

Euro-Arab Deals Squeeze New York Banks Out Of International Markets

BANKING

As a result of Arab oil producers' large-scale pull-out from the Eurodollar markets and the redeployment of their dollar reserves into trade and development deals with the West Europeans, Japanese, and Comecon nations, the major New York commercial banks have been isolated from a large section of world capital flows. The new Arab "investment portfolio" has given Chase Manhattan, Bankers Trust, and the other increasingly shaky Rockefeller-dominated New York majors what might be the final shove into the bankruptcy courts.

It is an open secret on Wall Street that the two most illiquid banks, Chase Manhattan and Bankers Trust, have been receiving emergency cash injections "under the table" from the U.S. Federal Reserve for weeks.

According to well-placed Wall Street observers, Chase has recently been forced to scrounge for even nickels-and-dimes savings — closing down many of its branches, paring down personnel, cancelling library subscriptions to business publications — leading some experts to believe that, as in the Franklin National collapse, Chase is secretly selling off its assets in preparation for formal bankruptcy proceedings. David Rockefeller's "squeeze-play" against New York City this week, analysts say, is merely part of a larger strategy to ensure the marketability of New York MAC bonds on the open markets, allowing the commercial banks to sell off their MAC bond holdings and thus rid themselves of one of their most illiquid "bad loan" categories.

The six largest New York banks together hold an estimated \$78 billion such "problem loans" to New York City and other bankrupt U.S. states and municipalities, Third World and European countries, the collapsed Real Estate Investment Trusts, tanker companies, etc. — accounting for 60 per cent for their total outstanding loans.

Fighting for Deposits

According to banking analysts, the New York majors have suffered a loss of deposit funds recently, largely due to the fact that OPEC investors are no longer placing the bulk of their oil earnings in short-term deposits at the New York banks or their Eurodollar branches but are instead investing directly in European industry. The deposit drain could explain the extreme tightening in cash reserves held by the New York banks during January, which occurred despite the Federal Reserve's "loose money" policies. During the week ending Jan. 19, the U.S. banking system went into a net borrowed position for the first time in five months. Significantly,

analysts said the tightening occurred *only* in the big money center banks, while the regional banking system had ample case.

But it is more than just deposit losses which has the Rockefeller banks panicked: Arab capital redeployments are squeezing the banks out of the only sound international loan business still remaining — the multilateral trade deals — at the same time that Arab assistance has given European debtors the leverage with which to declare debt moratorium on old loans still outstanding to the New York banks. Recently, several France, British, and Italian private and state sector companies forced Lower Manhattan to swallow postponements on scheduled debt payments.

Arab dollar holders have absolutely refused to use their petrodollars for refinancing the Europeans' \$100 billion debt; instead, they stipulate, every penny loaned to Europe must be backed up by an expansion in real production and trade. Last week, for example, Saudi Arabia set up \$6 billion fund for Denmark to finance stepped-up shipments of Scandinavian agricultural machinery and fertilizers to Saudi Arabia, only on the condition that Denmark would not use any of the funds to service its astronomical dollar and deutschemark-denominated foreign debt (now corresponding to 17 per cent of Denmark's Gross National Product).

Freezing Out Wall Street

Meanwhile, European and Japanese banks have taken over the "petrodollar recycling" which the New York banks had believed to be their monopoly and upon which they had earned the bulk of their profits in recent years. The Eurobond market, in particular, with its lucrative commissions and syndication fees, has become a major competitive battlefield, squaring off New York and London banks against the German and Swiss. The continental European banks, largely due to their improved access to OPEC funds, have seized a large hunk of the Eurobond business, representing debt issues by the better-off European state and private companies. The New York banks have been relegated to the most illiquid sector of the Eurodollar market — Third World debt-refinancing.

The French daily *Le Monde* this week responded to a *Business Week* article, which charged that French banks were making "risky" petrodollar loans to Italian banks, by noting that it is U.S. banks, like Chase, which have the worst "bad loan" record.

The French loans are sound; they are predicated on Italian industrial recovery through capital-intensive exports to the OPEC and Comecon countries — the centerpiece of current Italian foreign policy. Last week, a consortium of European and Japanese banks again muscled into Wall Street's territory with a major Eurocurrency loan to the Italian state holding company, IRI.