

## Foreign Exchange by Richard Katz

### Has the dollar become NATO's scrip?

*A deal was struck at a meeting at the Bank for International Settlements to revive the dollar as a NATO reserve. But dollar stability is viewed as short-lived.*

Following a week of intense downward pressure, the dollar stabilized in the week of Jan. 7 at DM 1.71, as reports circulated that the weekend meeting of the European central banks at the Bank for International Settlements in Basel had struck a deal to stabilize the U.S. currency.

However, the character of the Basel agreement, which decided that the dollar—following the Afghanistan events—must be maintained as part of NATO's strategic facade, is as shaky as that facade itself. The absence of speculative flurries on this week's market is no major accomplishment.

As of Jan. 9, the dollar had been stabilized—temporarily—but only because the big sellers of the previous week decided to back out of the market. The major sellers had been limited to international banks rather than corporations of OPEC countries. Thus, a total intervention estimated at \$4 billion since Jan. 1 was able to stem the tide.

A closer look at the reasons for the banks' withdrawal reveals why the dollar stabilization scheme cannot succeed for more than days or, at most, weeks. The most effective arguments at the BIS meeting were presented for the non-attending public in the form of the lead editorial of the Jan. 6 London *Sun-*

*day Times*. The Soviet invasion of Afghanistan, said the Times, demands "a collaborative linking of the entire non-Soviet world. A new international currency is ultimately the answer, but it is a long way off. So we have to make the reserve currency we have, the dollar, work." This is quite a reversal for a newspaper whose publishers have long worked to end the reserve role of the dollar in favor of currency diversification and reserve status for the International Monetary Fund's (IMF) Special Drawing Rights (SDR).

Soviet tanks, in this case, seem to have had a more persuasive effect than years of remonstrance by this nation's European allies. Soviet press accounts made clear that their move into Afghanistan was premised in part on their perception of Western economic crisis including oil price hikes and a flight from the dollar. At that point, in the effort to show a united NATO front to the U.S.S.R., erstwhile anti-dollar factions in London and New York joined with longstanding pro-dollar partisans in France and West Germany in intervening to maintain the dollar's value. International bankers reduced selling pressure and let the central bank action take effect. Saudi Arabia, which had held back from the market for a while, de-

posited several hundred million dollars in New York banks. As one trader commented, "people thought it just too dangerous to let money panic out of the dollar and into metals and commodities."

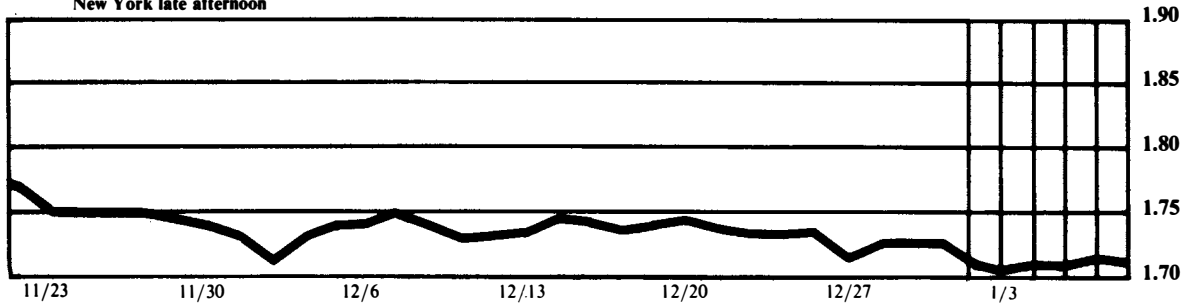
Economically, however, the plan has no basis. The London plan envisions building up the dollar on the basis of a NATO-wide arms buildup, anticipation of which sent steel and defense-related stocks rising sharply this week. (see *DOMESTIC CREDIT*). This is in stark contrast to the repeated proposals coming out of France and other European Monetary System countries for a new international monetary system based on using the dollar as an investment instrument for longterm, low-interest development. In fact, there are rumors afloat that the London plan was designed to pre-empt reported quiet discussions between France and the U.S.S.R. for joint efforts at remonetization of gold.

The U.S. dollar, already hurt by a sudden loss of \$3.5 billion in expected grain exports, cannot tolerate the strains that an arms budget would produce. Therefore, the traders expect the markets to test the stabilization scheme very quickly, most likely by the week of Jan. 13. At that time, the Deutschmark parity of 1.700 to 1.705 will be tested. If central bank intervention cannot withstand that test, then traders see the market very quickly moving to test the 1.65-1.67 level.

Individuals and banks who have engineered speculation against the dollar for years will find it requires more than the psychology of Dulles-style brinkmanship to maintain the dollar now.

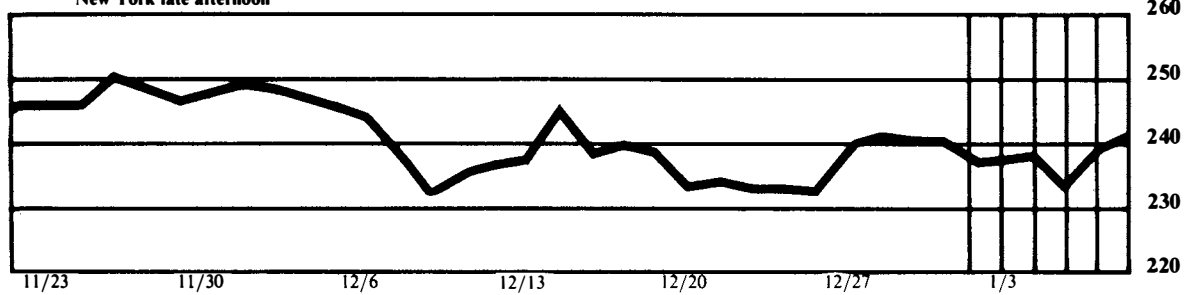
### The dollar in deutschmarks

New York late afternoon



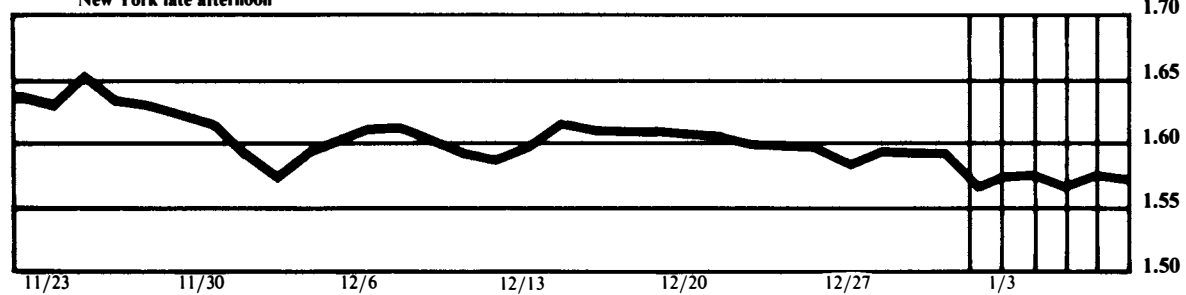
### The dollar in yen

New York late afternoon



### The dollar in Swiss francs

New York late afternoon



### The British pound in dollars

New York late afternoon

