

Foreign Exchange by David Goldman

Crises boost dollar—for how long?

A burning tanker in the Gulf and political strikes in Europe hurt the mark.

European currencies fell sharply following the April 26 report that a Phibro-chartered, Saudi-flag tanker with a full load of crude was burning in the Gulf. BBC London is the source for the allegation circulated on international newswires that this was an Iraqi attack, and BBC's apparent source is the master of the ship itself.

These allegations should be viewed as suspect. Phibro, owned by the Englehard-Oppenheimer combination of raw-materials interests, has been manipulating oil spot market prices since the mid-1970s; since its assimilation of Salomon Brothers in 1983, it has become one of the organizations best positioned to gain from a new oil crisis.

But the tanker is burning, whoever attacked it, and the financial consequences are evident.

We warned last week that a Soviet-inspired European strike wave had overridden the financial factors which otherwise militate for a dollar decline.

The emergence of Soviet agent of influence Armand Hammer in President Reagan's China trip entourage gives the Soviets encouragement. Hammer's mere presence serves as a signal to both America's European and Asian allies that the White House is willing to compose and appease the Soviet Union at a moment when the latter is on a course of confrontation and rapidly gaining hegemony in Europe, the Middle East and North Africa.

The White House and the State Department have refused to even acknowledge the continuous and escalating Soviet violations of the four-

power treaty governing Berlin. They have refused to recognize the significance of the recent extraordinary deployment of Soviet military power in the North Sea, Southeast Asia, and Afghanistan, and refused to counteract the collapse of Western power in the Middle East.

The political situation in Europe reflects this political decay in Washington.

- Communist-organized strikes are presently sweeping the French steel-producing area of Lorraine.

- In early May, the Federal Republic of Germany will be hit by strikes in the steel sector, the printing industry and the public sector. These strikes will be supported by the SPD, the Green Party and the peace movement.

- In Holland, the Dutch parliament is expected to vote down the deployment of American Cruise missiles within the next couple of weeks.

- Italian foreign minister Giulio Andreotti has signed a \$3 billion deal with the Russians, and the Central Committee of the Italian Communist Party is about to decide whether they will pursue their assault on an already weak government.

- Anti-terrorist specialists in Europe also expect a new wave of Iranian, Syrian, and PFLP terrorism in Europe over the next couple of months.

The problem in judging the foreign-exchange markets during the coming weeks is that the same political offensive on the part of the Soviet Union can, from day to day, produce diametrically opposite effects on currency rates.

At the moment, fear concerning the defensibility and energy-supply situation of Western Europe is supporting the dollar. It is not even excluded that the dollar could regain its mid-January highs in the context of a breaking Berlin crisis.

Two interwoven developments between now and September could nonetheless produce a spectacular dollar decline. The first involves the European reaction to such a crisis; the second involves the consequences of widespread default upon Latin American debt.

As our European Economics editor Laurent Murawiec reported last issue, financial decoupling of Europe is already in progress, through the elaboration of a large market in European Currency Units, or ECU.

If the Europeans respond to this crisis by capitulating to Soviet demands, the result may well be what certain U.S. intelligence officials call "a monetary Pearl Harbor," i.e., withdrawal of European capital from the dollar sector combined with Soviet dumping of the U.S. currency.

This sort of monetary development is implicit in the editorial viewpoint of the Hamburg weekly *Die Zeit*, which argued April 23 that Europe should respond to the new Berlin crisis with an offer of "entente" with Moscow.

Secondly, the collapse of the quarterly swindle to sustain American banks' Latin American assets would force the Federal Reserve to create masses of liquidity to protect the banking system, with dreadful consequences for the dollar.

The political profile of bankers' arguments concerning how to approach the underdeveloped-sector debt problem—particularly the Swiss decision to write off such debts—shows how closely these two assault flanks against the dollar are related.

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