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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar continued under heavy pressure in Europe yesterday, as the mark remained the currency favored by exchange traders.

Because of the mark's strength, the European central banks have been forced to intervene heavily in the markets to maintain the European band. Bundesbank intervention yesterday reportedly amounted to $400-600 million, including purchases of French and Belgian francs, guilders, and possibly Scandinavian currencies. The German central bank reportedly also had to purchase nearly $400 million in guilders last week to keep the Dutch currency within the European band. Other central banks, including the Bank of France, sold smaller amounts of marks yesterday. French Central Bank sales of marks in the last two days are the first since the joint float was initiated. In April the Bank of France purchased about $200 million in marks when the French and German positions in the band were reversed. At that time, the Bundesbank also sold French francs.

The mark's nearly isolated position at the top of the band increases its attractiveness to currency speculators, generating pressures within the band that may force some restructuring, if not a breakup, of the band itself. An alternative to an end to the band would be exchange rate adjustments by participating nations.

Rumors of a mark revaluation are prevalent despite continued official denials, including a denial yesterday by West German Finance Minister Schmidt, who also downplayed the significance of the Bundesbank interventions. Many Germans are not averse to the upward float of the mark; the prestigious Kiel Institute for World Economics called for a revaluation yesterday, noting that growing

export demand is undermining Bonn's anti-inflationary program. For much the same reason, Economics Minister Friderichs reportedly favors another revaluation. Finance Minister Schmidt's opposition is based on a desire to maintain good relations within the EC.

The French are concerned that the growing strength of the mark will pull the franc up beyond an acceptable level vis-a-vis the non-band currencies. Paris has repeatedly called for US intervention, but the French are powerless to intervene themselves since the joint float agreement requires that all members concur before dollar intervention can be undertaken. The Germans remain unwilling to intervene in dollars at this time.

If the mark is not revalued, the other member nations in the band might consider devaluing relative to the mark. Although the band members trade mainly with each other and are satisfied with their trade positions, in the long run they are unlikely to view favorably their currencies' appreciation because of its impact on trade with the US and other non-band countries. In addition, these nations probably will be unwilling to see an indefinite drain of marks from their treasuries.

Money market jitters continue to be limited to Europe. Both the yen and the Canadian dollar have fluctuated little against the US dollar since March.

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JAPAN-EC-US: Japanese officials have attempted to downplay for domestic audiences the significance of the US embargo on soybean exports, but they are clearly worried that the embargo will lead to more permanent export controls that could be extended to grains as well. Tokyo has closed its futures market for soybeans, and government officials said they might be forced to take unspecified emergency measures. The US announcement led to an immediate increase in commodity prices across the board, and soybean prices on the Tokyo market rose five percent.

Japan depends on the US for about 90 percent of its soybean supply, and roughly half of its total supply of corn, wheat, and sorghum. The Japanese currently have a two-month stock of soybeans and already had lined up the remainder of their requirements through the end of 1973 by signing contracts over the last several months. The US embargo, however, could invalidate some of these contracts. Japan already has told the US that, as the largest traditional market for US agricultural commodities, it should be given preferential treatment in any allocation of available exports.

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According to press reports, the EC Commission is urgently examining the implications of the US move for the community. The French have been pressing for an EC policy to encourage soybean production in Europe, and the recent US measures presumably will strengthen their arguments. 25X1

ARGENTINA: The Peronist government is preparing new restrictions on foreign business that could endanger its own development goals and inject new strains into its relations with the US.

The new legislation, aimed at a transfer of foreign equity to Argentine interests, has been sent to Congress where it should be passed with little difficulty. Existing foreign investments in nearly all sectors would be affected, while new investment--where not prohibited outright--would be severely restricted. Although the bill does not call for outright expropriation, it would force eventual sale to Argentine nationals of majority interests, limit capital and profit remittances, and increase government control over management decisions. Foreign investment would be prohibited in wholesale and retail trade, finance, agriculture, mining, the media, and other areas that the government deems appropriate. Foreigners having investments in these sectors would be required to divest their holdings to less than 20-percent ownership, presumably by selling to official or private Argentine investors. All other foreign investors would be required to register within four months when they can state their intention to become minority shareholders, or face special taxes of up to 40 percent on profit remittances.

Juan Peron has placed considerable emphasis on obtaining new investment from Western Europe to offset US influence and to aid Argentina in its effort to industrialize. If the new law is passed unchanged and administered in a non-discriminatory fashion, nearly all of the estimated $1.4 billion in US investment and about $3 billion total foreign investment will be affected. The Campora government may believe, however, that the potential political gains in Argentina--and elsewhere in Latin America where nationalism is gaining increasing play--warrants the risk of alienating potential new investors.

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<u>IRAQ - EASTERN EUROPE</u>: President al-Bakr's current visit to Bulgaria and Poland is aimed at easing strains that have developed in Baghdad's relations with some East European governments. The strains have resulted from Iraq's closure recently of several East European cultural centers, its expansion of economic ties with the West, and its refusal to conclude new barter arrangements for its oil. A visit to Iraq earlier this month by a high Bulgarian official, who had come to discuss oil matters, apparently did not go well. Iraq's socialist Baath regime does not want a serious disruption of its relationships with the East European countries, however, because it is counting on them for further economic assistance. Soviet Premier Kosygin reportedly will soon visit Baghdad and this will provide the Iraqis a new opportunity to continue their reassurance effort. 25X1