London Currency Warriors On The Defensive

"Everything is on track for the dollar — the dollar is going to remain the reserve currency, period!" declared a senior Washington economic official on March 23 to *New Solidarity International Press Service*, he made his judgment on the basis of a dispassionate, if not uninvolved, reading of the political strength of U.S. export-drive advocates and Western European opposition to United Kingdom proposals for knocking out the dollar's international role. As British Prime Minister James Callaghan arrived at the White House for his March 20-23 visit, market developments added up to a bear stroke against Callaghan's pound sterling; a fragile stabilization of the dollar against everything but the Japanese yen; and a continued fight over whether the U.S. will sell its gold reserves or "remonetize" them.

FOREIGN EXCHANGE

On Thursday, March 23, sterling was sold so emphatically by Swiss and West German private institutions that its spot price dropped from $1.89 to $1.87 in London and New York, with lower levels in between — the cheapest pound in a year. London bank traders like Lloyds and Perreira said that this was a mere adjustment of a speculatively overbought pound in a thin market, or suggested that the Bank of England, whom they claimed had not intervened, wanted a cheaper pound to help out the UK's ill-omened exports. Citibank and other New York-based dealers, however, said that "the Old Lady" had given up defending the pound against concerted commercial selling.

The raid coincided with suggestions in the West German business daily *Handelsblatt* and the Italian Communist Party newspaper *L'Unità* that sterling cross-rates ought to reflect Britain's decrepit economic state rather than what they both referred to as the "bluff" of North Sea oil revenues. *Handelsblatt* unkindly inquired when Mr. Callaghan will concentrate on repaying his country's $21 billion foreign debt.

The volatile two-month-and-over-sterling forward purchase rates dropped to a discount. Apparently the Swiss, who do not officially participate in such meetings as the March 20 European Community finance ministers' session, decided to add a little market support to their continental allies' rebuff to the UK at that meeting.

Vis-à-vis the deutschemark, the dollar was relatively steady during the pre-Easter week. On March 23, the markets performed their usual dollar sales, at news of West German trade surpluses (for February, a $300 million monthly increase, though the edge was below February 1977). Nothing major happened to the Swiss franc either. The yen, however, reached new postwar appreciation levels: In Tokyo on Good Friday, it took only 228.25 to buy a dollar. Specialists confirm that the official estimate of a $4.5 billion Bank of Japan dollar-boosting market intervention since the beginning of the year is far too low, not to mention auxiliary efforts by private Japanese banks.

Signals began to come, not only from West German think-tanks like the Rhein-Westfälische Institut of Essen, but from Bundesbank circles proper, that the West German central bank may ease off its own dollar-support interventions to curb the inflationary effects of dollar absorption. Bonn may also wish to pressure Washington into following a policy of export promotion.

The Bank of Japan will in any case have to modify its own intervention policy soon. One of London's propaganda points currently is that by intervening to actively buy up the dollars dumped by speculators, the central banks have fed the dollar's decline — making it possible for dollar holders, "including central banks" (this could only mean the Bank of England) to find an otherwise nonexistent purchaser for their dollar offerings.

Intervene and get stuck, or don't intervene and watch the dollar depreciation wreck world trade, has been London's message for the central banks for some time.

Gold Battle Continues

As outlined in a series of recent *EIR* articles, world monetary authorities have another choice: to revalue their gold bullion reserves to the market price, induce the U.S. to do the same, and thus ultimately avail themselves of state financial resources sufficient to outweigh any speculative operations in the spot currency markets or Eurodollar markets. The London objective is for the U.S. to sell off gold reserves in the open market, draining away precisely this potential.

To Gold, Or Not To Gold

Sources in Washington, at key regional Federal Reserve Boards, and in a European-linked southwestern brokerage house, all indicated that the fight between the two options is still very much alive, despite persistent New York financial press reports that the Treasury is ready to go with gold sales. As of March 23, insiders affirmed that the presidential authorization for gold sales had not been obtained. The London *Economist*'s financial pundit, Hamish Macrae, was worried enough to

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write that unless the Treasury rushes to dump some gold in open-market auctions at once, it will be difficult to counter "a growing belief in the U.S. that gold may get its monetary role back again." A monetary role, it should be added, does not mean the restoration of a "gold window" where any panicked Frenchman or City of London operative can present a bundle of dollars for a brick of bullion. Macrae knows this so well that he doesn't dare suggest it, though certain GOP leaders are still a bit muddled on the subject.

The gold markets meanwhile were plagued by rumors. Following a report on March 22 that the Treasury was ready to dump 25 percent of its gold reserves — at market prices, $12 billion worth — London brokers started spreading the word that the U.S. had already entered the market, a patent lie which, however, sank the gold price from $182 at the morning dealers' fixing in London to $179 at the afternoon fix. The Treasury issued a feeble official denial that did nothing to scotch expectations of future sales.

Secondarily, rumors also percolated of the Japanese central bank selling off its scant gold holdings — variously interpreted to mean central bank gold swaps or mere intragovernmental gold transfers. More interesting is the heightened strength of gold spot prices in Paris, although the jumpy small investor has presumably been calmed after the elections: this may reflect ongoing discussions of a Franco-West German-based "supersnake" currency pegged to gold and aimed at drawing in the U.S. administration.

The biggest rumor of all, floated by the London *Daily Telegraph* on March 22, has a firm foundation, however: that two of the Carter Administration's most degenerate tacticians, C. Fred Bergsten and Anthony Solomon of the Treasury, spent the previous day in a strategy session pushing the gold-sale policy. Their counterparts at the State Department's monetary affairs enclave under Brookings Institution fellow Richard Cooper were equally clear in advocating an SDR reserve switch that is intended to follow the feckless gold sales. Says State Department, Jr.: We will only allow a few SDRs to be sold to central banks to replace dollars. Says State Department, Sr.: Making SDRs a partial reserve will precipitate a market crisis against the dollar, and this will pave the way for the IMF to control world credit.

Rothschild Rumors

American bankers, businessmen, politicians and government officials and other citizens who do not read the *Daily Telegraph* or *Financial Times* were given a propaganda dose from the same source by Emma Rothschild's March 22 op-ed column in the *New York Times*, which alerted them to the "painful crisis" ahead as the dollar "empire" sinks into deserved oblivion. The message that the dollar's reserve role has ended is as firm as Lord Evelyn's in the *Economist*.

As for the coming week: London has held off on an attempt at another all-out bear raid against the dollar, apart from such gambits as a City rumor on March 22 that Sadat had been assassinated, which queered the dollar for a spell. Part of any new international monetary crisis in the coming days, however, will obviously be a new attempt to use a new bear raid to stampede the administration and U.S. policy-guiding strata as a whole into some variant of the gold sales-SDR-energy-cut package.

Third World Debt: IMF Bludgeon Against U.S. Banks

The International Monetary Fund (IMF), acting on behalf of British interests, is now working to exercise a variety of hideous options, all of which point toward an intentional collapse of the U.S. banking system and the imposition of Schachtian fascist economies throughout the developing sector.

With the acquiescence of commercial banks, the IMF is currently leading negotiations to refinance some $300 billion in technically defaulted loans for the Third World's poorest nations, including Peru ($330 million), Zambia ($350), and Turkey (at least $2 billion), with private banks separately negotiating with Zaïre for a $210 million credit.

The case of Peru points out how the IMF negotiations are proceeding. The Fund last week refused to extend to Peru an already agreed-upon second quarter credit of a mere $12 million, charging that country with "faulty accounting methods" — i.e., unwillingness to destroy the economy in the face of a working-class residence which would necessitate a fascist coup à la Chile 1973.

This loan cancellation has stalled the efforts of a banking syndicate, led by Manufacturers Hanover Trust, to arrange a $260 million loan, as the banks wait passively for the IMF's conditions to be met. In conjunction, any further delays could give Treasury Secretary Blumenthal and Comptroller of the Currency John Heimann a wide opening to move in on the U.S. banks with a horde of bank examiners and restrictive regulations.

Trying to provoke the spectre of imminent Third World default, the British *Financial Times* and the *Economist* immediately manufactured stories of a breakdown in negotiations and disbanding of the bank steering committee — both of which are outright lies, according to several of the banks involved. In fact, negotiations are continuing, with the banks becoming increasingly irritated at the IMF's shenanigans, but still steadfastly following its lead.

Similar situations apply in Zambia, Turkey, and Jamaica. An IMF team in Zambia recently returned to Washington, where it will be decided at the end of the month whether to extend a $350 loan, most of which would go to overdue import payments and debt service. Jamaica is seeking a $300 million loan and was $34 million in arrears last month. Turkey, with around $4 billion overdue, is the most critical case. Since the IMF negotiations have been tied up for months, and without a large new loan, the country has no prospect for paying its import bills let alone its overdue debt service.

If the IMF stalls much longer, the banks will be faced with at least $3 billion in default from these countries, a