exchange trading yesterday for the second consecutive day, posting gains against most foreign currencies in New York and abroad, *The Associated Press* reported....

Also the dollar was helped by the strength of the British pound. On Wednesday the Bank of England severed ties between the dollar and pound, letting the pound rise. This in turn benefited the dollar because it is used as an exchange medium.

Journal of Commerce, July 27:

"Treasury's Assurances Boost Dollar"

After three weeks of nervous waiting, the foreign exchange market got what it wanted — an assurance from Treasury Secretary W. Michael Blumenthal that " a strong dollar is of major importance not only to the U.S. but also to the rest of the world...The market exploded in hectic and volatile trading, sending the U.S. currency sharply higher. Traders were acutely aware that the Federal Reserve had let the federal funds rate rise to 5.75%...Traders said that there was utter confusion after reports of Mr. Blumenthal's remarks as they scrambled to find out where rates should be...

New York Post, July 29:

"West Germans Blast Carter's 'Risky Game' After $ Slides"

Bonn — ... they feel the Carter Administration is playing what the respected *Frankfurter Allgemeine Zeitung* newspaper this week called a "selfish... risky game... that shows little responsibility to the world economy..."

Transfer Ruble Flotation Behind Weakness In Gold Price?

The odd failure of the international gold price to respond to the chaos on the foreign exchange markets in the dollar's precipitous decline this week may be due to a triangular operation between the Soviet Union, the European Economic Community, and the OPEC nations to establish a new international monetary structure based on gold.

The Comecon International Bank for Economic Cooperation may be issuing transfer rubles to the central banks of France, Britain, Italy, and West Germany, and to the Arab nations, via the Big Three Swiss banks in Zurich, in return for payment in gold bullion.

The thesis is given weight by clear moves in Europe for re-entry into the European monetary snake by France, Britain, and potentially Italy, at a time when Europe is enraged over the state of the dollar. Simultaneously, the French Guallists led by Jacques Reuff in particular are working with Kuwait and the anti-dollar faction in Saudi Arabia to speed creation of a gold-backed Arab Dinar.

The evidence for the transfer-ruble (TR) flotation is as follows. While gold rose from $144.95 per ounce at the close on Friday, July 22 to $146.55 during the hectic fall of the dollar last Monday, it slipped back in the course of the most voracious foreign exchange trading in two years to $144.25 on Friday.

At the same time, rumors began circulating through the Zurich banking community that the Soviet Union, which in trading almost entirely via Zurich has for years been a net supplier of 20-25 percent of the world gold market's annual new bullion influx, has recently become a net *purchaser* of gold. London gold market sources, normally well informed of Soviet gold sales trends, could not refute the rumor and expressed uncertainty about previous estimates that the Soviets would sell even more gold this year than last due to their foreign exchange needs. Adding to the mystery, the three large Swiss banks that run the Zurich gold pool — Union Bank of Switzerland, Swiss Credit Bank, and Swiss Bank Corporation — are reliably reported accumulating buy orders on their own accounts for any gold coming onto the market. Between this apparant shift into large net new demand for gold and the dollar shakeup, the price should have soared during the week.

A New York bullion dealer agent for one of the five London gold market banks further believes that major market participants are conducting a bear raid — speculating the gold price down now to buy it up cheap and shove it up again. Certain European dealers with large positions are simultaneously selling gold short in the short term, and going long on six-month and longer gold futures. These dealers' clients expect a short-term collapse of the gold price and then a fast rise, the New York source said. A West Coast think tank with gold market expertise also predicted today a near-term fall in the gold price to $130 and below, and then a rise at year-end above the $250 level after consultations with circles close to Jacques Reuff in Paris.

The Snake

It is clear someone is planning something major and that the gold price is being artificially depressed. Zurich sources familiar with Soviet Economics Ministry experts hold a thesis on the transfer ruble that the Comecon International Bank for Economic Cooperation (IBEC) is issuing TR certificates to the account of OPEC and European central banks at the three Zurich gold pool market-makers, and being paid in bullion. Thus it would appear that the Soviets are net takers of bullion without the transaction, or even the rumor of the transaction, driving up the price. In effect, it would represent a gold swap similar to the two already done by the South African Reserve Bank and the Swiss Central Bank in which South Africa swapped bullion to the Swiss for foreign exchange for an indefinite period without having to put the bullion on the market and depressing prices. The TR-bullion arrangement is a central bankers' operation.

The Swiss gold pool banks have had considerable experience in TR factoring between the IBEC and their European trading partners. Further, they are not only the virtual monopolizers of the Soviet gold trade but of the Middle East gold trade as well. The same three Swiss banks are also the major general financial agents for Arab funds more broadly in Europe.

The TR report coincides with reports from an overwhelming number of gold and oil-dollar experts that the French Gaullists are leading European-wide efforts to speed up negotiations for the creations of a gold-backed joint Arab Dinar by Kuwait, Saudi Arabia, and the other Arab states. The Arab dinar, already under serious study at the newly-formed Arab Monetary Fund, would be issued as the required currency for making oil payments, sources close to Zurich report. In that case, Western companies wishing to buy oil would have to go into the foreign exchange market and sell their national currency for whatever it would bring under circumstances when every foreign exchange market in the world would be doing the same thing. Considering that annual Western world oil payments today are some $150 billion, several Swiss bankers confirmed today, there would be an immediate run out of soft currencies and into Deutschmarks, Swiss francs, and the new Dinar in an unmanaged market situation.

But why would the Gaullists, the London gold pool, and other Europeans now pushing the Dinar be acting for the collapse of their own weak currencies in this way? The answer can be seen in the French balance of payments and the British reserve position in the International Monetary Fund's own statistics. For the past three quarters, there has been a massive inflow of short-term capital into the franc, while British reserves have risen from below $5 billion to over $11 billion since the end of 1976. Italian reserves similarly have doubled during the recent period. Most of these are Arab funds, as most central bankers publically admit, and it is clear that the semi-open agreement the Guallists and the Saudi government to support the franc by deposits in French banks is being extended to the EEC as a whole and would be extended under conditions of issuing an Arab Dinar.

In short the U.S. dollar would be left to bear the full brunt of the run into Dinars and European currencies. The severe instability of the dollar has already caused the Bank of England to abandon its pegging the pound to the $1.72 level, and peg it to a basket of EEC currencies. The leading West German financial daily *Handelsblatt* reports that the British are in good shape to rejoin the European snake. A U.S. representative of the Banque de France similarly agreed with reports flooding the French and West German press that France's Giscard d'Estaing and West Germany's Helmut Schmidt are negotiating the French franc's return to the snake. Morgan Guaranty's *World Financial Markets* admitted in its latest issue that the stability of the Italian lira in the long term is assured, especially give the advance in political support in EEC loans which have bolstered Italy's reserves. The lira too is a candidate for entering the snake.

All or Nothing

The result of this new European-Arab motion alone, even without the Soviet angle, is at the very least a definite step toward an EEC-Arab monetary arrangement involving gold and deserting the dollar in the short run, numerous international bankers concurred this week. West coast gold circles just back from Paris report that Jacques Reuff and Raymond Barre are the real power behind the Giscard government's push toward the Arab Dinar, as evidenced by the founding of a $300 million capitalized joint venture bank by the Giscard family's Banque de Suez and the Saudi Arabian Monetary Agency (SAMA) last week.

But as one leading Anglo-American bank in London pointed out, there must be a Soviet political angle somewhere beneath all this. "The Saudis are loaded with rotten paper, dollars and U.S. Treasury bills. You're stuck with them. You could sell them to the Soviets for Euro-Rubles but you can't get fet fighters from the French with Euro-Rubles without an international arrangement. The Saudis have to go for all or nothing."