should surpass the previous record of $850 and continue on to $1,000, the report concludes.

What was most interesting about the Consolidated Goldfields report, however, was not its review of the supply shortage (which market analysts were already well aware of), but its admission that "It is now clear that an increasing role for gold is being developed by governments and some international financial organizations which are controlled by governments."

This assessment was shared by the London *Financial Times,* whose June 24 editorial stated: "Perhaps the most interesting function of gold in the period immediately ahead will be its revived role as a major component in international reserves. When there are repeated warnings of the difficulties of financing payments deficits, and a new pattern of deficits is emerging, it seems unlikely that the two superpowers will remain the only countries which are willing to mobilize gold held officially." The *Times* comment was an obvious reference to the Giscard monetary plan.

One version of the plan which is currently the talk of European financial circles is that the European Monetary Fund would issue gold-backed, ECU-denominated bonds to OPEC to soak up excess petrodollars and relend them to cash-short developing countries, without imposing rigid IMF-style conditionalities. "All the European governments, not just the French, agree that we've got to extend gold guarantees to OPEC," commented a top Swiss banker in New York. "The first step is for all the central banks to recognize that gold is worth $600 and not $35. Every time the price of oil goes up, we have two choices: either we intervene militarily in the Middle East or we offer the Arabs something better than the dollar: gold. Gold-backed bonds would be one way to do this and it would create new liquidity to finance LDC imports. I'm not saying that this will happen this year but we're moving in that direction."

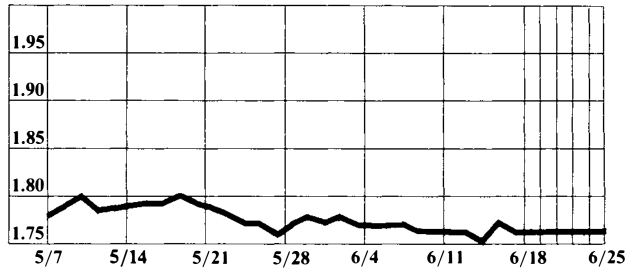
Meanwhile, European governments, with France and West Germany in the lead, are quietly negotiating with moderate Arab OPEC members to ensure that more petrodollars end up in continental Europe rather than the traditional New York and London outlets. According to a confidential memo on OPEC portfolio strategy prepared by a prominent British journalist, OPEC could deploy as much as 25 percent of its 1980 current account surplus, totalling $120 billion, into direct government-to-government loans similar to the $3 billion Saudi-West German deal announced earlier this year.

If the majority of these funds end up in the EMS governments' treasuries, Western Europe will have gained the financial clout to institute a new monetary system whether the U.S. government agrees or not. And if the EMF, rather than the IMF, is to win control over the petrodollars, gold will be a crucial bargaining chip.

Foreign Exchange

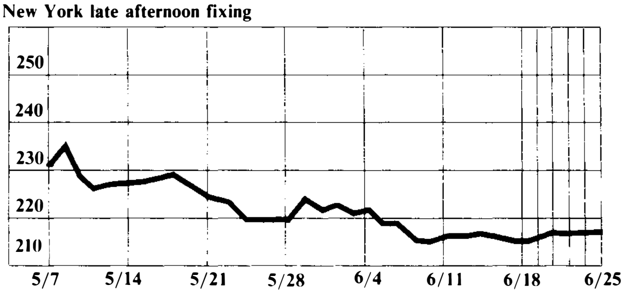
The dollar in deutschemarks

New York late afternoon fixing



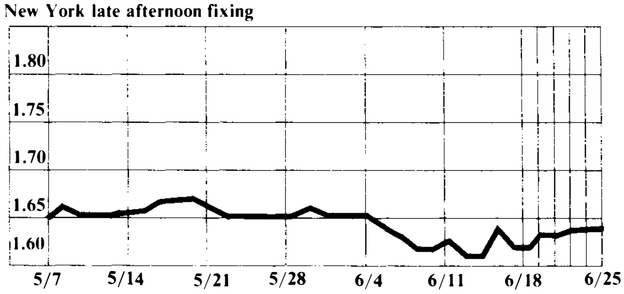
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing