

Is this the crash of '79?

If so, whose is it?

Many of the best-informed people in the markets began to doubt their sanity this week.

Attributed variously to events in Iran, possible events in Saudi Arabia, the intentions of the Federal Reserve, and the landing of Martians, all the markets went haywire over the past week. The underlying state of the credit markets, which flipped from a basic improvement in the entire rate structure of the dollar-denomination maturities last week to virtual shambles at deadline, was the most dramatic development and a major influence on the foreign exchange markets.

The dollar's weakness, in turn, produced a violent rise in short-term Eurodollar rates (from about 10-1/8 late last week to 11-1/8 on Feb. 8 — three-month London interbank) by the middle of the week. Gold rose sharply to a record, base metals prices rose sharply, the major world stock markets dropped sharply, and panic spread.

Behind the panic is a hype job of the kind classically represented by Orson Welles' broadcast, *The War of the Worlds*. A typical example of the problem involved is the Feb. 7 rumor that Iran's Ayatollah Khomeini had been assassinated, presaging a devastating Holy War, which brokerage house sources in New York had traced back to the London offices of Morgan Stanley. The net effect of the confluence of rumors is about the equivalent of putting Paul Erdman's rehash of Washington thinktank scenarios, "The Crash of '79," onto the broadtape at the middle of trading.

A quick examination of the relevant facts leaves the analyst perplexed at the extent of the hoax involved:

Myth: Iran is on the brink.

Fact: The Bakhtiar government is more stable than it seemed last week — while the dollar was rising — forcing caution from the Khomeini forces. No Iranian news **should** have affected the market.

Myth: The Iranian situation leaves oil supplies in a worse state than during 1973. Energy Secretary Schlesinger lied through his pipe at the Feb. 7 session of the Senate Energy Committee to this effect, and the 3-pfennig drop of the dollar that day was chalked up to Schlesinger's remarks (although most of the drop occurred before his testimony).

Fact: Oil supplies are short by several million barrels a day — but there is a 4.5 billion barrel world stockpile, enough to last

until the end of summer without discomfort. Iran itself sold 2 million barrels last week. The Saudi cutback to 7.7 million barrels a day was inspired by an Anglophile group inside that monarchy whose position is by no means secure, and the Saudis have the physical capacity to make up the entire shortfall. The rise in spot light crude prices to \$20 a barrel is a matter of oil company tricks in releasing stockpiled oil for sale — and that fall in the dollar has a great deal to do with how the extra cash flow was disposed of.

Myth: The oil producers are falling into Soviet circles of influence.

Fact: The new political center of gravity is the Franco-German superpower, including a planned linkup between the European Monetary System and the Arab Monetary Fund.

Myth: The Europeans have given up on the dollar.

Fact: Europe may have given up on NATO — now that Carter has made Teng Hsiao-ping that organization's honorary spokesman — but not the dollar.

The list could go on for pages. The accompanying features take the appropriate situations one-by-one according to the same principle.

That the market's "information" has been supplied largely out the Erdman rehash is really not subject to dispute among informed analysts. The big question is, rather, how could anyone — and we are speaking of British channels of influence in the Washington Administration, the Mideast, and the news media — get away with this kind of hoke job?

It is not certain that they will. But the opportunity presented itself when the White House did everything but sign its own committal papers, embracing war-mad Teng at the same time it permitted the "Communist mole" faction in the State Department to join in the destabilization of Iran. American intelligence, diplomacy, and other vital processes are not showing on the screen. With the Administration defunct, the "magicians" of the City of London have had a temporary free shot at the dollar.

What we have to report is not going to be palatable for many decision-makers, who prefer to believe in the arbitrary turns of the wheel of fortune. However, this is a bad time for spinning wheels.