
FOREIGN EXCHANGE

The gnomes of Britannic House make magic on the money markets

The gnomes of Britannic House, London headquarters for British Petroleum and the British government's international oil policymaking center, began a purely speculative run out of the U.S. dollar over the week of Feb. 5-9. The dollar fell from 1.89 to 1.83 deutschemarks. And they did so with no basis in the political-economic fundamentals. There had been a general lowering of world dollar interest rates during the month of January which had spelled a healthy appreciation of the dollar from DM 1.85 to 1.89 the week before.

Britannic House, the policy

coordinator, cooperated with one of British Petroleum's sisters, Royal Dutch Shell, and the industry's clearing bankers in London. They had purely political motivations. The dollar's appreciation and interest rate fall had signaled the impending success, as we reported last week, of the European Monetary System (EMS), initiated by France and West Germany. To function, as West German Finance Minister Hans Matthöfer told U.S. audiences in late January, the EMS required a rising dollar. The British government was not about to have the tottering pound sterling compete with a

vigorous Continental EMS-dollar axis.

A timeworn mix of reality — the danger that the international oil supply could become short — and rumor mongering, were exercised to create a dollar panic where none existed. At 1:00 a.m. New York time the morning of Monday Feb. 5, the Hong Kong and Shanghai Bank and Standard Chartered began inexplicably selling dollars on the Hong Kong market. Their traders fed the rumor to London Reuters and the other wire services that Exxon had been forced to declare force majeure cancellations of its oil contracts from a sudden production cutback in Saudi Arabia. **The U.S. would face an oil crisis.**

Participants in the previous week's dollar bull market were guilty of the crime of "self-feeding optimism," HongShang Chairman M.G.R. Sandberg told the Wall Street Journal, hoping to excuse his bank's actions.

The dollars they sold were quite real. They came from British Petroleum and Shell, who have since late January been

TRADE

Reshuffling the Middle East trade deck

Middle East: While China market mania continues to monopolize the headlines in the major trade publications, a fascinating and significant pattern of economic diplomacy has emerged in the Middle East. U.S. economic and political opportunities in the region are in a shambles following the Camp David fiasco, but European nations are moving creatively and imaginatively with an approach toward the region that is lining up some fat, long-term orders.

With Saudi Arabian and, increasingly, Soviet cooperation, Europe has revived the Arab Industries Organization (AIO) to address the urgent development needs of

Egypt in particular. Created more than a year ago by Saudi Arabia, the United Arab Emirates, Egypt, and Kuwait to match Saudi capital and European technology in building up Egypt's core industry — the AIO is now being plugged into Europe's trade and development approaches to the Middle East.

The French daily L'Express reported late last week that French commercial offices in Jiddah, Saudi Arabia were humming with "developments conducive to the AIO" — including the recent appointment of a United Arab Emirates official to head the organization. Now, focused on military technology-aerospace

industry in Egypt, the organization will concentrate on creating a core heavy industry machine tool and machinery capacity.

Egypt's five-year plan for 1979-1984 already includes 120 billion francs worth of firm investments in industry, all to be channeled through the AIO. Baron Empain, chief of the mammoth French steel and nuclear giant, Empain Schneider, spent some time in Cairo two weeks ago to "discuss reconstruction" with Egypt's Minister of Economic Planning Al Kafraoui.

More recently, a major contract for the Egyptian national telecommunications grid — a \$20 billion, 20-year contract — was awarded to the French firm CIT-Alcatel, which previously put together a phone system in Alexandria. West Germany's Siemens and the Swedish telecommunications firm L.M. Eriksson are also in the bidding for parts of the job. This is a contract which every knowledgeable observer agreed one year ago was locked up by AT&T, Continental, GTE and a few other American telecommunications giants. Saudi-West German-French cooperation is apparently behind

making up the estimated 5 million barrel per day shortfall (relative to the pre-Iran crisis period) in oil on the international markets by selling from their several month inventories. The difference between the inventory price, averaging the 1978 price of some \$14 per barrel and the current spot Persian Gulf price of \$18-\$20 per barrel, has created a cash flow gravy of some \$30 million per day on these inventory sales. The same dollars the British oil companies promptly sold for deutschemarks, yen, and Swiss francs — through strategic markets like Asia.

The Exxon report, of course, was a hoax — although it took the New York market until its own closing, 16 hours later, to figure out Exxon had made no Saudi cancellations.

By that time enough rumors were circulating to keep the traders busy the rest of the week. Tuesday morning, Reuters reported that Iran was defaulting on all its foreign paper. London merchant bankers told Eurodollar market participants that Khomeini had tactical

nuclear weapons aimed at the Soviet Union, ready for use. N.M. Rothschild's itself put out the word to clients — get out of all stocks, all bonds, get into cash, preferably deutschemarks and bullion.

London gold was jumping at \$10 a day. By Tuesday evening the key three-month LIBOR Eurodollar rate had jumped .5 percent and the average New York foreign exchange trader was near tears.

None of this, of course, would have been possible but for the willingness of U.S. multinational corporations to panic at the drop of a derby hat. Exxon and Mobil themselves, who are raking in the same oil inventory profits as the British, and the large New York banks such as Citibank, were reported among enthusiastic sellers.

In such an atmosphere, more real problems were easily created for the dollar by Wednesday Feb. 7. The Eurodollar bond market, whose CEDEL turnover volume index had risen by 50 percent during the last week of January, was hit with a sharp selling wave as the

rigged rise in the three-month Eurodollar rate and the dollar squall convinced the market that the U.S. Federal Reserve was about to severely tighten up on all interest rates. London Eurodollar bond traders dumped quickly, and the over \$1 billion in new Eurodollar offerings promptly fell .25 to .375 percent each.

Through this, the West German, Japanese, Swiss, and even U.S. monetary authorities intervened heavily, and are still committed to continuing to do so. At this writing, there is still no real reason for a dollar panic — the entire week could be a blip in a general curve of falling dollar interest rates and currency stability. Remember the London rumor a year ago that the Saudis would demand the pound sterling for oil payments, which prompted a run against the dollar? A farce. The question remains, however, will U.S. corporations, banks, and political leaders be snowed by panic mongering, or publicly demand a halt to the madness?

— Kathy Burdman

the reversal.

American corporate executives owe it to themselves to put this final item into their calculators: Yesterday, the Egyptian government made the most forthright public condemnation of Camp David yet, at the very moment that U.S. Secretary of State Cyrus Vance appeared before Congress to propose a "restarting" of the Camp David adventure.

Horn of Africa: French initiatives of several months ago to convene a Horn of Africa Conference on Development appear to be gaining momentum according to reports in the French press of Feb. 6. A secondary focus of American foreign policy disasters over the past year, the Horn of Africa has been a festering "hot spot" for months. But combined Cuban and European stabilization efforts have effected a political calm which can be given permanence with serious regional development initiatives.

Both the French daily *Le Figaro* and *Le Monde* reported that the Soviet Union has indicated a lively interest in the

proposal for a development conference — as the basis for overcoming regional antagonisms — first made by then-French Foreign Minister de Guiringaud following meetings with his Soviet counterpart Andrei Gromyko.

A spirited dialogue has also begun between European leaders and official representatives of former British colonies in the Horn area for the first time. On his first state visit late last year, Kenyan President Daniel arap Moi traveled to Paris for talks with French President Giscard d'Estaing. French State Secretary of Foreign Affairs Stirn will be making a discussion and planning visit to the Sudan. The fact that the Sudan currently holds the presidency of the important Organization of African Unity (OAU) emphasizes the broader significance of this economic diplomacy.

Greece: The Hellenic Chamber for Cooperation and Development with Arab countries (CDC) has issued a report pointing out that Greece is the "natural bridge" between Europe and the Arab world, and noting that the growing need

for transport capacity between Greece and the Arab countries can be facilitated with the improvement of roads, rail networks, and efficient port and airport operations. The CDC located the imperative for its proposal in the context of Greece's recent association with the European Community and the opening of the frontiers between Syria and Iraq.

Crete is now seeking government support for a port development program that would make it the major transit center between Europe, Libya, and the rest of North Africa. With the aid of the newly established Hellenic-Arab Bank, trade flows have already begun along this route. Greek exports to Libya will rise \$200 million under a new agreement which features Libya selling oil to Greece at \$3 per barrel below world market price in exchange for technology.

— Susan Cohen