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FOREIGN EXCHANGE

Dollar's stability is deceptive

"It makes no sense whatsoever," remarked several West German and New York foreign exchange traders on the puzzling stability of the U.S. dollar at roughly 1.86 deutschemarks for the week of February 19-23. Events much less disheartening than any one of the week's news developments — seizure of the U.S. Embassy in Iran, the murder of the U.S. envoy to Afghanistan, a 7 percent plus rise in the price of oil — have laid the dollar low periodically for over two years.

The simple explanation is that the gnomes of London, who, as we reported last issue, have been systematically selling the dollar, opted during the week of February 19 to calm the markets for the short term. Their objective was political. First, the British desire to give critical support to Federal Reserve Chairman G. W. Miller's insistence that his 19th century-style high-interest rate program can stabilize the dollar. (see "Credit Markets")

Second, the British government's strategy to disband the new Franco-German European Monetary System, which formerly centered on destabilizing the dollar to prevent its linkage to the EMS, is now more broadly "geopolitical." Britain reserves the right, as Bank of England Governor Sir George Boulton told the Institute of Bankers Jan. 17, to stop the EMS by such Iranian-modeled turmoil in Europe's trading partners that France and the Federal Republic are themselves weakened.

In Sir George's words:

"The Moslem world is rapidly moving into a condition of religious civil war, and no matter who controls the Gulf, the supply of oil, not only from Iran, will probably shrink. In these circumstances, business over most of Africa and the Middle Eastern countries will suffer and consequential defaults and bankruptcies will multiply. Western Europe will be affected by the rising price of oil exacerbated by shor-

GOLD

A pause in the gold rush

With the Chinese-Vietnamese war placing the world on the brink of World War III, one would expect the price of gold bullion to go through the roof. Instead, the price has oscillated in the $240 to $250 an ounce range during the last week and has failed to retain the $254 record peak reached on Feb. 8. Why?

First, and most important, a political decision was made in London and New York during the last couple of weeks to permit a temporary stabilization of the U.S. dollar on world currency markets (see Foreign Exchange). The dollar's relative strength is based on the rigged oil price rise and supply shortages to which the economies of Western Europe and Japan are much more vulnerable than that of the U.S.

Second, London sources report that the Soviet Union, the world's second largest gold producer, sold small amounts of gold on the Swiss market in the last few days. This was reportedly the first time that the Soviets have sold any gold since October 1978. The USSR is known to be an extraordinarily adept trader and generally manages its gold sales so as not to lower the market price. However, the occurrence of new Soviet sales just before the U.S. Treasury auction (scheduled originally for Feb. 20 but postponed due to weather) has caused traders to be somewhat cautious. The Treasury is auctioning 1.5 million ounces each month as part of the Nov. 1 dollar-support package compared to only 300,000 ounces earlier in 1978.

Third, other precious and industrial metals have advanced sharply, diverting investor attention from gold (see Commodities). February-delivery silver, for example, rose over 35 cents to a record high of $7.9870 on the Chicago Board of Trade on Feb. 21. At the beginning of February, silver was trading for less than $7.00.

—Alice Shepard

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tages. Europe has no immediate alternative source of energy and will have to adapt economies to energy austerity and the abandonment of cherished social reforms, and governments will have to get used to electoral unpopularity...." That is, the Giscard and Schmidt governments will fall, and the EMS with them.

Bolton then pointed out that this will effectively destroy French and German currencies — and not just as "competitors" of the dollar. Only oil- and agricultural-rich countries will have financial standing — Mexico, Britain, Canada, and the U.S. "It may seem paradoxical, but the general forecast that the dollar is a doomed currency as the price of oil rises is probably wrong ... I can think of only one European country that has real possibilities of growth, and the name may surprise you. It is Great Britain. We are the only European country with surplus coal and oil resources."

Of course, Boulton and the Bank have no desire to see the dollar stabilized for good. Boulton himself was the author of the confidential Bank of England report, published by *Executive Intelligence Review* last August, which was circulated among European central banks predicting a total end to the dollar's role as the international reserve currency. In fact, by deadline, Boulton's office at the Bank of England was reportedly again predicting a sharp fall in the U.S. dollar based on the general "collapse of foreign credibility in the U.S." following the exposure of President Carter's strategic weaknesses in handling the hot Chinese invasion of Vietnam.

The point is, the City has put the central banks of the world on notice that they can raise and lower the dollar at will — as long as the American, continental European, and Japanese monetary authorities do not openly protest.

One of the most useful results for London of the Feb. 19-23 dollar stabilization was to lull Washington. Consider the tremendous pressure from Bonn and Paris on the Carter Administration for a U.S. denunciation of Chinese depredations. Consider the Europeans' insistence that in the interests of world peace "Moscow" (i.e. detente) "comes first" before the China card. British Ambassador Peter Jay is behind the in fact diametrically-opposed U.S. encouragement of China; his job of insisting Washington ignore European calls for sanity would have been made much harder if the U.S. had had last week to call on the EMS central banks for dollar support.

—*Susan Johnson*

CORPORATE STRATEGY

Question mark over Chrysler

The big question mark hanging over Chrysler Corporation in Detroit is whether the current temporary closings at two of its five domestic auto plants are just the beginning of the end for the nation's "No. 3" automaker. According to insider sources, unless Chrysler gets an immediate bailout from the Federal government, either in the form of a loan or a special dispensation on environmental regulations, the entire firm will go bankrupt.

The first option has already been scotched. Because of an obscure and unpublicized decision taken by President Carter in January to limit federal credit assistance to any single company to $50 million, Chrysler was denied its request for $250 million in federal loan guarantees in early February. Chrysler has reapplied for $50 million worth.

The domestic auto industry entered February with the second biggest inventory of new cars since the sluggish days of the late 1950s, when industry observers began keeping track of them. Chrysler at that time had a 113 1/2 day supply, with all but its subcompact cars in heavy oversupply. A 60 day supply is considered normal by the auto industry. Chrysler's bulging inventories and the record loss it reported for 1978 prompted the current closings at Chrysler's Lynch Road assembly plant in Detroit and at a St. Louis plant, which together employ 7,900 auto workers. In line with the current trend in auto sales — only General Motors is doing well by taking over an increasingly large share of the domestic market — both Ford and American Motor Corporation also scheduled large temporary closings beginning Monday, Feb. 19.

In December the New England-based Harbridge thinktank issued a report to the Federal government asserting that "even a mild recession" might finish off Chrysler and AMC.

The one other out that has been mooted for Chrysler was ominously suggested by the recent report that Chrysler has just won a $125 million contract to build tanks for the Department of Defense.

—*Lydia Schulman*