Currency Warfare Puts Sterling On The Precipice

But London stakes all to save spot rate on pound

The run-up in the rate for overnight Eurosterling to 22 percent on Aug. 10, marking one of the most serious liquidity crunches in the City of London since World War II, may soon become the signal for a mass selling wave of overvalued sterling, which will send that currency to a well-deserved 50 percent devaluation.

The bloom came off the sterling as a loose consensus built among leading government, press, banking and industry circles in Western Europe, Japan and Saudi Arabia, that collapsing the British currency would be the only means of preserving the U.S. dollar and hence the financing of world trade and development.

But the Bank of England has made an all-out commitment to "sit like a spider," in the words of a trader for a major Swiss bank, atop its international currency spot market — even to the point of letting its internal economy be destroyed. The key is Britain's well-known hostility to the European Monetary Fund which was launched a month ago, under French-West German initiative, at the Bremen European Community summit as the seed-crystal for a new world monetary system supplanting the British-controlled International Monetary Fund.

Now, as a heightened media campaign portraying the Bremen accords as "antidollar" pours out of London, the City has also mobilized the funds to short the dollar, drawing on illicit banking networks as well as the traditional banking system (see *ECONOMICS* for details.)

There are two potentially devastating flaws in the effort to end Britain's sabotage of a new gold-backed monetary system emerging around the European Monetary Fund. One is that thus far, the forces involved in this effort are not centrally coordinated. A common "military" effort is required for leading banks and international corporations to intensify the collapse pressures on the pound itself, pulling out of stocks, gilts, industrial investment in the pound and British interests.

Secondly, uncertainties around the United States situation are making the West Europeans and their allies hold back from a fullscale attack on the pound. They fear that the U.S. government may follow the script of the Brookings Institution and intervene on behalf of the pound.

But already some have perceived that the key to shifting the American elite in a pro-Bremen direction is through giving public recognition to the American economist whose International Development Bank proposal largely shaped the Bremen accords, U.S. Labor Party Chairman Lyndon H. LaRouche, Jr.

This week's issue of *To the Point International*, a South African weekly which circulates throughout Western Europe, singled out LaRouche's central role in the future gold-backed system in an article (reprinted below).

Sterling Forward Rates Leap

The unprecedented leap in the sterling overnight rate, which doubled in one day, came in the midst of a panicked demand for funds by British banks and corporations forced to cover their market positions. This pushed the Bank of England to release Aug. 10 an emergency 200 million pounds sterling into the banking system in an attempt to relieve the acute funds pressure.

Ironically, the Old Lady of Threadneedle Street had to reverse its announcement of just the week before that it would resist all attempts to use its specially-created 900 million pound sterling emergency defense fund because of fears of rekindling the inflationary upsurge of the preceding months.

The Aug. 9 edition of the Italian daily *Il Tempo*, told what's behind the attack on sterling in an article head-lined "Fall of Dollar Maneuvered by London." The paper quoted Arab sources stating that London has been triggering the dollar collapse by springing an immense bear raid against the dollar in the world's currency markets. *Il Tempo* added that by September, the Saudis, West Germans and Japanese will have fully operational a highly coordinated strategy to "bull" the dollar, which will permanently cripple the British bear operation.

Backing up *Il Tempo*, the director of one top level French bank stated Aug. 10 that "at all costs, the pound must be devalued as a countermeasure against the dollar fall. Our preoccupation now is to push the dollar up." Another French banker added, "sterling will crack in any case, they're rotten and a bunch of saboteurs." Elaborating on this point he added, "the British are trying to break the EMF."

As the anti-British mood became more and more public, sterling remained stable on the *spot market* against most continental currencies and the dollar, but on the *forward markets*, it began to collapse.

The three-month forward discount on sterling widened on Aug. 9 to 2.50 cents from 1.45 cents the day before. Meanwhile, seven-day Eurosterling money rates took off to an Aug. 10 level of 15.5 percent and call money went through the ceiling, peaking at 50 percent on Aug. 8. As the number of pound short-positions grew and the credit crunch in the City of London hardened, the Aug. 8 *Financial Times* warned that pressures could force a liquidation of the artificially bloated British gilt market.

The British Strike Back

Behind the pound's survival thus far — and actual appreciation in the last few weeks — lies a massive mobilization of funds within London's political reach. At the head of the alleged "respectable," pro-British networks is Fritz Leutwiler, head of the Bank of Switzerland. On Aug. 7, central banker Leutwiler created several million new swiss francs for the purchase of spot marks, in an attempt to push up the deutschemark-Swiss franc cross-rate.

This immediately triggered a realignment of DM rates, pushing the dollar into a plunge which took the DM-dollar rate from 2.04 on Aug. 7 to 1.9755 on Aug. 10.

Political back-up came from the parliamentary fraction of the neofascist German Christian Socialist Union (CSU) headed by Franz Josef Strauss. The CSU submitted a parliamentary question to the West German government on the legality of the newly launched EMF, stating that its operations should be disbanded. The pretext is that the EMF was created without prior approval of the German Bündesbank and violated its constitution.

At the same time, British policy channels churned out misinformation and outright lies to foster a dollar collapse. The Aug. 9 *Journal of Commerce* headlined its coverage, "New Currency Crisis Feared By Bankers" and proceeded to blame the dollar's fall on the alleged "indifference" of President Carter. The *Wall Street Journal* of the same day ran a front-page article retailing the British Petroleum-sponsored line that a sudden surge of U.S. oil imports in the second half of this year will wipe out the world oil glut and undermine the dollar.

According to a source close to Banque Brussels, Lambert, "The Saudis are blistering mad," over Sadat's agreement to meet Begin at Camp David and may decide to go along with an oil price hike at the Special OPEC meeting that the Kuwaitis want to hold in September. But the wire services reported Aug. 9 that OPEC officials (obviously acting under Saudi pressure) had stated that no such special meeting is scheduled to take place.

—Richard Freeman

LaRouche An 'Architect Of Gold-Backed Monetary System'

The emergence of a new world economic order was the topic of an article appearing in the August 10 issue of* To The Point International, *sometimes referred to as the "Time Magazine" of South Africa. The analysis, reprinted here in full, defines the momentum towards a gold-backed monetary system as a result of the economic policies of Lyndon H. LaRouche, Jr., outlined in his 1975 International Development Bank proposal.

Bullion at 240 Dollars an Ounce and A "Gold Backed Monetary System?"

It is an open secret that the world is moving towards a "gold backed monetary system." The price of gold must be brought rapidly to 230 or 240 dollars an ounce. That is how one of the architects of the concepts discussed at one of the recent economic summits in Europe interprets the post-Bonn and Bremen thinking. Can the U.S. gold demonetarists resist the metal's comeback? Managing Editor Stephen Orpen weighs the odds.

"We're agreed that the price of gold must be rapidly brought to the range of 230-240 dollars an ounce, and stabilized in that range through central bank operations in the open market, and that the U.S. dollar must be brought up to the valuation of 3 West German marks." Lyndon LaRouche is the first announced candidate for the 1980 presidential elections, and author of the International Development Bank proposals, on which the outline of the recent Bonn and Bremen economic summits were modelled.

After speaking to LaRouche and others involved in the Bonn and Bremen summits, the *Executive Intelligence Review* (EIR) reported that with the introduction of the Schmidt-Giscard European Monetary System, it is now an "open secret among informed financial circles that the world is moving rapidly towards a gold backed monetary system." According to European gold traders, says EIR, central banks have been shaping gold markets for several months and are now important net buyers. EIR says this dovetails with recent statements by the South African Chamber of Mines, which have pointed out that with the changes in the IMF statutes now permitting central banks to trade in gold at free market prices, these institutions will be playing an increasing role in stabilizing and running gold markets.