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The Dollar Is Weakening

FOREIGN EXCHANGE

NEW YORK Dec. 9 (NSIPS) — Despite the rumors circulating on Wall Street that two of the world's "strong" currencies, the deutschemark and the Swiss franc, are about to take a dive, European bank foreign exchange chiefs believe that a U.S. dollar collapse is much more likely. "I'm very pessimistic about the dollar," stated the chief trader at a West German controlled bank here, "although few people in New York would agree with me...The dollar is now the only reserve currency. Sterling is out, and the deustchemark is only used a little as a secondary reserve, against the will of the West Germans. As the reserve currency, the dollar is *always* in oversupply...I'm bullish on gold."

The "weak dollar" prognosis was seconded by a spokesman for Chartered Bank, one of the largest British banks, who noted that fears of Carter-imposed inflation had already provoked a shift out of the dollar into Swiss francs, West German marks and gold during the past week. Heavy bidding for gold at yesterday's International Monetary Fund (IMF) auction forced that venerable, Wall Street puppet institution to sell at $137 an ounce, the highest price set at an IMF auction in several months.

According to the latest scenarios developed by Lower Manhattan "braintrusters," the current collapse of world trade should hit hardest at the export-oriented economies of Western Europe and Japan. "Ideally," the braintrusters fantasize, OPEC will be provoked into jacking up their oil prices 15 per cent, blowing the European and Japanese currencies sky-high and channeling tens of billions of idle petrofunds into the dollar. In this crisis atmosphere, the Carter regime will call a second "Rambouillet Summit," where all major currencies are to be devalued and directly pegged to the "rejuvenated" dollar. Such braintruster fantasies account for the wild projections emanating from one so-called "gold bug," James Sinclair of the New York firm Vilas and Hickey, who predicted a 14 to 17 per cent collapse of the deutschemark and Swiss franc against the dollar in a press release issued this week.

British "Spoiler"

Developments in Britain, however, have thrown all such "ingenious" calculations into a cocked hat. British Prime Minister Callaghan — with the full backing of his Labour Party trade union base — has refused point-blank to implement the level of austerity demanded by the U.S. banks' debt-collecting agency, the IMF. According to British press accounts, government spending cuts will amount to *at most* £1.5 billion, compared to the £3 to £5 billion demanded by the IMF, and the cuts will not be implemented until April 1977 at the earliest. In the face of this British defiance, reliable banking sources say the IMF will have no choice but to fork over the $3.9 billion loan to Britain *without* the required austerity, rather than risk a British debt moratorium and an international crisis.

Callaghan has dealt a deadly blow to the credibility of the IMF, which reflects on the dollar. U.S. banks have at least $400 billion outstanding in "problem" loans to the Third World and European countries. If the IMF is destroyed as a mechanism for imposing austerity to repay these dollar debts, these investments can only be "salvaged" by resorting to the printing presses, flooding the world with useless dollars.

Further, OPEC has refused to play Wall Street's game. Instead of torpedoing Europe with a gigantic oil price hike, the Saudis, Venezuelans, Libyans, and others have provided Britain and Italy critical financial backing, strengthening their hand at the IMF bargaining table, while negotiating large-scale oil-for-technology deals which could destroy the U.S. multinationals' hold over Europe once and for all.

According to a source close to the Saudi government, the Saudis are getting out of dollars and putting the bulk of their idle funds into British pounds, (halting the run on the sterling balances) as well as into deutschemarks, and gold.

It is this informal political agreement between Britain and OPEC which has been the primary reason for the pound's recovery from the "depths" of $1.55. This week, the pound jumped another cent to $1.67, allegedly on the basis of an announcement by British Treasury Secretary Healey that he "hoped" an agreement on funding the sterling balances would be reached by next week. Healey, in fact, said no more than he has on previous occasions, and his remarks were greeted with scepticism in British banking circles. The reality is that sterling is strong because Britain, in cooperation with OPEC, has succeeded in flouting the IMF and is getting its money anyway. Banks and corporations which attempt to take "short" positions on sterling under these conditions may be in for an unpleasant surprise.

Interest Rates Strengthen Mark But...

This week's critical shift in the interest rate differential between the dollar and deutschemark sectors is another major factor in the dollar's decline. For the first time this year, the interest rate charged to borrow Euro-marks was higher than the Euro-dollar rate. This shift in the interest-rate differential is a direct result of the collapse of U.S. domestic interest rates, due

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to the depressed state of the U.S. economy, and the simultaneous tightening in West German domestic rates. As a result, even more funds will be attracted out of the dollar into the deutschemark, but under conditions not at all beneficial to the West German economy.

As long as West Germany does not move politically to establish a new monetary system wiping out billions of dollars of worthless dollar debts, the flow out of dollars into the country's money supply will produce a hyper-inflationary disaster. During the month of October, another 2 billion marks worth of foreign funds were monetized by the central bank. This has forced the Bundesbank to hike domestic interest rates, squeezing out domestic corporate borrowers, but attracting still more footloose dollars into the deutschemark, in an unending vicious cycle. Thus, the deutschemark is strong only in the short-run; future trends depend wholly on West Germany's political orientation.

U.S. Corporations — Agents Or Victims?

During the past week the key role of U.S. multinational corporations in the foreign exchange markets has emerged into the spotlight due to a controversy over a new accounting rule. As a result of the extreme chaos on currency markets this year, (much of it planned at U.S. bank head offices), U.S. multinationals have racked up half a billion in losses on the third quarter alone. Their losses have been aggravated by a Financial Accounting Standards Board (FASB) ruling, dating back to January of this year, which requires multinationals to report their assests and liabilities in current dollar terms. The new rule has accelerated the trend of multinationals junking their investments in the "weak"-currency areas, putting the companies in the position of demanding that countries devalue before any more investment comes in. In effect, the corporations, willingly or not, are being forced to act as policeman for the IMF-U.S. banking austerity policies.

According to sources at the New York Federal Reserve, the Fed hopes to regiment world investment flows in precisely this way. The Australian and Mexican devaluations are the model: first, a massive currency collapse followed by a marginal revaluation in order to "tease" capital back in.

This type of currency warfare evoked a mild protest from the Journal of Commerce this week, indicating some layers of U.S. industry have begun to wake up. In its Dec. 7 editorial, the Journal noted that last week's 7 per cent depreciation of the Canadian dollar had been precipitated almost singlehandedly by the (Rockefeller-allied) New York investment house Oppenheimer and Co., Inc. Oppenheimer's extremely pessimistic report on the Canadian economy succeeded in panicking U.S. corporations into a virtual stampede out of Canadian dollars. Although the Canadian currency has temporarily stabilized, the Journal warned that Oppenheimer and allied banks now possess the power of life or death over the Canadian economy. Should the Canadian government attempt to ease credit in order to aid the country's depressed industry, U.S. multinationals could easily dump $6 billion in Canadian investments and the Canadian dollar would fall through the floor.

Gold Up After IMF Sale

GOLD

The most significant indication of gold's strength is that 780,000 ounces of gold auctioned by the International Monetary Fund on Dec. 8 were sold at $137 per ounce — a price exactly $1.35 per ounce higher than the previous day's closing price on the London bullion market. Today, gold continued to be sold at $137 per ounce in New York.

Although the Basle-based Bank for International Settlements (BIS) was not included in the list of bidders for IMF gold released this afternoon, market insiders stated that Western European, Middle Eastern, and perhaps Japanese central banks were among the major bidders at yesterday's auction. These sources indicated that the said purchases were undertaken via major Swiss banks. According to bullion traders in New York, the Swiss Bank Corporation and the Union Bank of Switzerland — both purchasing gold on behalf of central banks — placed bids at over $150 per ounce.

The reason behind the steady resurgence in the price of gold since at least the last IMF auction six weeks ago, a resurgence that has rendered gold mining stocks extremely attractive on the stock exchanges and marked the failure of IMF-U.S. Treasury efforts to turn gold into "just another commodity," are basically two-fold. One, havoc on the international currency markets including outright devaluations such as those of the Australian and New Zealand currencies, have temporarily steadied the collapse of the U.S. dollar even when compared to the traditionally strong Deutschemark. Under such circumstances, private investors, multinational corporations, and others who are aware of the inherent weakness of the U.S. dollar, are beginning to hedge by getting into gold.

The other reason, far outweighing and largely the cause of the first is that Western European, Middle Eastern and other central banks stuck with billions of dollars in their foreign currency reserves, are steadily beginning to convert their dollar assets into gold. While Kuwait, Persian Gulf states, France, Switzerland, and Belgium are in the forefront on this movement, even the Japanese have been seriously considering converting their large dollar assets into gold.

As one knowledgeable Arab monetary source put it in