

to the depressed state of the U.S. economy, and the simultaneous tightening in West German domestic rates. As a result, even more funds will be attracted out of the dollar into the deutschemerk, but under conditions not at all beneficial to the West German economy.

As long as West Germany does not move politically to establish a new monetary system wiping out billions of dollars of worthless dollar debts, the flow out of dollars into the country's money supply will produce a hyper-inflationary disaster. During the month of October, another 2 billion marks worth of foreign funds were monetized by the central bank. This has forced the Bundesbank to hike domestic interest rates, squeezing out domestic corporate borrowers, but attracting still more footloose dollars into the deutschemerk, in an unending vicious cycle. Thus, the deutschemerk is strong only in the short-run; future trends depend wholly on West Germany's political orientation.

U.S. Corporations — Agents Or Victims?

During the past week the key role of U.S. multinational corporations in the foreign exchange markets has emerged into the spotlight due to a controversy over a new accounting rule. As a result of the extreme chaos on currency markets this year, (much of it planned at U.S. bank head offices), U.S. multinationals have racked up half a billion in losses on the third quarter alone. Their losses have been aggravated by a Financial Accounting Standards Board (FASB) ruling, dating back to January of this year, which requires multinationals to report their assets and liabilities in current dollar terms. The new

rule has accelerated the trend of multinationals junking their investments in the "weak"-currency areas, putting the companies in the position of demanding that countries devalue before any more investment comes in. In effect, the corporations, willingly or not, are being forced to act as policeman for the IMF-U.S. banking austerity policies.

According to sources at the New York Federal Reserve, the Fed hopes to regiment world investment flows in precisely this way. The Australian and Mexican devaluations are the model: first, a massive currency collapse followed by a marginal revaluation in order to "tease" capital back in.

This type of currency warfare evoked a mild protest from the Journal of Commerce this week, indicating some layers of U.S. industry have begun to wake up. In its Dec. 7 editorial, the Journal noted that last week's 7 per cent depreciation of the Canadian dollar had been precipitated almost singlehandedly by the (Rockefeller-allied) New York investment house Oppenheimer and Co., Inc. Oppenheimer's extremely pessimistic report on the Canadian economy succeeded in panicking U.S. corporations into a virtual stampede out of Canadian dollars. Although the Canadian currency has temporarily stabilized, the Journal warned that Oppenheimer and allied banks now possess the power of life or death over the Canadian economy. Should the Canadian government attempt to ease credit in order to aid the country's depressed industry, U.S. multinationals could easily dump \$6 billion in Canadian investments and the Canadian dollar would fall through the floor.

Gold Up After IMF Sale

GOLD

The most significant indication of gold's strength is that 780,000 ounces of gold auctioned by the International Monetary Fund on Dec. 8 were sold at \$137 per ounce — a price exactly \$1.35 per ounce higher than the previous day's closing price on the London bullion market. Today, gold continued to be sold at \$137 per ounce in New York.

Although the Basle-based Bank for International Settlements (BIS) was not included in the list of bidders for IMF gold released this afternoon, market insiders stated that Western European, Middle Eastern, and perhaps Japanese central banks were among the major bidders at yesterday's auction. These sources indicated that the said purchases were undertaken via major Swiss banks. According to bullion traders in New York, the Swiss Bank Corporation and the Union Bank of Switzerland — both purchasing gold on behalf of central banks — placed bids at over \$150 per ounce.

The reason behind the steady resurgence in the price of gold since at least the last IMF auction six weeks ago, a resurgence that has rendered gold mining stocks extremely attractive on the stock exchanges and marked

the failure of IMF-U.S. Treasury efforts to turn gold into "just another commodity," are basically two-fold. One, havoc on the international currency markets including outright devaluations such as those of the Australian and New Zealand currencies, have temporarily steadied the collapse of the U.S. dollar even when compared to the traditionally strong Deutschemerk. Under such circumstances, private investors, multinational corporations, and others who are aware of the inherent weakness of the U.S. dollar, are beginning to hedge by getting into gold.

The other reason, far outweighing and largely the cause of the first is that Western European, Middle Eastern and other central banks stuck with billions of dollars in their foreign currency reserves, are steadily beginning to convert their dollar assets into gold. While Kuwait, Persian Gulf states, France, Switzerland, and Belgium are in the forefront on this movement, even the Japanese have been seriously considering converting their large dollar assets into gold.

As one knowledgeable Arab monetary source put it in

New York today "Gold will go to \$200 per ounce. Kuwait and the Persian Gulf States are aggressively getting into gold. The only thing stopping the Saudis and others from moving more aggressively toward a gold-based international monetary system is the threat of economic and military retaliation by the United States." Essentially, the same sentiment was expressed by a major gold bullion trading house in New York today.

Whatever the pace of motion toward an international monetary system backed by gold, the weakness of paper currencies in general, and the lack of confidence in the U.S. dollar in particular, can only mean that gold will continue up and up. Even today's IMF decision to auction its gold every month instead of every six weeks starting next March will hardly affect the market's bullishness.

Post-Election Stock Market Rise In Japan

INTERNATIONAL STOCKS

Dec. 9 (NSIPS) — The Tokyo stock market registered its strongest rise of the year this week with the Tokyo Dow climbing 5% to 4,782 yen. The Dec. 5 election, market analysts agree, was the overwhelming reason for the jump; the ruling Liberal Democratic Party (LDP) made such a weak showing that while it will retain a majority with the support of independents, Prime Minister Miki will be forced to step down. The succession of his arch-rival, Takeo Fukuda, is assured, they said.

However, the underlying real economic factors show this trend to be short-lived and speculative.

Fukuda's much-touted rise buoyed the market primarily because of his stated plans for reflating the lagging Japanese economy, and his intention to quash anti-American independent industrialist factions within the LDP, reunifying the party under strong pro-Washington leadership, spokesmen for the Tokyo financial community said.

The government and the Bank of Japan are already planning a second "package of fiscal and monetary measures" of public works and corporate investment programs which will require an additional 200 billion yen in government bond issues off the General Account fiscal 1976-77 budget, the *Japan Economic Journal* reported Dec. 7.

Here's To Inflation

The measures will have to be taken, according to the journal because the \$5.4 billion reflation package of mid-November failed to stimulate the Japanese economy; strong pressure is being applied on Japan by the International Monetary Fund and the Organization for Economic Cooperation and Development, the economic arm of NATO for a revaluation of the yen which would destroy Japan's export economy but would establish the yen as a buffer currency for the dollar. Finance Minister Ohira was quoted as saying that Japan would have to somehow step up imports or risk "trade war" with the distraught European Economic Communities, whose own economic woes preclude continued high levels of Japanese exports there.

The second reflation package will be a .5 per cent cut in

the discount rate. New York financial sources pointed out that, on the whole, this sort of pressure, obviously emanating from Washington, would not have met with such cooperation from Prime Minister Miki.

The market also apparently believes that Fukuda will be able to halt moves within the Japanese industrial community to set up more independent relations with the developing countries, particularly the Organization of Petroleum Exporting Countries, and the Comecon. This "independent resources faction," led by Sohei Nakayama, counselor of the Industrial Bank of Japan, and including many top steel and heavy industrial magnates related to the Industrial Bank group, was described in a controversial series of articles in the magazines *Bungei Shunju* and *Chuo Koron* this summer as opposing the Rockefeller financial and oil interests control over the Japanese economy. The "independents" efforts in particular to gain security of oil supplies from the Exxon and U.S. multinationals, the articles alleged, were the real cause of the Lockheed scandals which have discredited many "faction" members as well as Miki, their spokesman. Fukuda has from the beginning taken advantage of the scandals to oppose Miki at every turn and it is widely acknowledged that his coming rise to power is due to the Lockheed affair. Now "only Fukuda will be able to unify the party," one Tokyo analyst said.

But Prospects Dim

In the general advance of the Tokyo market this week, the stocks making the favorable showing were, as would be expected, the cyclicals which will benefit from the reflation program, as well as the export sector industries. Matsushita Communications, TDK, Pioneer, Sanyo Electric, Toyota Motor, Nippon Electric, Dai Nippon Printing, and Fuji Photo Film all showed strong gains, especially on investment trust buying.

But not only is the prospect for any real boost from the reflation program — other than to the consumer price index — thin, but the export sector cannot possibly maintain its current position and in fact will suffer in the first quarter of 1977 from the general world recession,