A: Nothing connected to inflation. Central banks are faced with a wave of attacks from speculators. If intervention is done, there must be concerted action. We defend the dollar all day in West Germany, the exchange closes, and then speculators go to New York and by the next morning the dollar has fallen again. The U.S. must intervene here. There is definitely discussion occurring on using gold as a disciplining factor in international currencies.

Franc Attack Judoed Against Pound

The London-orchestrated speculative attack against the French franc was signally reversed last week and the pound took a licking in reprisal at the hands of European bankers. On Feb. 7, before the joint Paris press conference by French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt, the franc had sunk to 4.94 against the dollar. The day after the press conference, in which Giscard announced that he had instructed Premier and Economics Minister Raymond Barre to "take every necessary technical step to oppose the depreciation of the franc," the currency reached 4.87 without direct support purchases by either the French or West German central bank.

FOREIGN EXCHANGE

Indeed, the only central bank visible in the markets that day was the Bank of England, trying to keep the pound above $1.91; news that a miners' strike had been averted only nudged sterling up half an American penny, even though London bank representatives in New York were euphoric at a token of the resilience of the government's pay restraint and thus the future of the government bond market and the sterling crossrate.

Not only was this mania derided by the majority of international bankers, both pro-sterling strategists like Lazards and "neutral" short-term operators at the New York commercial banks; the Europeans made the defense of the franc into more than a mere tactical victory by "banging sterling in revenge," as one trader put it Feb. 8.

When Chancellor Schmidt was asked in a West German television interview about support for the franc, he commented that he had not discussed the subject with Giscard because it was already a bilateral matter-of-course; what they had talked about, he said, was "a more important currency," that is, the dollar — thereby putting Treasury Secretary Werner Blumenthal and other London satraps in Washington and New York on notice that no further monkey business like the franc stunt will be tolerated.

From Franc to Dollar

The run on the franc had amounted to a new attack on the dollar. Aside from purely technical reasons, involving dollar sales required to perform franc support, the Warburg, Rothschild, and Schroder group of London banks were racing to draw international funds out of the franc, the dollar, and other "weak" currencies into a wild, reflation-hyped deutschemark-Swiss franc-yen axis including the pound as a major reserve currency, despite the sub-Dickensian state of Britain's material assets. (See *Executive Intelligence Review* Vol. V, No. 5.)

In the wake of the European counterattack, the Rothschild strategists have lost an important margin of credibility. The next time they want to use their powers of persuasion to direct central bank and other major depositors in or out of a currency through hoked-up rumors (like the "certain" March victory of the French left) they may be left talking to themselves.

The State of Sterling

The other immediate deflator of London's pretensions is the state of sterling finance itself. Having sucked in continuing piles of international funds through high long-term interest rates, and with the expectation of launching a new imperial re-lending drive abroad, the City is now forced to tacitly acknowledge that it lacks the political clout to abandon its exchange controls and funnel others' liquidity into anti-growth channels of its choice. Lazards confirms that to lift controls at this point would simply mean a £10 billion outflow to safer shelters with no London control of the funds. In fact, the tremors of an anticipated run out of sterling investment that surfaced in the London *Financial Times* at the end of last month are growing louder. The *Los Angeles Times* reports British bankers are protesting a bit too loudly that OPEC holdings will never be withdrawn from the pound; Citibank derided British backpatting over the miners' settlement; off the record, Lazards admitted that all the "fundamentals" point downward — the City's antagonism to industrial expansion is catching up with it at home.

In expectation of Bank of England chief Gordon Richardson's Feb. 9 policy speech, the British press is clamoring for action to curb the domestic money supply, swollen by inflows London hasn't figured out how to put to use at a 24 percent annualized rate in December. On Feb. 3, the stock and "gilts" markets had both tumbled due to the money-supply announcement, and the *Financial Times* expects real estate to remain the only point of foreign interest. No one proposes to encourage real investment in the U.K., but the expectation is rather a reimposition of a "corset" on clearing bank deposits, and hence, a new IMF-style tightening of domestic credit, the remedy for inflation whose inefficacy deters its advocates no less than its austere discomforts. The importance of this bind, however, is the opportunity for European and American strategists to make a terminating, victorious onslaught against pretentious sterling swindles so that the bank edifices and the skilled British labor force can be put to use by wiser directors in the aftermath.

British Concede Arab Outflow Potential

These excerpts are from an article in the Feb. 7 Los Angeles Times, *" 'Arabization' Bothers British," by William Tuohy:*

...Ever since the price of oil was quadrupled four years ago, billions of dollars from the Arab petroleum-producing countries have been flooding into London.

No one knows just how much money has come into Britain from the Arab countries because the desert nations are reluctant to publicize the extent of their investments, and some Arab money reaches London through Swiss banks or offshore holding companies.

But the Bank of England estimates the net inflow of cash from the oil exporting countries last year at $6 billion. Bank holdings from the oil exporters ran around $24 billion....

"It is true that Arabs are investing heavily in Britain," one senior money manager said. "But this means that they have an increasing stake in the fate of our economy and institutions. I think that this will be a force for stability rather than otherwise."

...The inflow of Arab money into Britain is still heavily overshadowed by the amount of Arab investment in the United States, mainly because of the long connection between America and the richest of all Arab countries, Saudi Arabia....

The "or else," it was suggested, could result in the Arabs abruptly pulling out of sterling and the British market, leaving the pound and financial institutions badly battered.

Sterling: A Rothschild Bank Vs. a U.S. Commercial Bank

The Chief of Foreign Exchange at a Rothschild-family-owned bank in New York:

Q: Don't you think sterling is beginning to look weak?
A: Oh, no, the pound is going up to $2. The miners' union just settled for a 10 percent wage hike where they had been demanding 80 percent, and they are the flagship for all the British unions. The only thing bearish for sterling had been those wage negotiations, and now that is favorably settled. Sterling is headed up, British government gilts (government bonds — ed.) will go flying.

A Sterling trader at a top New York commercial bank:

Q: The British say sterling is going up to $2.
A: Ah, baloney! I see it falling to $1.90. Even with the rumor this morning that the Minimum Lending Rate is going up 2 percent on Friday (February 9 — ed.), sterling fell this morning from $1.93 to $1.92 today, at which point the Bank of England had to support it. And after the miners' settlement came out, it only rose half a cent, not even back up to where it had started — peanuts — and that's all it's going to do. If sterling had any inherent strength, as they keep saying, this was the best possible news — and it didn't move: the market had plenty of time to react.

Furthermore, the European continentals (banks — ed.) were banging sterling in revenge for their hit against the French franc. When the franc went down, sterling went down. The only difference is that the franc came back up, but they're still banging sterling. A $2 pound — baloney!

A member of Lazard Freres' International Department:

Q: Do you believe that sterling is as strong as British banks say?
A: Look, off the record, I'll give you our private forecast — only off the record. Sterling is the weakest currency in Europe. By late 1979, Britain will be back in a deficit — no matter what they say about North Sea oil. The rise of the pound thus far from its low last year ($1.66) to current levels has already wiped out any export advantage Britain would have had due to the complete uncompetitiveness of British industry. And the oil trade won't cancel out the trade deficit which will reappear on the non-oil balance. Furthermore, the capital account is going into deficit because although invisibles are still high, North Sea foreign investors are beginning to repatriate earnings. M3 (the money supply, broadly defined — ed.) is growing at outlandish rates even though the capital inflow has stopped, which means money growth is being churned up internally in the banking system. Inflation will go back to double digits as soon as Healey's reflationary budget goes through — which it has to, or else unemployment will get politically out of control. And if they tried to take off exchange controls, there would be a capital flight out of Britain — they don't dare.