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Central File

THE PRESIDENT HAS SEEN. *ly*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

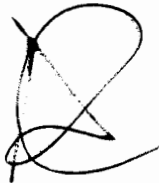
May 26, 1975

MR7

MEMORANDUM FOR THE PRESIDENT

Subject: International Financial Developments

The dollar declined this week, primarily on lower U.S. prime lending and money market rates. The U.S. Federal Reserve and foreign central banks intervened in behalf of the dollar, which was trading irregularly in relatively quiet markets at the week's end.



Alan Greenspan



Supplementary Analysis

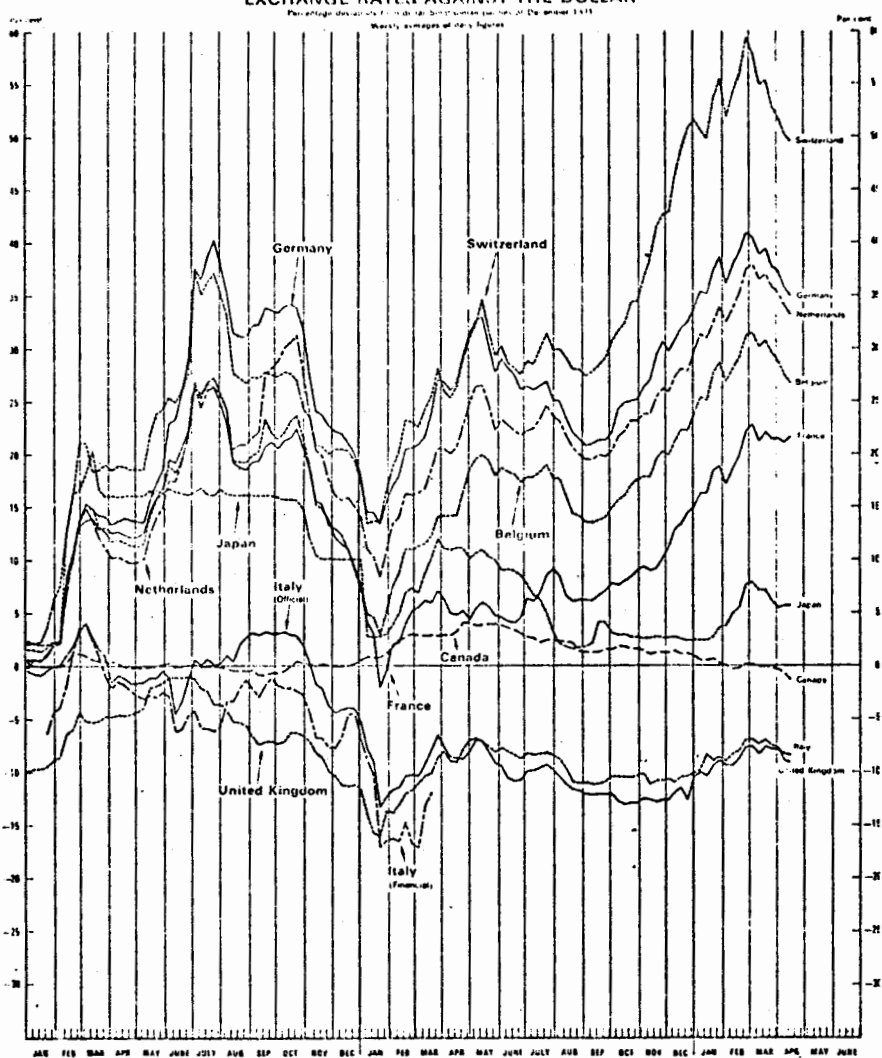
Lower U.S. interest rates exerted downward pressure on the U.S. currency this week, and the release of mixed U.S. economic data and forecasts may have added some transient weakness. Positive factors for the dollar were announcements of continuing interest rate declines on the European continent; the German Bundesbank, for example, announced half point reductions in both its discount and Lombard rates at midweek.

The British pound appreciated 1.0% against the dollar over the week, while continuing to fall against continental currencies. Analysts cited speculation that internationally declining interest rates may prompt capital flows toward London; British interest rates are expected to be pressured upward to relieve the recent sustained weakness of sterling since mid-April. At present the minimum lending rate in the U.K. remains at 10.0%. The pound has not received much support from foreign central banks, who generally view the currency's depreciation as called for by the economic and political situation in Britain.

The French franc has been notably firm recently. The French will rejoin the European joint float soon, possibly within a few weeks after technical details are worked out. One issue currently under discussion is the establishment of a loose relationship of the entire snake vis-a-vis the dollar. Discussions on the possible association of the Swiss franc will be with the snake taken up again in June.

The Bank of Japan moved to reduce inflows which have recently contributed upward pressure to the Japanese yen this week, although no intention of enforcing rigid controls was mentioned at this stage. Capital movements to Japan have been mainly short term arbitrage funds placed primarily by U.S. commercial and investment banks on higher Treasury paper yields there, reinforced by the strength of the yen in forward markets and lower Eurodollar rates.

Gold prices, after fluctuating recently at about the \$165.00 per ounce level, moved higher this week. The high fixing in London was \$174.75 on Thursday afternoon.



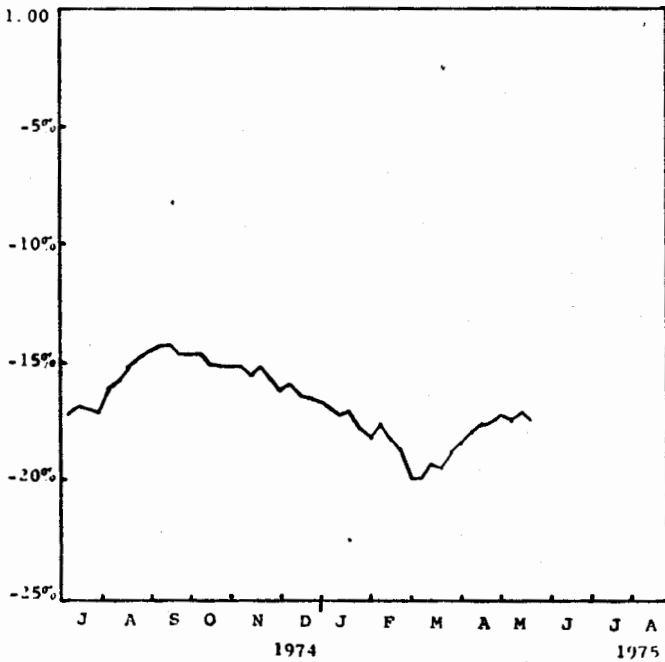
CURRENCY	1973 UNITS PER U.S. \$		1975 % CHANGE IN FOREIGN CURR. FROM SMITHSONIAN		
	U. S. ¢ PER UNIT		TODAY	WEEK AGO	MONTH AGO
	SMITHSONIAN	TODAY			
Canadian Dollar	1.000	1.0265	- 2.6	- 3.2	- 1.7
	¢100.000	¢ 97.42			
British Pound	.384	.4298	-10.7	-11.6	- 9.7
	¢260.571	¢232.65			
German Mark*	3.222	2.3261	38.55	36.9	35.1
	¢ 31.032	¢ 42.99			
Swiss Franc	3.840	2.4759	55.1	52.0	49.5
	¢ 26.042	¢ 40.39			
French Franc	5.116	3.9809	28.5	25.7	22.7
	¢ 19.548	¢ 25.12			
Dutch Guilder*	3.245	2.3981	35.3	34.4	33.6
	¢ 30.819	¢ 41.70			
Belgian Franc*	44.816	34.7222	29.1	28.3	27.2
	¢ 2.231	¢ 2.880			
Italian Lira	581.500	623.4414	- 6.7	- 7.3	- 8.1
	¢ .172	¢ .1604			
Japanese Yen	308.000	290.6977	5.8	5.6	4.7
	¢ .325	¢ .3440			

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

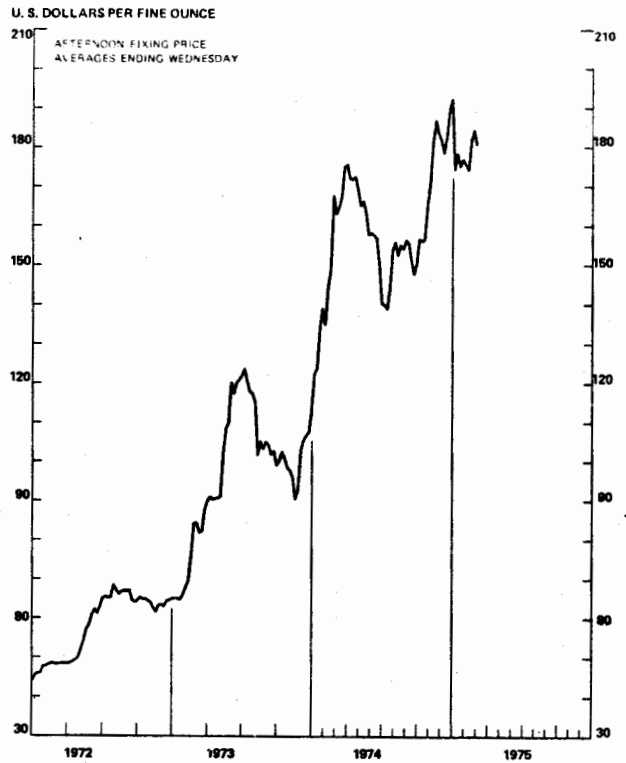
Date: 5/23/75

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	-17.56	-6.91
LAST WEEK	-17.26	-6.61
4 WEEKS AGO	-17.58	-6.94
6 MONTHS AGO	-15.90	-5.32
YEAR AGO	-19.00	-8.32

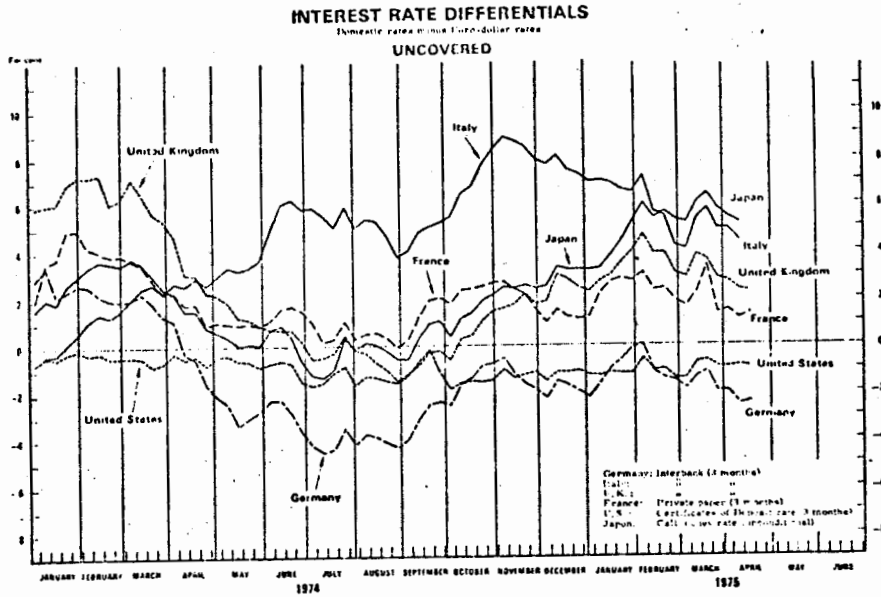
PRICE OF GOLD ON THE LONDON
GOLD MARKET

PRICE IN DOLLARS PER OUNCE**	PERCENTAGE CHANGE IN PRICE FROM AUGUST 1971
173.40	395.4
165.75	373.6
166.10	374.6
182.00	420.0
161.75	362.1

* 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: 5/23/75



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	5.53	-	5.53	
Eurodollars	90 Day Bank Deposit	6.00	-	6.00	
U.K.	Interbank Loan Rate	9.938	-4.65	5.288	-.242
Canada	Finance Company Paper	7.25	-1.26	5.99	+ .46
Germany	Interbank Loan Rate	4.90	+1.21	6.11	+ .58
Switzerland	Commercial Bank Prime Rate	8.00	+1.89	9.89	+4.36
France	"	12.35	-1.76	10.59	+5.06
Japan	"	8.75	+ .41	9.16	+3.63

* 60 days.