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FOREIGN EXCHANGE

London sells yen to pressure EMS

The Japanese yen came under intense pressure during the week of March 12-16, falling as low as 209.50 yen per dollar, a 19 percent drop from its Oct. 31 rate of 175.50 yen. The Bank of Japan spent through the week over $1.2 billion in intervention — almost half a billion through the New York Fed — to stabilize its currency in the 207-208 yen range.

Most of the totally unjustified selling, which began each day in Hong Kong, was reported coming from British banks intent not on lowering or raising the yen, but on *destabilizing* the yen-dollar-deutschemark cross rate.

The City — and the British Exchequer—are on record as aiming to halt the new European Monetary System (EMS). But London has a problem. The EMS went into effect formally on March 12, continuing to stabilize the dollar in the 1.86 deutschemark range, as well as the DM rate against the continental European currencies. The next objective of Bonn and Paris is an EMS-yen stabilization aimed at coordination of long-term *lending* to the developing sector — jointly — by the European Monetary Fund and the Tokyo capital market.

It is this yen-dollar-DM package against which the new London speculation is aimed. An inflammatory London Reuters report of Exxon's phase-out of its third-party contracts to Japan began last week's yen run, although the Japanese companies have already replaced the oil with state-to-state deals.

The entire yen drop follows the January prediction of the Bank of England's Sir George Bolton, who said that in the *short* term the United States and other oil-rich nations' currencies would rise — after which the dollar would fall. Precisely. Traders report that the demand for dollars against yen in Tokyo resulted mostly from spot purchases for forward *sales* of dollars. That is, instead of the steady 200 yen per dollar rate which would otherwise prevail over the next months, the speculators are aiming for a dollar peak of say 220 yen now and a trough of say 180 yen in the summer — destabilization for destabilization's sake.

—*Kathy Burdman*

DOMESTIC CREDIT MARKETS

Miller predicts higher interest rates

Federal Reserve Board chairman G.W. Miller, flanked by leading U.S. bank economists this week projected a run-up in U.S. interest rates, citing the expectation of oil price increases and "too much credit expansion."

Irwin Kellner, economist for Manufacturer's Hanover Bank told this news service that "Miller must begin raising U.S. rates soon. The rate of inflation is too steep and too much credit is being supplied in the economy despite the moderation of M1 and M2 (the monetary aggregates — ed.). I foresee," Kellner added, "Federal Funds hitting 12 percent by the third quarter.

What might be a false start for Kellner's predictions came on March 9 when Federal Funds hit 10.75 percent in the morning without any apparent Federal Reserve intervention. But the Federal Reserve pumped liquidity back into the banking system on Monday March 12 by executing repurchase agreements which brought Fed Funds back to the 10.25 to 10.375 percent range, where they remained for the remainder of the week.

Miller's statement the next day, March 13, before the American Paper Institute however, indicated that the respite in Federal Funds rates increases was only temporary. Miller told the Institute that consumer spending must be "nipped in the bud," and predicted tighter measures if U.S. inflation is not brought under control.

The chief variable in U.S. inflation is quite evidently the oil and food price inflation spiral.

Rubbing this point in, *New York Times* columnist Leonard Silk wrote in a March 14 article entitled, "Mideast Peace: the Economic Impact," that the U.S. arranged Israeli-Egyptian peace agreement is likely to blow up, leading to a replay of the 1973-74 oil crash.

Such a new oil crisis, Silk proposed, particularly in a war setting, would give U.S. Energy Secretary Schlesinger the powers he has demanded to put the U.S. economy

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GOLD

Tight supplies

Our gold editor has just received the exclusive account of an embarrassing and potentially devastating setback to the vast Middle East/Indian trade in gold bullion. First, some background. It is an astonishing but well-documented fact that approximately one-half of world gold supplies coming onto the market in any given year are conduited to the ultimate purchasers via smugglers. Although Timothy Green, a consultant to the London-based mining finance house Consolidated Goldfields and a leading authority on world gold smuggling, has mentioned this fact on several occasions, he has not chosen to stress the point that gold smuggling is generally used to cover-up "dirty money" transactions, including, most importantly, the $200 billion a year global traffic in illegal drugs. The clandestine gold trading operations are centered primarily in the Middle East, India, and the Far East.

The news of a major blow to the Middle East/Indian trade was reported by Christopher Glynn, also of Consolidated Goldfields, in a Feb. 7 speech to the International Precious Metals Institute in New York City. According to Glynn, the trouble arose when a new group of gold fabricators squeezed out the traditional manufacturers in the region and decided to manufacture "ten tola" gold bars in a slightly different shape. According to Glynn, "These bars (had been) of a size and shape which, so I am assured, permit secretion in some rather sensitive bodily recesses." (A "tola" is equivalent to approximately 4/10 of an ounce.) Glynn continued:

"Unfortunately, whether by oversight or sheer callousness I am not sure, the new entrants decided to make their bars just a tiny bit longer. They have not been a success. In fact, the whole exercise has been decidedly uncomfortable for both fabricators and customers. I am reliably informed that a new term of rejection has been introduced in the Gulf States: 'You know what you can't do with your ten tola bars don't you!'"

—*Alice Shepard*

under full oil rationing. Moreover, Silk added, "there are (other) immediate steps that could be taken, such as imposing thermostatic controls on public buildings, and raising oil prices and oil taxes to curb consumption."

Putting this scenario into implementation would have two effects on the U.S. economy: first, oil consumption cuts translate into immediate production cuts in the heavily energy-dependent U.S. economy. Second, U.S. industry would demand a huge supply of funds to finance such increased oil price flow throughs, feeding the increased demand of funds that the Carter Administration would alledgedly like to see halted.

— *Richard Freeman*

U.S. trade war versus the EMS

Treasury Undersecretary C. Fred Bergsten, in a March 7 speech, described the codes the U.S. has proposed for the Multilateral Trade Negotiations at the "Tokyo Round" of 98 nations. The U.S. administration's determination to wage trade war against "advanced" LDCs was made explicit.

We sought as major components of the new code acceptance by advanced developing countries of increased obligations on subsidies....

...The principal obligation under the new code is a commitment not to use export subsidies on industrial or mineral products ...

...This provision specifically recognizes that export subsidies are an integral part of many development programs, but that they become less necessary as nations develop. The requirement is designed to encourage the phase out of export subsidies as nations become more advanced....

...In the absence of such obligations, we would countervail subsidized imports without an injury determination as in the past. It is extremely important to get as broad participation as possible in the MTN code — and we believe the benefit of recourse to an injury test in the U.S. is a real incentive....

We have had particular problems with government intervention in the investment process ... foreign governments frequently require that for a U.S. firm to do business with the government it must agree to transfer technology to the nation ... a major objective must be to achieve discipline....