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International Markets Newsletter

Crisis Of Confidence: Eurodollar Market Hanging By A Thread

July 24 (NSIPS) — The blitzkrieg attack on gold and the French franc early this week by U.S. and West German commercial banks — followed by a sudden pullback on both fronts later in the week — not only reveals the fundamental fragility of the Eurodollar market, but shows the kinds of desperate political "shows of force" necessary to keep the con game going.

A recently-released Bank for International Settlements (BIS) report bares the fact that interbank lending — the lifeblood of the Eurodollar chain-letter operation — has dropped from its $20 billion level in the last quarter of 1975 to $3.5 billion in the first quarter of 1976. As everybody knows, this is the result of a growing number of lawsuits and counter-lawsuits by banks involved in consortiums to companies and other banks that have failed. And, without such interbank lending, the Eurodollar market is in very bad straits indeed.

Meanwhile, the slightest move by Ford-appointed bank regulators panics the banking community. Comptroller of Currency James Smith, a Richard Nixon appointee, was just recently "watergated." A recent rating of bank assets by the First Albany Corporation has Wall Street applying all its muscle in every which way to improve the ratings of individual New York banks. The sentiment was best summed up by a senior partner for the Wall Street-based investment house of Loeb, Rhoades: "Walter Wriston (chairman of Citicorp) is worried about a report put out last week by the First Albany Corporation, an Albany banking analysts firm, which rates the major commercial banks IA to 4 on the soundness of their loans; Morgan is I, nobody is in IA, and all the rest — Chase, Bankers Trust — are in 4. Citibank made it to 3. The bank's paper is being called into question, and I fully agree with you that another British-style free loan would be terrible for market confidence. So it's in everybody's interest now to call a spade an excavating tool — that is, no to make it clear that while Mr. Wriston may seem to have made a lot of money in Italy, he **hasn't collected any of it yet.**"

Why political "shows of force" are necessary is no mystery. Since the "Great Oil Hoax" of October, 1973, the seven New York banks linked to Rockefeller and Morgan family interests that dominate the trillion-dollar Eurodollar market have been nothing but empty shells. Just about 75 per cent of all their loans on the books of these banks — loans to Third World nations, Italy, Britain, France, real estate boondoogles, shipping companies, etc., — are uncollectable. The only reason these banks have not gone to the bankruptcy courts is because they have been able to maintain them on their books at their "historic value" through the complicity of Federal Reserve Board chairman Arthur Burns.

To the extent these banks, through the good offices of Nelson Rockefeller-hireling Henry Kissinger, can continue to exact austerity in return for debt rollover via coups, assassinations, insurrections, wars, and gold wars, then the "Greater Fool" con game can go on. But the whole game is a bluff. As long as debtor countries are terrorized into inaction and merely resort to Byzantine maneuvers, they are merely inviting "shows of force" against themselves.

Exactly how fragile the international banking system is is best gauged by the opposition from Rockefeller-connected Congressional circles to President Ford's appointment this week of Mr. Shirk as the new Comptroller of the Currency. Immediately, chairman of the House subcommittee on consumer and monetary affairs of the Government Operations' Committee Benjamin Rosenthal (D-Queens) fired a letter to fellow Rockefeller-linked congressman Senator William Proxmire (D-Wis.), the chairman of the Senate Banking Committee to block the appointment. The reason, as reported by yesterday's New York Times, was that the appointee was a former accountant. An aide to Rosenthal readily admitted: "The fear is that Mr. Shirk is an accountant who worked with Peat, Marwick, and Mitchell, which was the accounting firm for Chase Manhattan and Citibank, to name a few. This means he has information about these two banks that he could use when he is Comptroller of the Currency."

Accountants' associations have become a major thorn in their sides for New York bankers. As yesterday's Wall Street Journal points out, the banks have barraged both the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB) for the former's insistence on "current value" accounting which the latter is about to recommend for adoption by the accounting profession. The reason the accountants are on the warpath to reduce the banks' assets base on "realistic" collectability potential is simple. They just don't want to be stuck with lawsuits by either the depositors of the investors in bank stocks at a time when they know damn well the banks are in rotten shape. The Wall Street Journal, citing Citibank, writes that the potential capital drain foreseen by Citibank, for example, "would call for restriction of loan expansion in the billions of dollars," and the impact on Citicorp's capital "would run into the hundreds of millions of dollars." Said a top-notch Wall Street bank analyst: "The accountants don't stand a chance because the international monetary system is too damn fragile."

So tenuous is the international monetary system in the face of the upcoming European payments crisis — the worst since World War II — that all the hullaballoo about West German Chancellor Helmut Schmidt's Washington statement on Italy, is nothing but tough talk aimed at preparing the ground for a major Britishp-type bailout loan to Italy come September. There was never any possibility of strong Italian Communist Party representation in the new Italian government. Similarly, the private bank loan being arranged for Peru without IMF participation is an attempt to maintain market confidence. Knowing fully well that an IMF tranche credit to Peru would involve the application of tranche-linked austerity conditions that will be difficult to impose in the Peruvian political context, the banks want the IMF to stay out and preserve the wretched sanctity of its credit tranches. As for the private banks, they can be as "flexible" in the application of austerity conditions as conditions in Peru permit without any permanent harm to the dead institution known as the International Monetary Fund. Since the March $5 billion bailout package for Britain, that's essentially what's been going on to keep the miserable Eurodollar market afloat.

Rome Banker: "There Will Be No Debt Moratorium"

July 20 (NSIPS) — In an interview today a Rome officer for a major Wall Street investment bank said, "Italy will have an austerity government within which economic cooperation with Italy's Western allies will be possible. Mr. Andreotti (Italy's premier-designate) will not be able to form a government with Mr. Mancini (pro-development Socialist leader) because Mancini is not well liked, and the interests of Mr. Cefis (the pro-development industrialists) are not the interests of Italy."

The banker concluded, "Mr. Agnelli (the Fiat magnate) has already proposed a technical government of the Christian Democracy, the Italian Communist Party, and a compromise, and they will succeed. Therefore, there will not be a debt moratorium."

New York Banker: "The Gaullists Don't Have Any Potent Man Capable Of Taking Over"

NEW YORK, July 21, (NSIPS) — The following interview was conducted with the loan officer for France at a major New York bank today.

NSIPS: What is your reaction to the offensive by Michel Debre and other leading Gaullists against the Giscard government's subservience to dollar inflation?

Banker: I think this is just a political ploy by the Gaullists. Of course it's true that Giscard is on very shaky feet already — but he won't step down, no, no, he won't.

NSIPS: But isn't it true that the Gaullists and their French Communist Party allies are sucessfully opposing austerity, so that the New York banks are forced to lend more to France to meet her payments to them?

Banker: Yes, they oppose austerity, so Giscard can't tighten interest rates one bit more. An incomes policy, a wage freeze is needed badly, very substantial cuts are needed in France in consumption to make good the tremendous losses in the drought.

NSIPS: But it's politically impossible, isn't it?

Banker: Yes. We have lent $4 billion to France this year and will lend more...for now. Eventually of course they will have to devalue significantly...

NSIPS: Well, aren't you afraid that pressuring the Gaullists at a time like this might lead to their support for a debt moratorium by Mr. Andreotti in Italy, or perhaps to a moratorium in France? The PCF is holding a mass demonstration tomorrow protesting Helmut Schmidt's threats against Italy and Giscard's involvement...

Banker: Yes, yes, the Gaullists may very well have their calls for debt moratorium. This will be difficult for Giscard but he will have to permit it. But Giscard will remain because the Gaullists don't really have any potent man who is capable of taking over. Besides, you know, the French government has a $1.5 billion credit line with major New York banks which is still undrawn, although committed. I believe this is counted as part of France's reserves...

New York Banker On The Franc

Interview with the foreign exchange trading desk of a major New York bank:

July 16, 1976

NSIPS: What do you think of the pressure on the French franc? Are the French complicit in this thing?

Banker. Oh, there is a lot of speculation, but I think that the Banque de France has been cooperating on the devaluation.

NSIPS: Why would they want to do that?

Banker. Chirac (the French Prime Minister — ed.) wants to help French farmers. He wants to have both credit tightening domestically and a devaluation of the 'green franc' which will bring in more for French exports within the EEC (Common Market — ed.). But I think the pressure will ease now that the objective has been fulfilled. I mean the Banque de France will intervene much more aggressively from now on.

Atlanticists Go For Broke With Economic Warfare

July 24 (NSIPS) — Western European governments are in an uproar over a West German-American maneuver to break the international market price of gold, as an economic warfare move against Italy, France, and the Soviet Union.

Sudden dumping of gold by the London branch offices of West German banks on Monday and Tuesday drove the metal's price down to $105 an ounce, from the $120-plus price range of the last several months. "West German banks began to dump gold on the market as part of a political-economic squeeze," New York's Journal of Commerce said Wednesday, to drive home West German Chancellor Helmut Schmidt's threats against Italy last weekend. In addition, highly reliable Swiss banking sources report that heavy forward sales of gold by New York investment houses at the instructions of the U.S. Treasury helped break the gold price.

Italy, now considering whether to greeze payments on its $18 billion foreign debt, borrowed $2 billion from the West German central bank in 1974, with gold priced at $120 per ounce as collateral. The loan is up for repayment in September, and the drop in the gold price below $120 gives the West German central bank room to armtwist the new Italian government.

Economic warfare

"In addition to placing pressure on Italy," the Journal of Commerce added, "a drop in the world gold price would fit in