Gold Up $6.50 to Record As Dollar Falls in Europe

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PARIS, May 21 — Renewed worries over the United States in light of the unfolding Watergate scandal pushed up the price of gold by $6.50 an ounce to a new closing high and knocked the dollar lower today in the money centers of Europe.

Foreign exchange dealers here and in Zurich said the selling of dollars originated this time from New York, from American banks and corporations.

But the selling was taking place in a relatively orderly way. There was no deluge of orders, none of the panicky reactions that has characterized monetary crises of the past.

Gold rushed at $112 an ounce in both London and Zurich, the two leading bullion centers. The price was up $6.50 an ounce from last Friday and $22 from the level only two weeks ago. The previous closing high was $110.50, set last Tuesday. In intra-day trading gold has sold for as much as $115 an ounce in Zurich.

With fresh weakness of the dollar developing late last Friday and nothing in the weekend news to lift the gloom, the price of gold jumped to $109 an ounce almost immediately this morning and then continued to rise to the $112 level.

The dollar, meanwhile, plummeted to as low as 2.7225 West German marks before recovering to 2.7415 at the close. Last Friday's final price was 2.7640.

Against another of Europe's strong currencies, the Swiss, the dollar fell as low as 3.0850 francs before recovering to a closing level of 3.0960.

The dollar touched new lows today against both the Swiss

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New Dollar Slide and Gold Rise Traced to Watergate Worries

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and West German currencies, and dealers expected the erosion to continue.

Under the present system, market forces are being left free t odetermine currency values rather than central banks, which traditionally defended rates they thought were appropriate by intervening in exchange markets.

"The dollar is not overvalued and over the medium term we're even bullish about it," one dealer in Switzerland observed. "But as of right now nobody wants to hold onto dollars, and that is something you cannot fight."

Behind the selling, according to telephone interviews in several centers today, is the feeling that President Nixon's weakened position because of the Watergate scandal reduces his ability to impose unpopular measures, such as a new price and wage freeze or higher taxes, that may be needed to deal with inflation.

Inflation Rise Seen

"I think your inflation rate will be much higher than 4½ to 5 per cent later this year," said a Zurich banker who has just returned from New York.

On top of all this were reports that President Nixon's foreign policy adviser, Henry Kissinger, has offered to resign as a result of wiretapping disclosures—rumors which were denied flatly in Washington today—and that Mr. Nixon himself was under pressure to resign.

Finally, there were recurrent rumors of the financial nature—of another upvaluation of the mark to curb West German inflation, of another dollar devaluation—that shook confidence.

Disaster for Eurobonds

While the selling of dollars is a depressing factor for the American stock market, it has turned the dollar sector of the international bond market into what Eurobond dealers are calling "a disaster area."

Last week about $100-million of convertible and nonconvertible bonds was dumped, according to market estimates, and that process continued today.

Prices have been marked down so much that yields for top industrial dollar non-convertible bonds now approach 9 per cent compared with 7.5 per cent yields for issues of similar type in the United States.

"The bonds are starting to look real attractive at these levels," said one American dealer in Eurobonds, "but so long as the dollar keeps on dropping you'll not get any takers. No one will buy when faced with the possibility of an immediate exchange rate loss."

The dollar was battered in the New York foreign exchange market yesterday. The prices of leading foreign currencies rose sharply, thus reducing the external value of the American currency and increasing its devaluation from levels established in the Smithsonian agreement in mid-December, 19E1.

According to the Morgan Guaranty Trust Company, the trade-weighted devaluation of the dollar from the Smithsonian levels was 7.37 per cent at noon yesterday, compared with 6.86 per cent on Friday.

'Crisis of Confidence'

The big New Yok banw said that, measured from early June, 1970, before the floatingg of the Canadian dollar, the devaluation was 17.99 per cent, compared with 17.47 per cent at the end of last week.

Behind the heavy selling of dollars yesterday, traders said, was the continuing "crisis of confidence" in financial markets deeply troubled by the impact of the Watergate scandal on the Nixon Administration.

According to Lionel D. Edie & Co., Inc., a leading sconomic consulting firm, the dollar is now "undervalued" when compared to the main European currencies.

"Looked at another way," Edie said in a special analysis distributed to its clients yesterday, "most European currencies — including sterling — are overvalued vis-a-vis the dollar. There is thus no rational reason to expect another dollar devaluation."