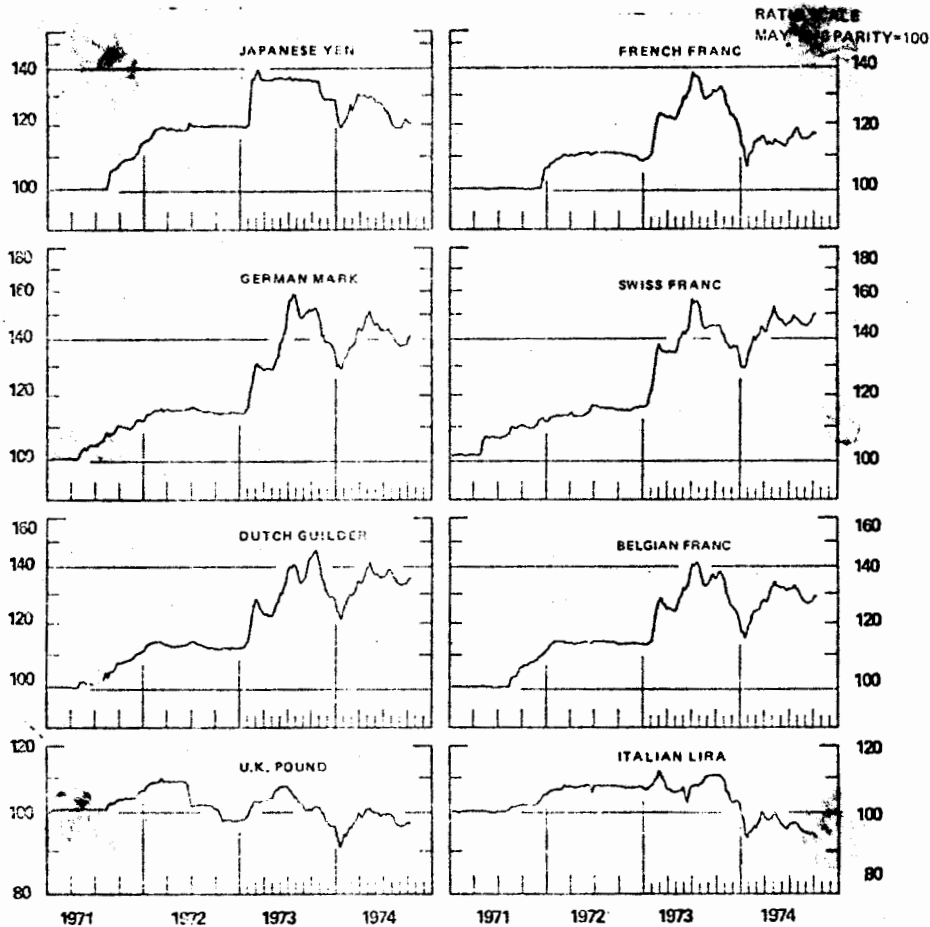
The U. S. dollar began the week on an upswing, rising in quiet trading on Monday and Tuesday. A smaller than expected German trade surplus released last week, Switzerland's recent actions to discourage holdings of the franc and the leveling off of U. S. interest rates after the downward trend in recent weeks, apparently contributed to this trend. The announcement by the U. S. Treasury of intended gold sales when the U. S. market for the metal opens in 1975, may have contributed to weakening of the U. S. currency at the mid-week. Central bank intervention during the week was relatively quite minor, consisting of the U. S. purchase of \$75 million's worth of D-marks to pay back previous swap drawings.

The strengthening of the dollar relative to the Swiss franc in the first part of the week was directly related to new actions by the Swiss National Bank to repel foreign funds. The imposition of a 12 percent negative interest rate on foreign funds last month, and the recent requiring that Swiss-franc borrowings by foreigners be promptly converted into currencies was supplemented this week by raising reserve requirements on foreign holdings. Swiss banks must now deposit funds corresponding to 24 percent of the increase in foreign demand deposits and to 18 percent of the increase in time deposits; these reserve requirements are up from previous levels of 11.2 percent and 8.4 percent, respectively. The steps here described discouraged demand for Swiss franc, contributing to its weakening relative to the dollar.

Gold markets showed much activity during the week in reaction to the U. S. announcement of its intention to auction two million ounces of gold from its reserves to help satisfy anticipated upcoming U. S. demand in January and to reduce U. S. buying abroad. The price in the London market had fallen somewhat earlier in the week anyway with the dollar's advance, and with the Treasury's announcement it fell considerably. After a low of \$170.50 at the morning fix in London on Wednesday, however, it rose again later in the week, traders evidently having discounted prior information, to an afternoon fix on Friday of \$180.90. Its subsequent rise may have been aided by South Africa's intention to withhold some of its production to counter the U. S. move.

Date: December 6, 1974

**SPOT EXCHANGE RATES**  
INDEXES OF DOLLARS PRICES OF FOREIGN CURRENCIES  
AVERAGE FOR WEEK ENDING WEDNESDAY



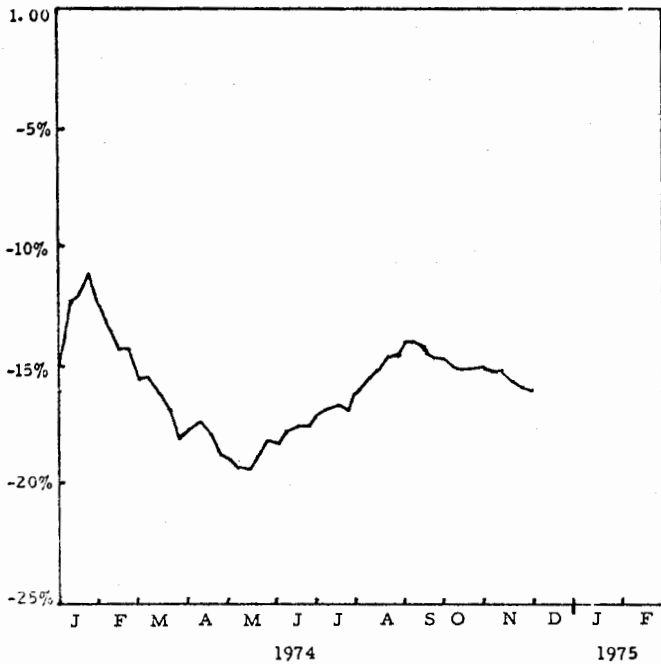
CURRENCY	UNITS PER U. S. \$		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	U. S. ¢ PER UNIT		TODAY	WEEK AGO	MONTH AGO
	SMITHSONIAN	TODAY			
Canadian Dollar	1.000	.9877	1.3	1.3	1.2
	¢100.000	¢101.25			
British Pound	.384	.4292	-10.6	-10.7	-10.4
	¢260.571	¢232.97			
German Mark*	3.222	2.4814	29.9	30.3	26.3
	¢ 31.032	¢ 40.30			
Swiss Franc	3.840	2.6688	43.9	41.5	37.3
	¢ 26.042	¢ 37.47			
French Franc	5.116	4.6083	11.0	10.5	9.2
	¢ 19.548	¢ 21.70			
Dutch Guilder*	3.245	2.5674	26.4	26.5	23.2
	¢ 30.819	¢ 38.95			
Belgian Franc*	44.816	37.1885	20.5	20.6	17.4
	¢ 2.231	¢ 2.689			
Italian Lira	581.500	664.0106	-12.4	-12.4	-12.7
	¢ .172	¢ .1506			
Japanese Yen	308.000	299.5806	2.7	2.6	2.7
	¢ .325	¢ .3338			

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

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

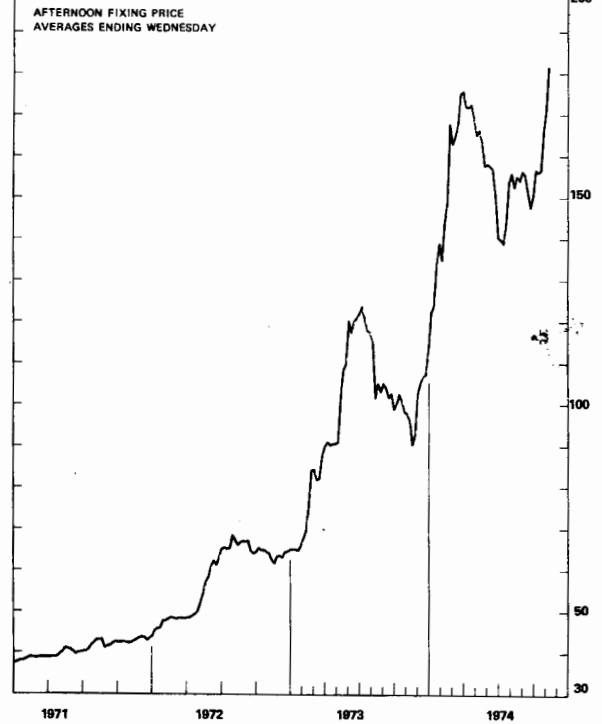
Trade Weighted Average Value of the Dollar

(Percent Change from May, 1970)



Gold price in London, 12.5 kg. bars

U. S. DOLLARS PER FINE OUNCE



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

DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May 1970*	Smithsonian
TODAY	-16.02	-5.32
WEEK AGO	-15.95	-5.26
MONTH AGO	-15.31	-4.65
6 MONTHS AGO	-18.40	-7.61
YEAR AGO	-16.01	-5.28

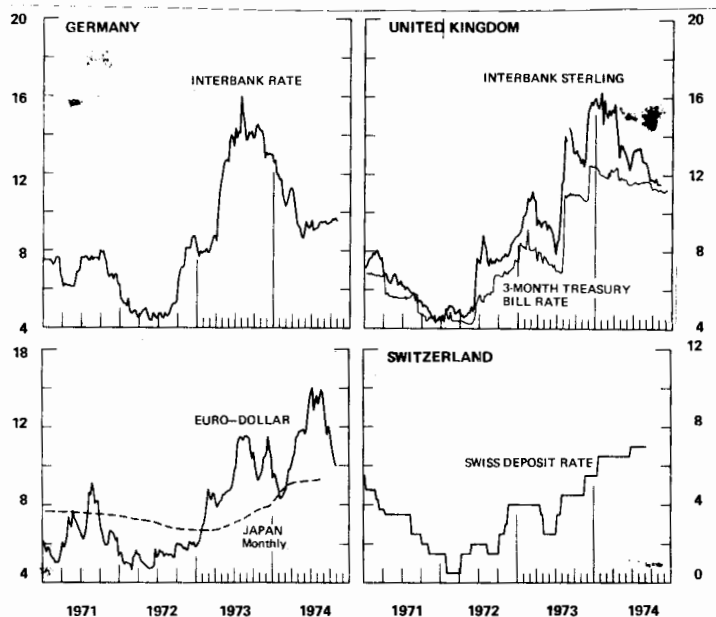
PRICE OF GOLD ON THE LONDON  
GOLD MARKET

PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
180.90	416.86
184.00	425.7
183.00	422.9
155.50	344.29
107.25	206.43

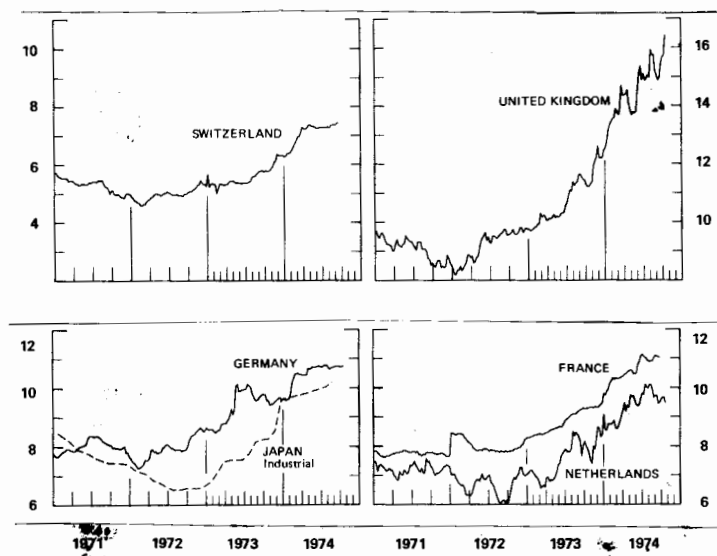
\* Last month in which fixed exchange rates were adhered to by all 14 countries  
(Canadian dollar floated June 1, 1970).

**Short-term interest rates**

Weekly figures

**Long-term bond yields**

Weekly figures



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	9.25	---	9.25	
Eurodollars	90 Day Bank Deposit	10.375	---	10.375	
U.K.	Interbank Loan Rate	12.563	-4.46	8.103	-1.147
Canada	Finance Company Paper	10.625	-.14	10.485	+1.235
Germany	Interbank Loan Rate	8.60	+2.08	10.68	+1.43
Switzerland	Commercial Bank Prime Rate	8.00	+1.33	9.33	+.08
France	Commercial Bank Prime Rate	14.40	-9.32	5.08	-4.17
Japan	Commercial Bank Prime Rate	9.90	-2.64	7.26	-1.99

\* 60 days.