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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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