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*Central Files*

THE PRESIDENT HAS SEEN *df.*

COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

ALAN GREENSPAN, CHAIRMAN  
WILLIAM J. FELLNER  
GARY L. SEEVERS

January 25, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

The U. S. dollar fell sharply this week in terms of a weighted average of major world currencies. Lower U. S. interest rates relative to those abroad and speculative flows of funds into Switzerland, which boosted the value of that country's currency relative to the dollar, were the major factors contributing to the dollar's decline. Some moderation of this trend may be expected in the near future following measures taken by the Swiss government to discourage inflows of funds.

William J. Fellner  
Member

Alan Greenspan  
Chairman



Supplementary Analysis of This Week's  
International Financial Conditions

The U. S. dollar began this week lower on a downdrift. Falling interest rates in the United States and the Eurodollar market, plus expectations of further easing following the cuts in U. S. banks reserve requirements announced by the Fed, contributed to the weakness. The dollar was particularly weak against the Swiss franc which rose by 3-1/2 percent in value relative to the dollar during the week. The Swiss National Bank provided heavy support for the dollar in the early part of the week when it bought \$319 million. On Thursday, Swiss authorities raised the negative interest rate on foreign holdings of the franc acquired since October 31 from 12 percent to 40 percent, and also announced the immediate elimination of interest payments on renewals of all foreign holdings, no matter when acquired, over \$20,000.

Other central banks also intervened in foreign exchange markets during the week. The U. S. Federal Reserve entered in a relatively minor fashion by selling \$12 million in German marks on Thursday and Friday. The French supported the dollar with purchases of approximately \$80 million during the week, while the Dutch purchased about \$35 million.

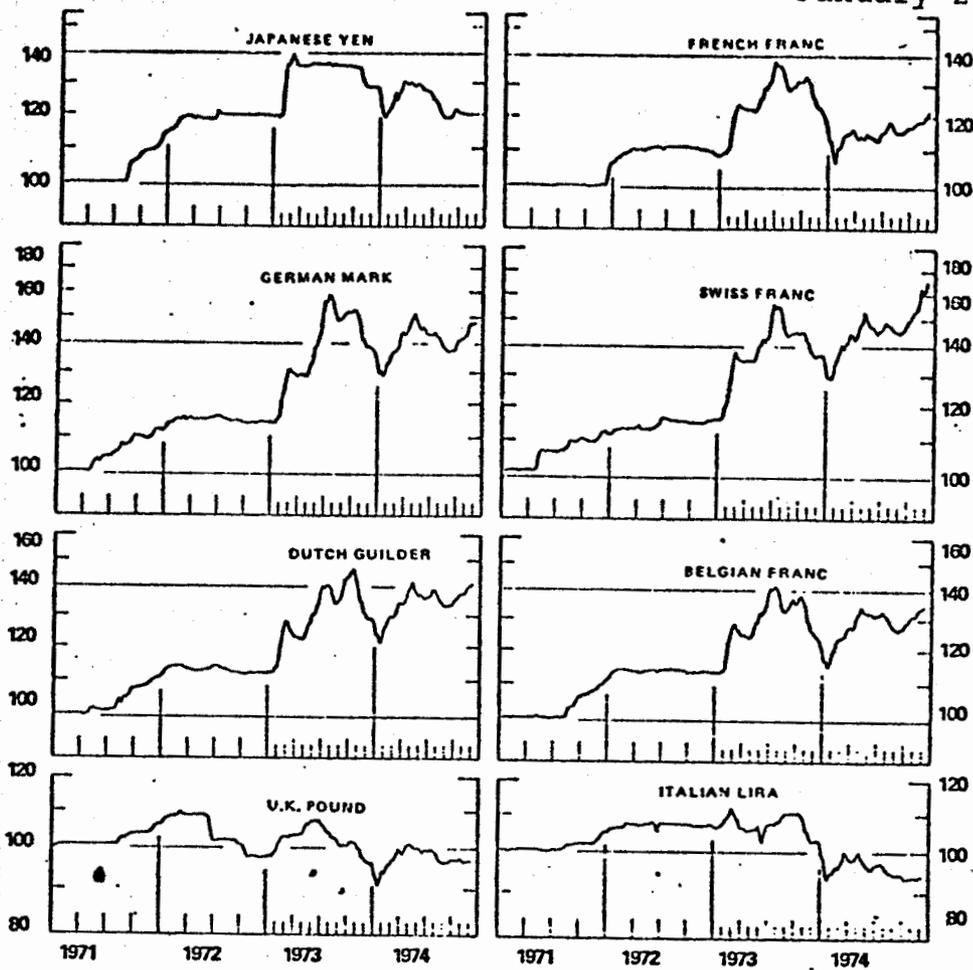
On the other hand, the Italian monetary authority sold \$100 million to support the lira, bringing the total since the beginning of the month to \$350 million.

The Bank of England also supported sterling by selling \$90 million this week in an effort to counteract its weakness against the continental currencies following the last week's lowering of U.K. bank rate of 11.25 percent from 11.5 percent.

Gold trading in London was mixed but the price rose overall. The low price for the week was reached on Monday morning when it was fixed at \$172.75, while the high was reached at Friday afternoon's fix of \$177.50.

According to preliminary as yet incomplete figures, the U. S. recorded a "deficit" on official reserve transaction basis of \$386 million during the week, largely as a result of a \$294 million increase in OPEC investment in U. S. government securities during that period.

Date: January 24, 1975

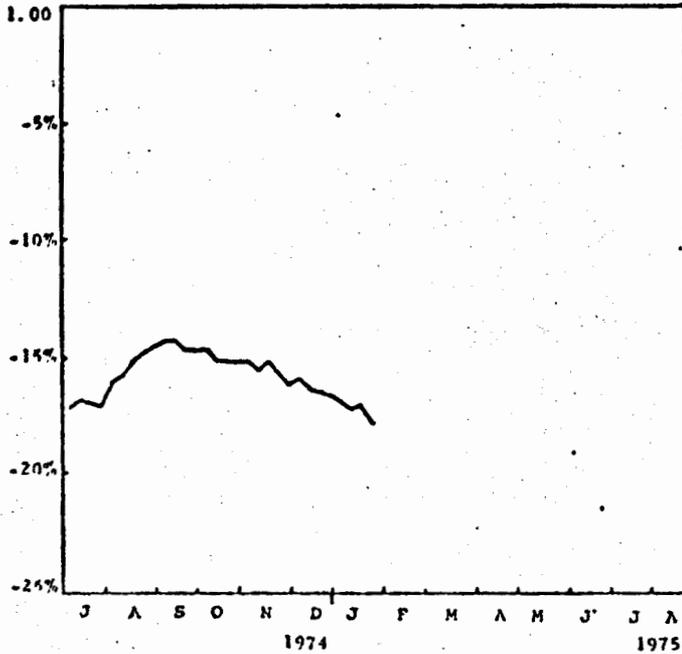


CURRENCY	UNITS PER U. S. \$		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	U. S. ¢ PER UNIT		TODAY	WEEK AGO	MONTH AGO
	SMITHSONIAN	TODAY			
Canadian Dollar	1.000	.9956	0.4	0.9	1.2
	¢100.000	¢100.44			
British Pound	.384	.4193	-8.5	-9.7	-10.7
	¢260.571	¢238.50			
German Mark*	3.222	2.3202	38.9	35.4	33.4
	¢31.032	¢43.10			
Swiss Franc	3.840	2.4679	55.6	50.1	53.1
	¢26.042	¢40.52			
French Franc	5.116	4.2918	19.2	16.7	15.2
	¢19.548	¢23.30			
Dutch Guilder*	3.245	2.4131	34.5	31.3	29.6
	¢30.819	¢41.44			
Belgian Franc*	44.816	34.7464	29.0	25.8	23.6
	¢2.231	¢2.878			
Italian Lira	581.500	635.3240	-8.5	-10.2	-10.9
	¢.172	¢.1574			
Japanese Yen	308.000	295.0723	4.3	2.3	2.3
	¢.325	¢.3389			

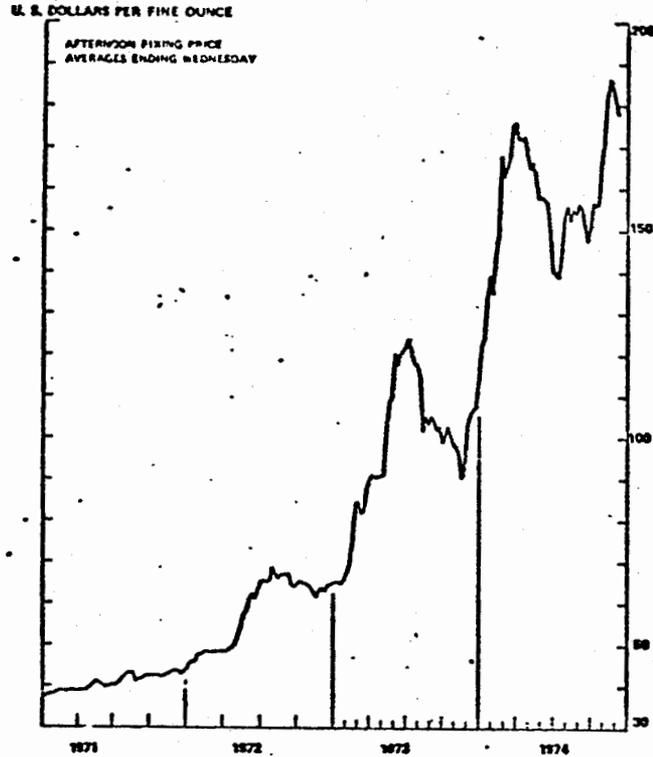
\* Currencies floating together relative to the U.S. dollar.

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



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

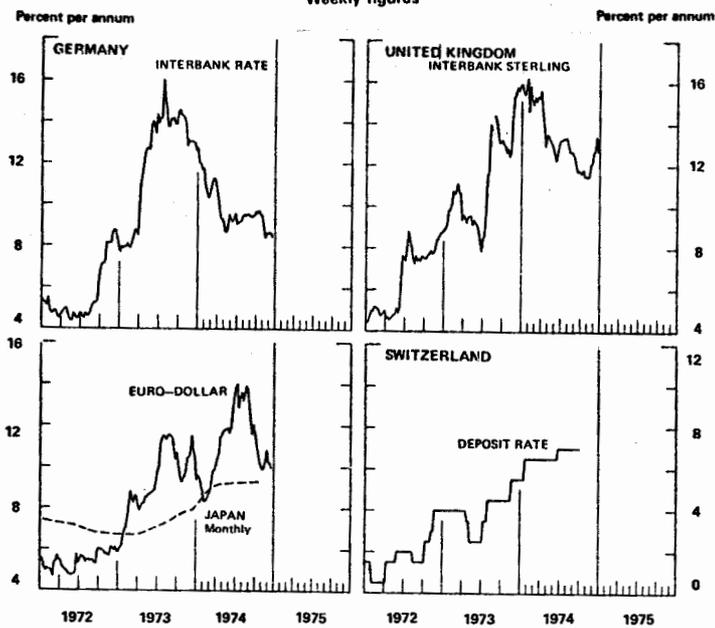
PRICE OF GOLD ON THE LONDON  
GOLD MARKET

DATE	PERCENTAGE CHANGE IN VALUE FROM:	
	May, 1970*	Smithsonian
TODAY	-17.91	-7.27
WEEK AGO	-17.11	-6.50
MONTH AGO	-16.75	-6.15
6 MONTHS AGO	-17.05	-6.74
YEAR AGO		

PRICE IN DOLLARS PER OUNCE	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
177.50	407.1
173.75	396.4
195.00	457.1
149.00	325.7
140.90	302.6

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

## Short-term interest rates



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	7.00	---	7.00	
Eurodollars	90 Day Bank Deposit	8.125	---	8.125	
U. K.	Interbank Loan Rate	11.563	-4.55	7.013	+0.013
Canada	Finance Company Paper	7.00	+0.50	7.50	+0.50
Germany	Interbank Loan Rate	7.60	+1.49	9.09	+2.09
Switzerland	Commercial Bank Prime Rate	8.00	+1.43	9.43	+2.43
France	Commercial Bank Prime Rate	N/A			
Japan	Commercial Bank Prime Rate	9.90	+0.59	10.49	+3.49

\* 60 days.