

Still Waiting For The Other Shoe To Drop

The U.S. dollar's long plunge against the West German mark and other major currencies momentarily abated late last week, as markets nervously awaited a public political announcement from European and Arab governments that they are prepared to break with the dollar system. In the week since the Bank of England's watershed decision to allow the pound sterling to float upwards against the dollar, the dollar oscillated widely but still managed to regain the 2.30 marks level by Aug. 4. Prior to the "uncoupling" of the pound, the dollar had hit a new record low of less than 2.25 marks.

FOREIGN EXCHANGE

As if waiting for the proverbial other shoe to drop, all eyes are riveted on the meeting of OECD and OPEC Finance Ministers scheduled for Aug. 6, in Paris. This conference was called by International Monetary Fund managing director Johannes Witteveen as a make-or-break effort to raise contributions for the proposed \$16 billion "special fund" — which some have dubbed a "bailout" for New York banks. At the Aug. 5 gathering of delegations of the U.S., West Germany, Britain, France, and Italy to discuss the "dollar situation," West German Finance Minister Apel is expected to give U.S. Treasury Secretary Blumenthal a verbal drubbing for his role in creating the current monetary chaos.

According to some observers, West Germany was behind Britain's decision to unpeg from the dollar, and is playing a leading role in the behind-the-scenes preparations for a gold-backed monetary system. In an editorial entitled "Why Sterling Was Unhitched," the London publication *Investors Chronicle* reported that "other European central banks" pressured the Bank of England to make its move. According to traders at a major British bank in New York, German banks moved heavily into pound sterling immediately after the Bank of England announcement, accounting for much of the pound's 2 cent rise to \$1.74. The heavily factionalized British central bank appears to be opposed to a further pound rise at present and was selling pounds at \$1.7420 on Aug. 4. It will take more big money inflows from the West Germans and Arabs to catalyze a further jump of the pound sterling, this source believes.

The rising anti-dollar tide among West German industrial and banking circles was aptly summed up by the Aug. 4 *Deutsche Zeitung*, weekly newspaper of Christian Democratic businessmen, in two articles by financial columnist Wannemacher. Ridiculing Blumenthal as a "sorcerer's apprentice," Wannemacher warned the Bundesbank can no longer afford to print deutschemarks in support of the dollar. Suggesting that the dollar would

have collapsed long ago if a few foolish oil sheiks and others had not squandered their profits in dollar-denominated investments, Wannemacher called on the Saudis and Kuwaitis to begin a run into gold. West Germany and Japan, he said, should not reflate to help the U.S. bridge its trade deficit, but should put an end to the dollar's reserve currency role once and for all!

Pravda gloated that "as of Monday, Aug. 1," the West German Central bank had ended its policy of support for the dollar, while the *Journal of Commerce* noted that traders were "puzzled" by reports that the Bundesbank was selling dollars on that day.

Scandinavia: An Achilles Heel

Before West Germany and the other European governments make their leap into the new monetary order, however, they must square away the problem of the Scandinavian economies. Sweden is said to be on the brink of collapse due to sky-high inventory pile-ups, shrinking sales, and disappearing corporate profits.

Many U.S. and European press outlets have spread the rumor that the Aug. 5 meeting of leading finance ministers will decide to reorganize the deutschemark-centered European currency "snake," including major devaluations of the Swedish, Danish, and Norwegian currencies. This would strike hard at West German exports to this region. The AP-Dow Jones wire even went so far as to "leak" Swedish Economic Minister Bohman's interview with a financial newsletter in Paris last week, claiming that he had stated that a Swedish kroner devaluation of "more than 6 percent is needed." The newsletter in question subsequently revealed that Bohman had actually stated that the devaluation was not needed. Such patent misreporting only reveals the desperation of certain U.S. financial circles to divert attention from the dollar's miserable plight.

According to the July 29 *Handelsblatt*, the Bundesbank was forced to spend 1.4 billion DM in support of the Scandinavian currencies in the previous week. If the West Germans continued to intervene on this scale last week, this could partially account for the improvement of the dollar, since the Bundesbank would be putting more deutschemarks into circulation and driving down deutschemark sector interest rates. One way West Germany could get out of this bind is through large-scale OPEC investments in Scandinavia as part of a "triangular trade" arrangement between Western Europe, OPEC, and the Soviet Union.

Other trouble-spots which have temporarily drawn attention away from the dollar include the Turkish lira, which was devalued 4.5 percent against the deutschemark last week; the Australian dollar, devalued 1.5 percent; and the Canadian dollar, which fell to a new seven-year low of 93 cents.