Dollar Hits Record Low in Germany

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BONN, June 28 — The dollar's exchange value against the West German mark fell below 2.5 for the first time today, threatening to touch off another worldwide monetary upheaval.

In hectic activity on the Frankfurt money exchange, the dollar at one point was being traded at only 2.4710. This continued a sharp downward trend that in the last month has seen the dollar's value drop by more than 12 per cent against the mark.

As of tonight, it takes 40 American cents to buy one German mark. Last month, it took 35.25 cents, and, only four years ago, one could buy a mark for less than 25 cents.

In financial circles, the dollar's accelerating weakness was ascribed to such factors as 'an expectedly large surplus in West Germany's trade; the announcement that U.S. foreign trade showed a deficit in May; the high interest rates being paid in West Germany as a means of restricting credit, and rumors of a possible mark revaluation.

However, Otmar Emminger, vice president of West Germany's central bank, the Bundesbank, expressed the opinion of many when he told reporters that the principal problem was "the psychological malaise caused by the Watergate affair in the United States."

This was a reference to the growing feeling in Europe that President Nixon might not survive in office. Even if he does, there are strong doubts that he will be able to exercise effective control over the U.S. economy, and that has sparked a sharp new loss of confidence in the American dollar.

For that reason, the record low set by the dollar today was especially alarming because so many holders of the American currency had considered unthinkable the idea that it would drop below 2.5. That it did was described by one financial observer as "equivalent to a psychological breaking of the sound barrier" as far as the confidence of the average dollar holder is concerned.

Emminger and others expressed the fear that the crossing of this threshold might trigger a new stampede to unload dollars for marks and other currencies which the public regards as stronger.

That, in turn, would almost certainly wreck the effectiveness of the 10 per cent dollar devaluation, and the other monetary realignments worked out in February and March to stabilize the free world monetary situation.

The dollar also lost ground in France, Holland, Norway and in the Swiss banking centers.

Today's activity already has led to speculation that West Germany might be forced to a new revaluation of the mark to stave off a fresh flood of unwanted dollars. This was vigorously denied by Finance Minister Helmut Schmidt, but, for the moment at least, his denials seem to have had little effect on the revaluation rumors.

A severe strain was also put on the joint float of the European Common Market currencies instituted in March as a major part of the stabilization effort. In order to keep other Common Market currencies from falling below agreed-upon parities with the mark, the Bundesbank was forced to intervene in the market today and buy large amounts of French francs, Belgian francs and Dutch guilders.

The exact size of the Bundesbank's intervention operation was not known, but financial sources estimated it unoffóciallly at between 1 billion and 1.5 billion marks (approximately $400 million to $600 million).

While the Bundesbank was buying these currencies to keep them from falling through the floor, the central banks of other Common Market countries were being forced to sell marks to keep their value from climbing above the agreed parities. If this type of pressure continues, it will become increasingly questionable whether the Common Market can maintain its joint float.

Floating means a withdrawal of the commitment to maintain the exchange value of a given currency at a fixed rate and allowing the rate of exchange to be determined by supply and demand factors. For example, the floating of the dollar against the mark means that the dollar's value is worth only what holders of marks are willing to pay for it.

Under the Common Market's joint float, most of the members have agreed to maintain fixed levels of exchange between themselves while floating against outside currencies like the dollar. This lock-step arrangement obliges the participating market members to keep fluctuations in their exchange rates with 2.25 per cent of each other.

Its practical effect is to maintain stability within the Common Market, while theoretically making the participating currencies too expensive for holders of dollars to buy for speculative purposes. However, the new loss of confidence in the dollar now appears to have unleashed a new determination to get rid of dollars no matter how high the cost.

This factor has been sending the dollar down in all major European money markets. But the most dramatic weakening of the American currency has taken place in West Germany, where the mark has again emerged as the world's most sought after currency, even though it has been revalued upward against the dollar by 55 per cent over the past four years.

Today, for example, the dollar, after opening in Frankfurt at 2.5140 fell to a low of 2.4710. By the close, it had recovered slightly to 2.4750. But this was still below the daily fixing rate of 2.4810 (the rate established for transactions made during the day but settled up at a future date).

That was enough to prompt Schmidt, who fears that further increases in the mark's value will make German exports too expensive for foreign purchasers, to issue an energetic statement denying that Bonn has any intention of unilaterally revaluing the mark.