

Prospects are thus unfavorable for what New York Times columnist Leonard Silk recently described as a Trilateral Commission Carter cabinet effort to "goose Germany and Japan into expanding faster." One Brookings Institution senior fellow intimately involved in this campaign privately expressed demoralization this week; the West Germans, he said, have accepted the fact that the mark will appreciate against the dollar (thus keeping up West German export prices —Ed.) and agreed that this would do no great damage to the Federal Republic so long as the mark remained stable against other currencies in Western Europe, their major trading

partner. "Who knows, maybe they're right," the Brookings spokesman said despondently about West Germany's commitment to investment growth.

Another development affecting the dollar's medium-term prospects is the continued dollar selling by the Soviet Union, according to *The Guardian*, which has continued since Dec. 20's surprise "bear coup" against the U.S. currency. The Soviets' maneuver — generally considered an effort to boost gold prices and, more fundamentally, the status of gold for a new world monetary system — has involved sales of \$5 billion by the end of last week.

## Paris Bourse Leads European Markets; Economic Entente with Arabs in Offing

### INTERNATIONAL STOCKS

French stocks have rallied over the past month, with the Paris index rising 14.9 per cent from the beginning of December to the close of trading on Friday Jan. 14. The Paris market is now the most upbeat outside the U.S., compared to rates of rise of the Frankfurt Commerzbank index of 2.5 per cent, United Kingdom Financial Times Industrial Ordinaries Index of 2.3 per cent, and the Tokyo Dow Jones by 0.1 per cent over the same period.

In particular, oil and chemical shares have far outstripped the other industrial sectors. The French government-related companies Aquitaine and Compagnie Française des Pétroles have risen 24.8 per cent and 16 per cent during December and January. Michelin, Pechiney, and Rhône Poulenc rose 15.6 per cent, 21.5 per cent, and 17.8 per cent respectively.

This fact, plus the unusual rise in the market generally have led to speculation that French corporations, may be about to receive significant inflows of Arab capital, especially the oil and chemical sectors which have been historically tied to the Arab sector.

In particular, the market showed strong resilience during the week just ended, when the dollar strengthened again internationally due to U.S. Federal Reserve intervention on the Eurodollar market and in France due to capital inflows which led to a weakening in the call money rate (equivalent of Federal funds) from 10 per cent to 9.75 per cent in the course of the week. The overall Paris index slumped 2.5 per cent during Tuesday through Thursday (from 58.4 at Monday's close to 57 on Thursday) but bounced back again on Friday for an overall rise of 2 per cent on the week.

The immediate stimulus for Friday's enthusiasm was the announcement by Mr. Barre of a 34 per cent increase

in government subsidies for the state sector industries — electricity, gas, transport, postal services, etc. Very important within this is the nuclear development program component of the government electrical industry. Barre, with strong backing from the RPR (Gaullist party) has made the expansion of this industry a priority for French industry. The French government-controlled NOVATOME corporation is going ahead with

	PARISEQUITIES				Change for December- January
	Dec. 1	Friday Jan. 7	Friday Jan. 14	Percent Week	
Paris Index	51.8	58.4	59.5	+2.0	+14.9
Aquitaine	253.0	313.0	315.8	+0.9	+24.8
CFP	95.0	111.3	110.2	-1.0	+16.0
Michelin	1112.0	1285.0	1285.0	0	+15.6
Pechiney	65.0	82.6	79.0	+0.6	+21.5
Rhône Poulenc	67.6	82.0	79.6	-2.9	+17.8
Esso Standard	49.1	56.1	55.5	-1.1	+13.0
Peugeot-Citroën	NA	242.9	260.0	+7.0	+15.0 (since
St. Gobain	109.8	118.7	115.9	-2.4	+5.6 merger)
Schneider	125.1	141.8	138.0	-2.7	+10.4
Sacilor	33.6	36.0	36.0	0	+7.1
Usinor	35.9	34.5	35.2	+2.0	-1.9

its contract with the NERSA consortium of European state electrical companies to construct the Super Phoenix fast breeder fission reactor at a cost of 5 billion francs, *Le Monde* reported Jan. 13. The future of the reactor, to be the most advanced in Europe, had previously been in doubt due to the anti-industrial growth policy of French President Giscard d'Estaing.

The government also announced this week the total computerization of the government's administration functions, which would mean 9 billion francs of orders to the flagging computer industry over the next two years.

On the international side, *Le Point* magazine reported earlier this month that France may be in for a sizable loan from Saudi Arabia, which is considered highly likely by both Paris market sources and the New York Federal Reserve. The Federal Reserve is "highly uncomfortable" at both the uncanny strength of the French franc and the prospects for a general influx of Arab capital.

The French state oil companies CFP and Elf-Aquitaine meanwhile are closely cooperating with Saudi Arabia demands that the U.S. oil companies of ARAMCO post their prices in all oil transactions in Europe and around the world. Furthermore, under the French oil companies' insistence, the French government continues its moves to reduce the U.S. majors (Mobil and Exxon) presence in the French petroleum products market by 5-10 per cent. These regulations, raising French oil companies' share of the market from 45 per cent to 50 per cent, were announced in November and raised a formal protest from Mobil's chairman to the French president.

Market observers note that Esso standard Français is also doing well despite the French government's pressure on it. This may mean a takeover of the US company's subsidiary — by French and or Arab

interests.

*Le Figaro* reported Jan. 13 that the French arms deal with Egypt which made headlines this week is a breakthrough for French-Arab relations. All of French industry is expecting increased orders in the military and high technology sector, the newspaper said, from the Middle East. As a result of the Egypt deal, the Saudi government has now agreed to foot the \$1 billion capitalization of the Arab Military Industry Organization which is to build a military and technology industry in Egypt, the industrial and technological orders for which are to be filled by the French and British Military-technology sectors.

The French and British industries, for their parts, which have already undertaken massive cooperation under the joint Concorde aerospace program, have extended this cooperation during the visit to London this week of M. Barre. In a meeting with British Prime Minister Callaghan, who has put Britain's industrial recovery under his own personal supervision, a joint accord was issued for Franco-British cooperation in all phases of the aerospace, nuclear, and computer industries especially regarding export of this crucial technology to third countries.

## West Germany to Revalue Gold Market Price?

### GOLD

West Germany's leading business newspaper, *Handelsblatt*, proposed in a Jan. 14 editorial that West Germany follow the example of France and Italy, and revalue its gold reserves to market price. Since the Bundesbank had to write down its DM 80 billion reserves by 7.5 billion, due to the 11 per cent depreciation of their dollar component, *Handelsblatt* suggests the Bundesbank should "give itself extra maneuvering room" by revaluing its gold reserves.

Since Italy revalued its 11 million ounces of gold to market price two weeks ago, South Africa and Mexico have both taken the same measure. Contrary to estimates circulated by the U.S. Treasury and Federal Reserve, the intent of the Italian revaluation was not cosmetic; the Italians are now negotiating credit arrangements for an estimated \$6-7 billion in annual bilateral trade with the Soviet Union — a large gold holder — and Italian foreign ministry sources indicated that gold will be part of the final overall credit agreement.

Official Bundesbank policy is that the central bank has no intention of changing the valuation of its gold reserves. But senior Bundesbank staffers say, off the record, that the question is under consideration. The central bank has taken one extraordinary step in the direction of a pro-gold policy: it is helping 12 developing

countries get hold of their gold in the context of the International Monetary Fund's disbursement of 6.5 million ounces, or one-sixth, of its total gold holdings, by prior international agreement. The IMF will accept hard currencies only to replenish member nations' quotas in return for gold restitution, and many Third World countries can't scrape up the cash. The Bundesbank has put up DM 31 million (\$12.5 million) on behalf of 12 countries, in return for local "soft currencies." Senior Federal Reserve officials allow that a Bundesbank revaluation is "possible," but claim skepticism.

Gold price closed the week at \$131.75, following a temporary drop earlier in the week to \$128. The earlier drop is attributable to the liquidation of gold positions held as a hedge against sterling after the member central banks of the Bank for International Settlements and the United States Treasury came to an agreement on a "safety net" for the sterling balances. The current gold trading range around \$132 is, in fact, extremely solid; the volume of gold sales at this price are exceptionally large, including Soviet bulk sales and South African Krugerrand sales.

One indication of further mobilization of central bank gold: Japan's finance ministry announced it will sell 100 metric tons, or 16 per cent of its gold stock, mainly to the Bank of Japan, the nation's central bank, and secondarily to industrial users, at a fixed price of \$119 an ounce. The transfer of gold from the finance ministry to central bank raises questions about Japan's possible active use of the metal as a reserve instrument.