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Central File

THE PRESIDENT HAS SEEN *De*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 12, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

MA

There was relatively little change in the dollar exchange rate this week. Although the trade weighted average exchange rate declined slightly, the dollar closed Friday in most markets above its lows earlier in the week, but down from last week's closings against most European currencies.



Alan Greenspan



Supplementary Analysis

Foreign exchange rates drifted in thin markets this week. Most European markets were closed on Thursday and activity may have been further dampened by a foreign exchange dealer meeting in Vienna.

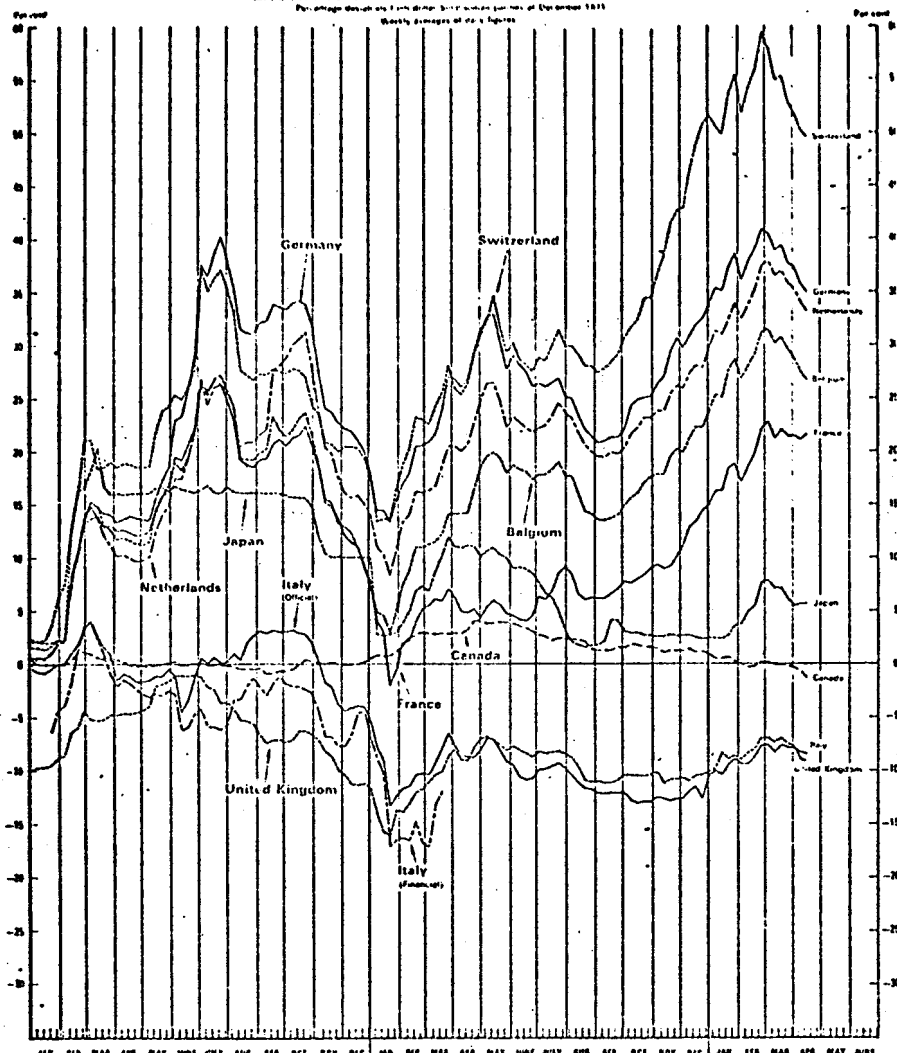
A drop in U. S. Treasury bill rates as the week opened probably helped depress the dollar early in the week, and the fact that the German Bundesbank did not reduce its discount rate as expected in some quarters may have added further weakness. Counteracting this weakness in the trade weighted average are the weaker Canadian dollar and British pound. Federal Reserve intervention has been relatively minor; \$20 million equivalent of German marks were bought early in the week to pay off swap arrangements, but \$17 million equivalent of Deutschmarks and \$11 million equivalent of Dutch guilders were sold later as the dollar came under pressure.

The British pound has steadily lost ground against Continental currencies even though it rallied briefly against the U. S. dollar on rising U. K. interest rates and commercial demand. The decline accelerated sharply on Friday, and the depreciation index has reached a new record low. Continued apprehension over the outcome of the June referendum on remaining in the European Common Market may be part of the reason for sterling's weakness, and some dealers feel the U. K. authorities may be allowing sterling to decline now to conserve reserves which could be needed to defend the currency should the U. K. vote to withdraw. The Bank of England sold \$38 million this week.

The French, who added \$320 million to their official reserves this week, announced Friday at 2:00 p.m. that they would rejoin the European joint float. European exchange rates remained distorted with wide spreads due to this as markets closed for the week. Reports from Europe indicate that the U. S. dollar rose initially and sterling fell further.

Prices in the London gold market fluctuate evenly about the \$165.00 per ounce level. Low for the week was the first Monday fixing of \$163.50 and the high was \$166.25 at the second fix on Thursday.

EXCHANGE RATES AGAINST THE DOLLAR



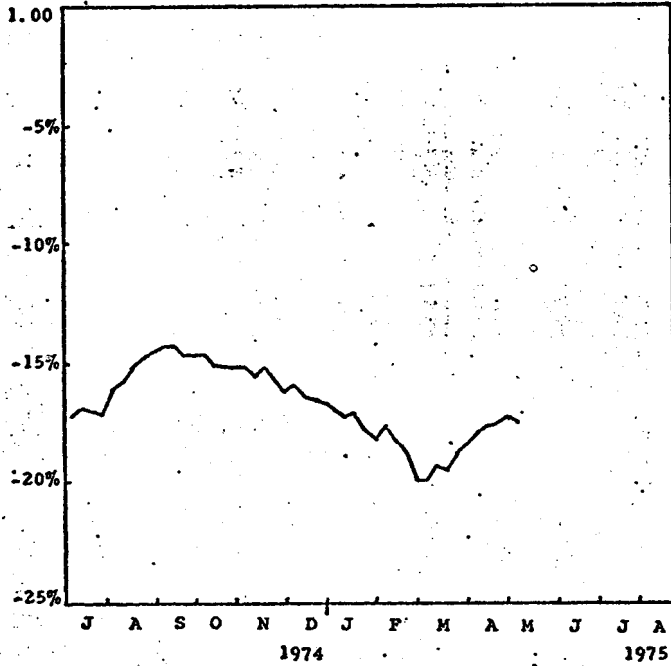
CURRENCY	1973		1975		
	UNITS PER U. S. \$		% CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	SMITHSONIAN	TODAY	TODAY	WEEK AGO	MONTH AGO
Canadian Dollar.	1.000	1.0286	- 2.8	- 2.3	- 0.8
	¢100.000	¢ 97.22			
British Pound	.384	.4329	-11.3	-10.4	- 9.3
	¢260.571	¢ 231.00			
German Mark*	3.222	2.3602	36.5	35.3	35.1
	¢ 31.032	¢ 42.37			
Swiss Franc	3.840	2.5183	52.5	50.1	49.5
	¢ 26.042	¢ 39.71			
French Franc	5.116	4.1068	24.6	23.6	21.0
	¢ 19.548	¢ 24.35			
Dutch Guilder*	3.245	2.4038	35.0	33.8	33.4
	¢ 30.819	¢ 41.60			
Belgian Franc*	44.816	35.1247	27.6	27.1	26.9
	¢ 2.231	¢ 2.8470			
Italian Lira	581.500	629.7229	- 7.7	- 8.0	- 8.4
	¢ .172	¢ .1588			
Japanese Yen	308.000	291.2056	5.7	6.0	5.8
	¢ .325	¢ .3434			

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

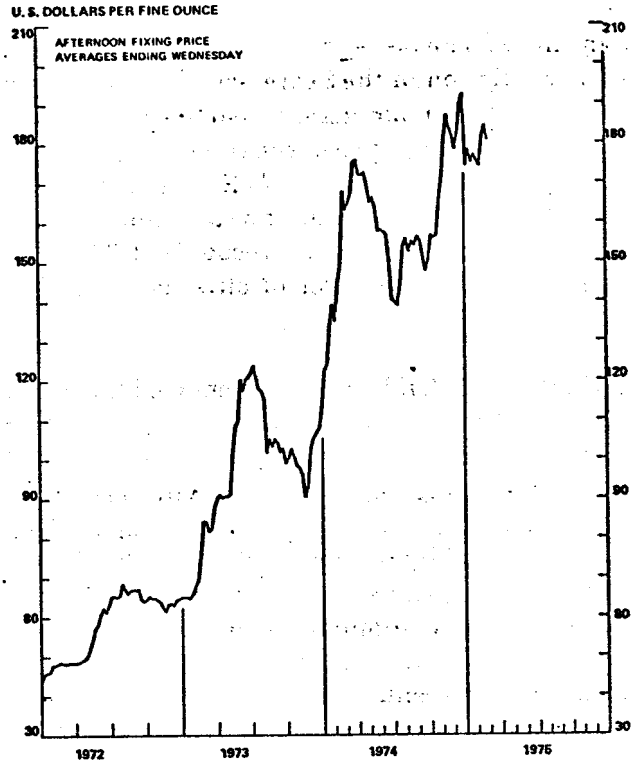
Date: 5/9/75

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

WEEKLY AVERAGE	PERCENTAGE CHANGE IN VALUE FROM:	
	May, 1970*	Smithsonian
THIS WEEK	-17.64	-7.02
LAST WEEK	-17.38	-6.75
4 WEEKS AGO	-18.00	-7.35
6 MONTHS AGO	-15.54	-4.98
YEAR AGO	-19.43	-8.74

PRICE OF GOLD ON THE LONDON
GOLD MARKET

PRICE IN DOLLARS PER OUNCE**	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
165.75	373.6
165.50	372.9
171.90	391.1
183.00	422.9
167.70	379.1

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

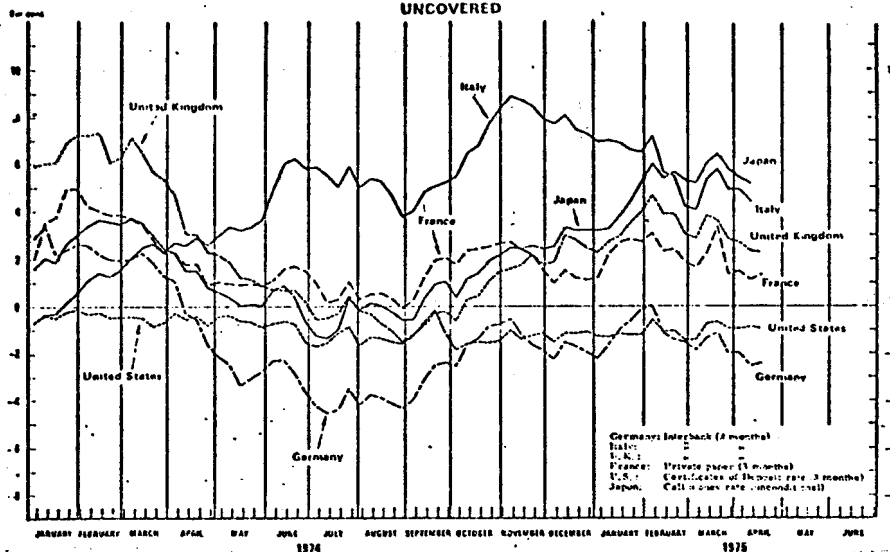
** On the last working day of the week.

Date: 5/9/75

INTEREST RATE DIFFERENTIALS

Domestic rates minus Euro-dollar rates

UNCOVERED



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	6.075	-	6.075	
Eurodollars	90 Day Bank Deposit	6.563	-	6.563	
U. K.	Interbank Loan Rate	9.938	-6.32	3.618	-2.457
Canada	Finance Company Paper	7.625	- .74	6.885	+ .810
Germany	Interbank Loan Rate	4.9	+1.97	6.87	+ .795
Switzerland	Commercial Bank Prime Rate	8.50	+2.16	10.66	+4.585
France	"	12.35	-2.97	9.38	+3.305
Japan	"	8.75	+1.28	10.03	+3.955

* 60 days.