

illustrates, the failure of Western European governments so far to present any coherent alternative to Carter and Rockefeller is threatening to drag European banking and credit systems down into the whirlpool created by the New York banks' demise.

On May 10, three top executives of the Swiss Credit Bank — one of the three largest Swiss banks — resigned in the aftermath of revelations that its Chiasso branch had lost \$100 million as the result of highly suspicious Eurocurrency market speculations. Reflecting a panicky scramble for liquidity in the wake of the Swiss crisis, Euro-Swiss franc interest rates for three-month money have shot up from one to nearly 5 percent in the last week.

The *Journal of Commerce* in New York reported this week that a second wave of bankruptcies is underway in the world tanker industry, with \$35 billion in loans at stake, of which at least \$6 billion are held by the New York banks. The first wave involved several spectacular failures, including the dissolution of the huge Colocotronis shipping empire. The second wave began with the virtual bankruptcies of two Norwegian firms: one, Fearnley-Egger required major refinancing, while the chemical carrier Stolt-Nielsen was bought up by British Petroleum. According to the London *Daily Telegraph*, BP's purchase of Stolt-Nielsen was a straight "bail-out".

At the Norrshipping Conference in Oslo this week, panicked tanker bankers lashed out at government subsidization of shipbuilding. Otto Norrland, tanker manager at London's Hambros bank, threatened that if

the practice continued the banks will have to "reconsider their policy for shipbuilding and shipping finance" — a declaration of bankruptcy cloaked in bravado.

Dwarfing even the tanker crisis is the threatened bankruptcy of the French government. Despite a total foreign debt of \$30 billion, *Business Week* reports that French companies will attempt to borrow another \$15 billion on the international markets in 1977; a European IMF source recently predicted a French government default as early as this year. Following the unveiling of the government's "Barre Plan Two," entailing heavy new borrowing in France and abroad, the French stock market has headed into a major "crash," in the words of the West German daily *Die Welt*. On May 9 and 10, the French stock market fell 5.2 percent, having lost 22 percent since the beginning of this year.

U.S. Industrialists' Anomie

The summit failure, amidst growing concern that the U.S. is leading the world into another wild spree of double-digit price increases and double-digit interest rates, has also panicked Wall Street — sparking a 12 point drop in the New York stock exchange's Dow Jones industrial average May 13. The prevailing sense of anomie among U.S. business circles in the wake of the London summit was summed up well in a two-sentence *Wall Street Journal* editorial May 11: "Our leaders gathered in London over the weekend and pledged to cut unemployment while reducing inflation. Perhaps after their next summit they will tell us how."

Oil Fire, IMF Announcements Expose Uncertainty Of Currency Markets

FOREIGN EXCHANGE

Foreign exchange operations were quiet at the beginning of this week after the London summit, with a slow strengthening of the U.S. dollar in response to interest-rates rise and relief that action to revalue the mark and yen was not taken. But the underlying political uncertainty was suddenly exposed May 12, when the markets were destabilized in a few hours by the massive fire which broke out in Saudi Arabia's Abqaiq oil field the night before and a declaration made in the Netherlands by the managing director of the International Monetary Fund (IMF) saying that weak currencies should be devalued and strong currencies revalued.

Oil Weapon

The fire at Abqaiq caused a sudden dollar rush in the heaviest trading in more than three years on the Tokyo market. The dollar for overnight delivery closed the afternoon session of May 12 at 279.35 yen, a drastic increase from the 277.65 yen at the end of the day on May 11.

Exchange officials said that the turnover totaled \$ 469 million, and it was estimated that the Central Bank of Japan had to sell off between \$170 million and \$200 million mainly at the end of the afternoon, when the dollar rush threatened to get beyond control.

Toward the end of the day, there were rumors that the Arabian-American Oil Co. (Aramco) might be "forced" to halt the flow of more than half of the Abqaiq oil field's daily crude oil output capacity, a major source of energy for the whole Japanese economy. The Ministry of International Trade and Industry (MITI) reported that oil imports from Saudi Arabia account for 30.7 percent of the country's total annual imports.

Even if the fire is brought under control, as today's press announced, and the yen somewhat stabilized as a result, the blaze will seriously affect Saudi Arabia's oil supplies to Japan. Japanese businessmen and importers are already anticipating a considerable increase in oil prices throughout the world as a direct result.

Needless to say, the depreciation of the yen on the Tokyo market has nothing to do with the state of the Japanese economy per se. It is precisely and ironically on May 12 that the Japanese government has eased

remaining foreign exchange restrictions for travelers going abroad in view of the country's high reserve position of \$ 17 billion.

Witteveen Weapon

On the very day of the blaze, the managing director of the IMF, Johannes Witteveen, made a speech in the Netherlands — but released in Washington — spelling out another “soft” Rockefeller scenario in partial contradiction with the preceding one. He “suggested” that Britain, France and Italy might have to let their currencies depreciate “in order to maintain competitiveness.” At the same time, “in order to eliminate large international imbalances,” West Germany and Japan should “encourage adjustment through an appreciation of their currencies and increased flows of long term capital exports,” he said.

Although this “selective” policy is in contradiction with the destruction of every other currency except the dollar through the “oil weapon,” insofar as it wants to push the mark and the yen up, its final goal is no different. Along with the war-like deployments, it is the policy of the New York banks to keep the monetary developments in Europe under control. If the Witteveen plan were followed, European attempts to secure a common monetary front against the U.S. dollar would be effectively disrupted. The depreciation of the weak currencies and appreciation of the strong ones would make an integration of all the European currencies into the “snake” all the more difficult.

As a result of Witteveen's declaration, the mark and the Dutch guilder went up on May 12. But the other side of the operation — the depreciation of the British pound, Italian lira and French franc against the dollar — did not work. Despite the weak state of the British and French economies, the pound and the franc still stand firm against the dollar. In April, France's official gold and foreign reserves rose by the equivalent of \$126.8 million to \$18.74 billion — while the French stock market was going down at the pace of about 1 to 2 percent per day! As for Great Britain, despite a fall in the industrial output index, dealers said that the Bank of England had to buy a “moderate” amount of dollars to keep the pound from climbing above its target rate of \$1.72. This apparently paradoxical situation is due to indirect support given to the weak European currencies by the strong ones — mark and Swiss franc — under the form of high interest rates differentials, orienting capital outflows toward the French franc or British pound for better short term profit.

The recent unhappy developments in the Swiss banking community are in part an operation concocted in lower Manhattan to cut short their cooperative approach with other European central banks. A “confidence crisis” in the Swiss banks — after the Chiasso affair and the bankruptcy of the Leclerc bank — was engineered to provoke an outflow of money, but toward the New York banks and not France or Great Britain. To avoid problems for the Swiss franc, the Swiss authorities were expected to raise their interest rates, thus making investments in France or Britain less attractive. At the same time, the Eurobond market — a key source of money for the European corporations and governments — was targeted for destabilization.

The funds involved in the Chiasso scandal were fiduciary funds, or portfolios managed by the Credit Suisse (Swiss Credit Bank) on an off-balance sheet basis, in other words, part of that amorphous mass of money which is traditionally seen as providing more than half of the overall investment in Eurobonds. The question was whether the Chiasso affair would trigger a withdrawal of such funds from the Swiss banking system and thus pull the carpet from under the Eurobond market. Contrary to some speculations, nothing drastic happened, but the volume of issues on the Eurobond market had to be reduced, while the Euro-Swiss francs rates on three and six-month paper went up spectacularly.

It is still difficult to measure the consequences of such developments for the European countries. But as a result of the situation, Credit Suisse White Weld had to postpone a \$50 million six-year note for Hydro Quebec, the state-owned electricity monopoly in Quebec, which was to have been launched on the Eurobond market at a 7.75 percent interest rate.

The Canadian economy, very dependent on foreign borrowing — financial sources suggest that as much as \$2.5 billion has been borrowed overseas by Canadian entities so far this year — could be rapidly hurt by such a development. Traders predict a decline of the Canadian dollar as a result.

Finally, the rise in the U.S. prime rate announced by all the major New York banks on May 13 strengthened the U.S. dollar against all continental currencies — foreign investors seeking greater returns. But this move did not last more than a few hours. During the whole afternoon session, the dollar went progressively down again, on well-founded fears of inflation and general reinterpretation of the Witteveen declaration as indirect evidence of U.S. currency weakness.

U.S. Business Looks For 'Quick Cures'

BUSINESS OUTLOOK

The growing realization by U.S. businessmen that the U.S. economic recovery is not all that it was cracked up

to be is exacerbating the most dangerous tendencies among businessmen — calls for protectionism, price wars at home, and other forms of mutual throat slashing.

Indicative of the waning of the cohesive influence of the traditional business organizations, Jack Carlson, chief economist for the U.S. Chamber of Commerce, told NSIPS last week that the Chamber supports free trade,