

International Credit by Renee Sigerson

New strategies for petrodollars

The extra three billion a month won't go into bank deposits, but direct syndications.

Since January 1980, oil-producing countries have deployed no less than \$60 billion globally, bringing total oil-producing country assets accrued internationally since 1974 to nearly \$300 billion.

Data compiled from public and confidential sources allows us to provide a preliminary breakdown of where these 1980 investments have been going:

- No less than \$3 billion, and more likely \$6 billion (a full 10 percent) has gone into gold.

- Between \$6 billion and \$15 billion has been put into government-to-government debt financing deals, mostly in continental Europe.

- At least \$600 million, and possibly \$1 billion has been channeled into private placements for top-name U.S. multinational firms, whose bonds are reported to be considered "as good as U.S. government debt" by the Saudi Arabian Monetary Agency and other Arab petrodollar holders.

- Between \$4 and \$6 billion has gone into purchases of U.S. government Treasuries, reversing the decline of such purchases by Arab investors last year (when such purchases were no more than \$2.8 billion for 12 months).

The bulk of the remainder continues to be held as deposits in the Euromarkets. Arab Eurodollar deposits are to be included in the rush of funds which began to pour si-

multaneously at the beginning of June into New York, Frankfurt, and London markets.

In the first quarter of 1980, foreign purchases of U.S. securities other than government securities totaled \$2.5 billion; the same category of purchases never topped \$2.9 billion during 1979. During that quarter, an oil price rise was announced which is now about to channel \$3 billion additional funds to oil-producing countries per month. In early June, the increased oil-producing assets held on the Euromarkets contributed to a major pickup in bond sales in New York (which despite a devastating slump in the first quarter, is now headed for a record year of sales of \$40 billion); a simultaneous takeoff of London-based British government gilts; and record bond sales for 1980 on the Euromarkets.

Speculation is rampant as to how the Arabs will deploy the marginal increase in their surplus resulting from the oil-price rise earlier this year. During a recent conference, sources report, the 21 leading Western commercial banks decided that it would be impossible for them to continue holding increasing sums of petrodollars unless interest on deposits were lowered. Since most of these banks have already reached their "limits" on lending to various Third World countries, and have to charge lower interest rates on Third World loans, these bank-

ers complain that they cannot afford to finance these deposits.

One solution which appears to be emerging is that Arab commercial banks are directly channeling deposits into loan syndications linked to international trade and development.

This week, two issues appeared on the Euromarkets which involved unusually heavy participation and even co-management by Arab banks. The Czechoslovakian Foreign Trade Bank is issuing \$250 million in notes; the original sum of the loan set in negotiations was \$200 million, until a coalition of Arab banks jumped into the bond and allowed it to be increased. Major U.S. commercial banks asked to join the syndication refused, saying they will not channel funds into any East Bloc address until the Afghanistan issue is settled.

The African Development Bank is on the Euromarkets for a \$250 million standby credit facility, led by two French banks, and co-managed by a syndication including the Arab-Banking Corporation and the Banque Intercontinental Arabe.

These Euromarket syndications are being designed in close coordination with French and German banks. In a confidential study, one London specialist on international finance asserted that during 1979, Arab investors began to rely heavily on investment advice from Deutsche Bank, Germany's largest, and reduced their dependence on advice from leading British and U.S. banks. Similarly French bankers take credit for having persuaded the Arabs to come back heavily into the U.S. bond market, if only to take advantage of the promise of high interests in early 1980, leading into high bond yields by mid-year.