On the international side, *Le Point* magazine reported earlier this month that France may be in for a sizable loan from Saudi Arabia, which is considered highly likely by both Paris market sources and the New York Federal Reserve. The Federal Reserve is "highly uncomfortable" at both the uncanny strength of the French franc and the prospects for a general influx of Arab capital.

The French state oil companies CFP and Elf-Aquitaine meanwhile are closely cooperating with Saudi Arabia demands that the U.S. oil companies of ARAMCO post their prices in all oil transactions in Europe and around the world. Furthermore, under the French oil companies' insistence, the French government continues its moves to reduce the U.S. majors (Mobil and Exxon) presence in the French petroleum products market by 5-10 per cent. These regulations, raising French oil companies' share of the market from 45 per cent to 50 per cent, were announced in November and raised a formal protest from Mobil's chairman to the French president.

Market observers note that Esso standard Français is also doing well despite the French government's pressure on it. This may mean a takeover of the US company's subsidiary — by French and or Arab interests.

Le Figaro reported Jan. 13 that the French arms deal with Egypt which made headlines this week is a break-through for French-Arab relations. All of French industry is expecting increased orders in the military and high technology sector, the newspaper said, from the Middle East. As a result of the Egypt deal, the Saudi government has now agreed to foot the $1 billion capitalization of the Arab Military Industry Organization which is to build a military and technology industry in Egypt, the industrial and technological orders for which are to be filled by the French and British Military-technology sectors.

The French and British industries, for their parts, which have already undertaken massive cooperation under the joint Concorde aerospace program, have extended this cooperation during the visit to London this week of M. Barre. In a meeting with British Prime Minister Callaghan, who has put Britain's industrial recovery under his own personal supervision, a joint accord was issued for Franco-British cooperation in all phases of the aerospace, nuclear, and computer industries especially regarding export of this crucial technology to third countries.

West Germany to Revalue Gold Market Price?

GOLD

West Germany's leading business newspaper, *Handelsblatt*, proposed in a Jan. 14 editorial that West Germany follow the example of France and Italy, and revalue its gold reserves to market price. Since the Bundesbank had to write down its DM 80 billion reserves by 7.5 billion, due to the 11 per cent depreciation of their dollar component, *Handelsblatt* suggests the Bundesbank should "give itself extra maneuvering room" by revaluing its gold reserves.

Since Italy revalued its 11 million ounces of gold to market price two weeks ago, South Africa and Mexico have both taken the same measure. Contrary to estimates circulated by the U.S. Treasury and Federal Reserve, the intent of the Italian revaluation was not cosmetic; the Italians are now negotiating credit arrangements for an estimated $6-7 billion in annual bilateral trade with the Soviet Union — a large gold holder — and Italian foreign ministry sources indicated that gold will be part of the final overall credit agreement.

Official Bundesbank policy is that the central bank has no intention of changing the valuation of its gold reserves. But senior Bundesbank staffers say, off the record, that the question is under consideration. The central bank has taken one extraordinary step in the direction of a pro-gold policy: it is helping 12 developing countries get hold of their gold in the context of the International Monetary Fund's disbursement of 6.5 million ounces, or one-sixth, of its total gold holdings, by prior international agreement. The IMF will accept hard currencies only to replenish member nations' quotas in return for gold restitution, and many Third World countries can't scrape up the cash. The Bundesbank has put up DM 31 million ($12.5 million) on behalf of 12 countries, in return for local "soft currencies." Senior Federal Reserve officials allow that a Bundesbank revaluation is "possible," but claim skepticism.

Gold price closed the week at $131.75, following a temporary drop earlier in the week to $128. The earlier drop is attributable to the liquidation of gold positions held as a hedge against sterling after the member central banks of the Bank for International Settlements and the United States Treasury came to an agreement on a "safety net" for the sterling balances. The current gold trading range around $132 is, in fact, extremely solid; the volume of gold sales at this price are exceptionally large, including Soviet bulk sales and South African Krugerrand sales.

One indication of further mobilization of central bank gold: Japan's finance ministry announced it will sell 100 metric tons, or 16 per cent of its gold stock, mainly to the Bank of Japan, the nation's central bank, and secondarily to industrial users, at a fixed price of $119 an ounce. The transfer of gold from the finance ministry to central bank raises questions about Japan's possible active use of the metal as a reserve instrument.