

source of a huge inflow of funds into Europe over the past several months. It has allowed interest rates to fall, easing government debt costs, and giving the depressed economies a boost. It has also sent stock markets to new records, despite the grim economy. The Bundesbank knows it's hot money, tied to the liquidity being created in Japan. That has many policymakers concerned."

### Enormous asset inflation

According to informed Washington reports, to further ensure calm in the financial markets before the U.S. 1996 elections, the White House reached an "understanding" with Federal Reserve Chairman Greenspan. In return for confirmation of Greenspan for a new Fed term, Greenspan would use his influence to prevent any Fed rate rise before the elections that might trigger a market crash and hurt Clinton's prospects. On June 20, 1996, Senate Democrats allowed Greenspan's confirmation to be approved. There are further reports, that the Hashimoto government in Japan decided it to be in Japan's best interest, not to rock the boat of Clinton's re-election.

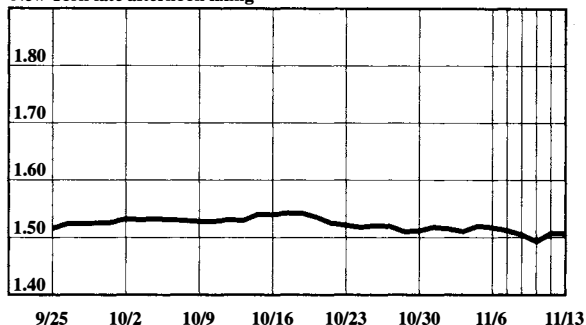
On Nov. 13, the Federal Reserve held its first Federal Open Market Committee meeting since the election. No apparent decision to raise U.S. interest rates, to "preempt inflation growth in the economy," was taken. But, the inflation that concerns the Federal Reserve, today, as in 1994, is the enormous asset inflation, which has again been created, on an even greater scale, by the last 18 months of Japanese reflation. The total paper market value, of all stocks traded in the U.S. stock exchanges today is well beyond \$6 trillion. The Dow is over 6,200; two years ago, it was 3,800. As well, the Bank of Japan over that time has invested over \$100 billion in trying to push the yen down against the dollar. But those dollars it buys are in the form of U.S. Treasury bills. That, in turn, has pushed U.S. interest rates lower and stimulated a burst in the consumer economy in the run-up to the election. Foreign central banks today hold a record \$600 billion in U.S. Treasuries, an increase of 45% since July 1995, most of it Japanese.

Now, both Japan and the United States have had elections. In Japan, the government is alarmed by the accelerating outflow of funds. That outflow is becoming so large that it is preventing a rise in Japanese stock investment, urgently needed to reduce the danger of a new round of bankruptcies in regional banks and credit unions which still have hundreds of billions dollars in bad debts. This concern was reportedly what motivated Sakakibara's remarks on Nov. 7. What alarms speculators is that very soon, Sakakibara will be forced to follow up his words with deeds, including a rise in Japanese interest rates. At that point, the colossal worldwide financial bubble which has inflated since July 1995, will implode. What no one can say at present, is where the next "Japan," that will print enough money to reflate that bubble, may be. The end of monetarist manipulations on a global scale may be nearer than most believe.

## Currency Rates

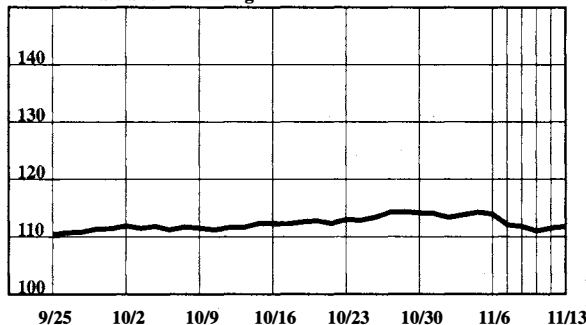
### The dollar in deutschemarks

New York late afternoon fixing



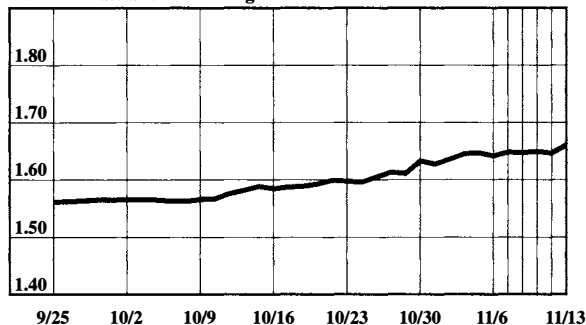
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

