VALUE OF DOLLAR SLUMPS AS GOLD SOARS IN EUROPE

Market Agitation Attributed to a 'General Distrust' of the American Currency

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METAL REACHES RECORD

Martin, Ex-Reserve Chief, Predicts Slight Recession May Come by Year-End

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GENEVA June 1—The dollar lost nearly one per cent of its fast-eroding value against major European currencies today and the price of gold reached another new high — almost a daily occurence this week.

There were a number of reasons behind the market agitation, but they all added up to what dealers repeatedly referred to as "the general distrust of the dollar."

Gold, selling at $90 an ounce a month ago, rose by 2.50 an ounce to close at $117.50. It traded briefly at over $120 an ounce before settling back in slower afternoon dealings. The dollar also steadied somewhat in later dealings.

These are rates in so-called inter-bank dealings applying to large transactions—something over $250,000. For the general public, the rates are a few points lower.

[In Washington, William McChesney Martin Jr., former chairman of the Federal Reserve Board, told Congress that the United States economy is characterized by "a flood of business froth which is now cresting and will, I think, result in at least a moderate recession by the end of this year or the middle on the next." Page 39.]

Heads of State Meet

Since Wednesday the dollar's value against the major European currencies has fallen a full one per cent and since last Friday the decline has been a full 2 per cent. Against the Swiss franc, the dollar is now off 14 per cent since last February.

After yesterday's holiday in continental centers, the dollar was off sharply rfom the very beginning of trading today. It closed at 3.0725 Swiss francs, comhpared with 3.08625 (yesterday's price in London) and at 2.6750 West German marks against 2.6975. The pound rose to $2.5740 from $2.5665.

The meeting in Iceland between President Nixon and President Pompidou of France

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added a note of uncertainty to the situation. The French were particularly eager to discuss monetary topics and have made no secret of their desire to see the dollar convertible again into reserve assets.

Excess dollars generated by balance-of-payments deficits of the United States hang heavy over the market and put steady pressure on the exchange rate. Although the foreign trade performance of the United States has shown some improvement lately, another large balance-of-payments deficit is still expected this year.

New Level for Gold

It had been hoped that after two devaluations foreigners would be attracted to stock and plant investments in the United States and that this would mop up some of the excess dollars abroad. There has been a strong foreign interest in plant investments, but the sharp decline in Wall Street has cooled the ardor of many prospective foreign investors.

There were rumors in the market that President Nixon and President Pompidou might have discussed a new level for the official gold price, now at $42.22 an ounce, but these rumors were considered farfetched by most dealers.

The biggest impact on the market was made by the remarks in Rome recently of Guido Carli, the widely respected governor of the National Bank of Italy, who argued that it was time for the official price of gold to move up again.

There is a danger that foreigners will begin dumping their not inconsiderable holdings of American securities. Foreigners traditionally account for a little under 10 per cent of the transactions of the New York Stock Exchange.

Energy Shortage Problem

The Watergate scandal, which could lead to a serious weakening of Presidential authority, is frequently cited by European bankers as a reason behind the selling of the dollar.

The attitudes of the Europeans are heavily influenced by bankers in New York with whom they talk daily by telephone. In fact, the lead for dollar selling has frequently come, not from Europe, but from banks and corporations in New York itself.

Another problem that weighs on the dollar is the energy shortage. A warning by Stephen A. Wakefield, Assistant Secretary of the Interior, that rising oil imports pose the "major threat to the soundness and stability of the dollar over the next decade" was widely reported in Europe and cited by dealers as a depressant force on the dollar.

Mr. Wakefield said that payments requirements for oil imports might range between $25-billion and 30-billion annually by 1985.

There is a more immediate threat to the dollar posed by an agreement that is now nearing completion between oil companies and exporting countries on an escalator clause that would provide for automatic increases in posted prices every month as the dollar depreciates in value.

There were unconfirmed rumors that Arab oil producing states had been increasing their selling of dollars to boster their negotiating position in negotiations on the escalator clause now winding up in Geneva.

One of the future dangers is that after an agreement is concluded, oil exporting states, chiefly Arab countries in the Middle East, may continue to sell dollars heavily, to give them higher dollar earnings.

Further Blow to Dollar

The proceeds of these sales, then, would be invested in strong European currencies, further depreciating the dollar.

Another depressant is the outflow of dollars from Japan. The Japanese have reported a decline in their reserves over the last three months of a little more than $3-billion — which are not returning to the United States but instead for the most part are going to Europe.

Bankers report that these dollars are being invested in strong European currencies and in gold.

This is not a dollar crisis like others in recent months and years because central banks — the currency managing banks of national governments — are no longer obliged to support currency values within certain fixed ranges. The dollars is left to float up or down according to market forces. This relieves pressure for instant action.

But there is a danger nevertheless, the danger that foreign countries seeing the value of their currencies falling excessively against the dollar will slap more controls on dollar flows and in extreme cases impose surcharges on imports from the United States.

Dollar Weakens Here

Reflecting pressure in European foreign exchange markets, the dollar also showed weakness in the New York foreign exchange market.

The Morgan Guaranty Trust Company, which compiles a daily trade-weighted devaluation of the dollar, said at noon Friday the level was 8.05 per cent, up from 7.80 per cent on Thursday and 6.97 per cent last Friday.

The averages compiled by the bank reflect changes in the dollar's value against the currencies of the 14 countries which are among the United States' principal trading partners, weighted according to the amount of trade with each country in 1971.