Citibank Out To Humble Chase

BANKING

New elements of Citibank's strategy to humble David Rockefeller's Chase Manhattan and thereby emerge "on top" in the developing depression-crisis have come to light during the past week.

First, the rift between the largely conservative, industry-influenced Citibank management and Chase's "utopians" has come to a head over the issue of Third World indebtedness, particularly in the cases of Peru, Turkey, and Zaire, where Citibank recently made high-profiled interventions. In all three cases, Citibank has attempted to impose a relatively long-term strategy of economic stabilization, including moderate austerity measures, loan refinancing and consolidation of short-term into medium-term debt, and political support for existing centrist regimes. But Chase Manhattan, due to its highly insolvent condition, has insisted on immediate debt repayment and stringent austerity, even if this requires Chilean-model political coups, regional wars, and places the world on the threshold of nuclear confrontation.

Second, Citibank is deliberately encouraging OPEC investors, particularly the Saudis, to "diversify" away from short-term deposits at Chase and towards increased equity investment in the Third World and such hard-hit industrialized countries as Italy. According to an intelligence community source close to top Citibank management, the bank's staff has been directed to draw up a "Marshall Plan for the Third World," in which Saudi petrodollar "recycling" will be a major component. Although Citibank itself stands to lose substantial OPEC deposits, one bank economist characterized diversification as "in the long run, a development which the U.S. and Citibank would welcome. It's going to promote world stability and that's more important than the possible detrimental effects such a shift might have." Chase, on the other hand, has suffered severe deposit base erosion in recent months and bank analysts doubt the institution could withstand a sudden interruption in the flow of Saudi deposits.

On still a third level, informed sources report that Citibank and allied West German banking interests were behind the Bank of England's decision to let the pound float upwards against the dollar at the end of July. This temporarily braked the deutschemark's speculative rise against the dollar, which had been set into motion by U.S. Treasury Secretary and David Rockefeller associate Werner Blumenthal, in an effort to force West German reflation — a policy which Citibank economists have openly questioned in recent weeks. Citibank and its conservative co-factioneers forced Federal Reserve chief Arthur Burns to jack up short-term U.S. interest rates instead, to "save" the dollar and put a further squeeze on Chase's thin profit margins.

The unprecedented rise of Federal Reserve member bank borrowings to $1.55 billion during th
Wednesday may indicate that Chase and its allies are already in extreme difficulty. Three major New York banks borrowed $1 billion for Wednesday, the Fed's weekly settlement day. Analysts believe that Chase, without access to Arab money, may have been forced to the discount window, the lender of last resort. "The Fed, of course, could refuse to lend money to some banks," commented the Wall Street Journal, "if it felt a bank to be abusing the privilege."

Rate War Accelerates

As the *EIR* reported last week, an immediate effect of the sharply-higher dollar sector interest rates enforc
by Citibank was to drastically lower the spread between the rates at which commercial banks acquire funds and the rates at which they lend on the international m
Due to heavy competition among international banks and the rapidly growing pool of idle Eurodollars, the banks have been forced to slash their rates for medium-term Eurodollar loan syndications all year. Last week, lending rates fell through the floor, as India, a newcomer to the Euromarkets, raised a $50 million loan of seven-years maturity with a spread of only 1 percent over the London interbank rate — unprecedented for a non-oil producing Third World country. The *International Herald Tribune* further reports that the spreads paid by heavily-indebted Mexico and Brazil (now at 1.5 and 1.8 percent respectively
sharply, while prime borrowers can expect spreads of only 0.5 percent — hardly enough to cover bank operating costs.

Bank analysts are relatively confident that Citibank can ride out this period of reduced margins, but believe it could ruin Chase. One Texas banking source pointed out that West German and Swiss banks were the first to break their Eurodollar lending rates below 1 percent earlier this year, in order to make use of the excess dollars pouring into Europe. Chase then followed suit, in a desperate attempt to make up for their reduced earnings through sheer volume of syndications they participated in. Citibank, however, did not feel the need to lower their rates until about six weeks ago.

Showdown in Third World

The Citibank-Chase tussle over Peru's debt crisis could set the pattern for the rest of Latin America and the entire Third World. According to State Department sources, Chase Manhattan has a total of $220 million in loans extended to Peru, virtually all of which falls due this year. This "sets Chase apart" from all the other bank creditors, including Citibank, whose loans generally do not mature until 1979. As a result, Chase has been the most adamant in demanding austerity from Peru and called on the country to step up its copper exports as debt "collateral," even though Peru has no copper stockpiles available.

All indications are that Citibank Senior Vice President Irving Friedman pulled off a major "coup" by working out a deal with Peruvian Central Bank President German de la Melena which heavily penalizes Chase. Following Friedman's visit to Peru earlier this month, Melena briefed a gathering of 20 U.S. banks at Citibank's New York offices on Aug. 19. According to the *Journal of Commerce*, Melena—who was widely feared by the attending bankers as a monetary expansionist and leftist—presented "his strategy" for zero economic growth in Peru in exchange for a $611 million long-term capital inflow into the country and debt-refinancing. Praising Melena's partial austerity program, Friedman stated that it "leaves little doubt of their desire and capability of servicing their debt." Although the *Journal* notes that some bankers would have preferred negative growth, they understood the "political restraints" acting on Peruvian President Morales Bermudez.

That the axe had fallen on Chase in this deal became clear when Melena announced that, while Peru would pay $211 million in debt service due on long-term capital account, $420 million of the $500 million in debt due on *short-term* capital account would have to be replaced with new credits. Thus, Chase, with most of its debt holdings on short-term account, receives scarcely a copper penny!

A similar Citibank-Chase split is apparent over Turkey. According to Chicago banking sources, although Chase and Citibank each have about $250 million tied up in Turkish convertible lira deposits, and the bankrupt Turkish government has fallen behind in its payments, Chase is deeply worried about getting its money out while Citibank is not. Citibank has "good exposure" in Turkey and believes Prime Minister Demirel's austerity package will work, the Chicago source noted.

Citibank's general strategy for containing the international debt crisis appears to be aimed at converting their position as an external debt holder into that of an *internal* claim on local industry; that is, taking an equity stake in the country's real economy in the event that paper holdings become useless. Citibank is ideally situated for this because of its hundreds of branches around the world, and its practice of making loans in local currencies—a rarity with Chase.

Recently, U.S. multinationals and insurance companies gobbled up several Argentine companies, and even bought up Argentine Treasury securities so as to stabilize the government's internal debt—an operation some observers believe was coordinated by Citibank. Citibank, Bank of America, Grindlay-Brandt's of London, and five other international banks just announced a $50 million syndication for an Argentine electrical project, which is to be co-financed with the World Bank.

Banking Community Freaks

The mainly covert internecine banking warfare has now even surfaced in the U.S. press. An Aug. 25 *Journal of Commerce* editorial, entitled "Falling Dominoes," raised the alarm that Citibank would not be able to secure its own debt holdings. "Bankers with a disposition towards pessimism were convinced in recent weeks that either Peru or Turkey would be the domino setting the whole stack of developing and poorer developed countries tottering to the severe detriment of the banking system," the editorial began. The *Journal of Commerce* noted that Citibank had yet to get the Zairean crisis completely under control, and that, in the case of Peru, "even Dr. Friedman admits that it will be a tight fit." The editorial concluded with the not-so-subtle warning: "The commercial banks are also well aware that they have a vital role to play to keep the dominoes from falling....They are all in it together and they know it."

The *Journal of Commerce*'s fears were seconded by a source at Schroder's Bank in London, which is closely allied with Citibank, who commented on Citibank's strategy of squeezing out Chase: "If you start playing that kind of game, it's a knife edge. You can come out on top or collapse as well."

OPEC Prepares Break With Dollar

INTERNATIONAL FINANCE

The leading members of the Organization of Petroleum Exporting Countries (OPEC) are now visibly preparing to break with a falling dollar before their December meeting in Caracas, Venezuela, according to the here included article from the August 25 Baltimore Sun. What is at stake is a new way of calculating oil prices, which is already the battleground for a post-dollar factional struggle opposing Citibank and other related conservative interests to pro-gold West European bankers led by the French.

At this point, OPEC members with large surpluses—Saudi Arabia, Kuwait and the United Arab Emirates (UAE)—have begun to review their large foreign investments to assess the damage from the dollar depreciation, a first step in the preparation of a break.

Both Citibank and the West European bankers know that such an evolution cannot be stopped except through a disastrous military intervention which would immediately lead to a thermonuclear confrontation with the Soviet Union. This is precisely what Chase Manhattan and the desperate David Rockefeller are looking for—a show of force as a "solution" to their financial problems—but the saner group around at Citibank still