Click here for Full Issue of EIR Volume 6, Number 20, May 22, 1979

FOREIGN EXCHANGE

Japan sells its soul for the yen

The Ohira government of Japan has concluded a political deal with U.S. Federal Reserve Chief G.W. Miller to stabilize the Japanese yen. After Japan announced a major rearmament program last week, during and after Premier Ohira's trip to Washington, a series of Carter Administration spokesmen let it be known that U.S.-Japan relations had improved immeasurably.

The results were apparent on the foreign exchange market, after U.S. Fed Chief Miller told the New Jersey Bankers' Association on May 14 that the "current value of the Japanese yen is too low" and that "U.S. officials are in close consultation with the Japanese over the weakness of the Japanese currency. ... The consultations will continue in order to prevent a re-emergence of instability in the markets." Following the Chairman's remarks, the yen rose to the level of 213 to the dollar from its recent 215 fluctuation band. Traders predicted the yen would continue to strengthen.

However, like so many Carter Administration gambits, this deal may be worth less than the price of Ohira's plane ticket. By May 17, the yen was under pronounced pressure, trading at 216 after moving back up to the 214 level earlier in the week. The yen has been weakening since February, not so much because of the Japanese economy's sensitivity to the cutbacks in world oil production stemming from Iranian events, but because London and Hong Kong foreign exchange speculators have moved along the lines of the Jan. 9 speech by Governor Sir George Bolton of the Bank of England. Bolton predicted that the oil crisis means an inevitable, long-term capital outflow from oil-poor nations—which just happen to be such hard-currency nations as Japan and West Germany—to resource-rich nations, notably the United Kingdom, Canada, and the U.S.

—*Kathy Burdman*

GOLD

Jacques Rueff's revenge

The rise of gold to its record high of $256.50 on May 16 reflects two contradictory world monetary trends.

The trend actually being realized is the general crisis of confidence in currencies caused by the International Monetary Fund's continued drive for an end to the dollar as the reserve currency in favor of the SDR. This was underlined by the fact that the major technical upward force for the gold price rise was the IMF's own announcement on May 14 that due to depletion in its gold stocks it will henceforth reduce its monthly gold sales beginning in June from 470,000 ounces to 444,000 ounces.

Based on these sorts of factors, Charles Stahl's "Green's Commodity Market Comments" of May 14 predicted a $280 gold price within six months.

But the trend, which is also heavily impacting gold's price for very distinct reasons, is the European Monetary System's coming use of remonetized gold in a gold exchange—i.e., a gold-dollar—standard. This would restabilize the dollar on a gold reserve basis through expanded international trade and development.

An article in the May 11 *Le Figaro* signals that French President Valéry Giscard d'Estaing may be preparing major moves to use the European Monetary System to directly challenge the IMF.

The article in question, written by Institut de France member André Piettre, uses the occasion of the first anniversary of the death of the late President de Gaulle's closest economic advisor, Jacques Rueff, to denounce the use of substitute currencies like the Special Drawing Rights and the role of the IMF as the "agent" causing the current economic depression. Titling his commentary "Gold's Return, or the Revenge of Jacques Rueff," Piettre praises the European Monetary System and its gold-backed reserve instrument, the ECU, as the realization of Rueff's and de Gaulle's fight for a gold-based international monetary system.

—*Kathy Burdman*

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.