Military crisis suspends dollar dumping

Circles that opposed the dollar politically and financially a short while ago now fear that attacks on the currency will be perceived as attacks on NATO....

At deadline the U.S. dollar was stable above DM 1.73, significantly higher than its level of the past three weeks. According to one West German banker, "There is demand for dollars because people do not want to hold the currencies of countries which are too close to Eastern Europe." Of course, it would be irrational nonsense to guess the consequences for foreign exchange of Soviet tanks moving through the Fulda Gap, but this remark indicates how overriding military considerations are.

Western European central banks, since the Jan. 8 Bank for International Settlements meeting in Basle, have adopted a strong dollar-support stand because any perceived abandonment of the dollar would now be viewed as abandonment of NATO. This is not to say that Western Europe is committed to NATO's survival through the present crisis; the Europeans emphatically refused to take measures to halt the rise in the price of gold, forcing the U.S. to abandon its own gold sales. However, the last thing West Germany in particular will do under present circumstances is to take symbolic action against the United States in such a way as to put the onus of a NATO crisis on their heads. Carter is doing a good enough job of that as it is.

Otherwise, Europe and Japan have aggressively countered American trade policy through such open overtures to the Soviets as the recent Krupp and Nippon Steel visits to Moscow, and semi-clandestine discussions of secondary-market grain sales to the Soviets.

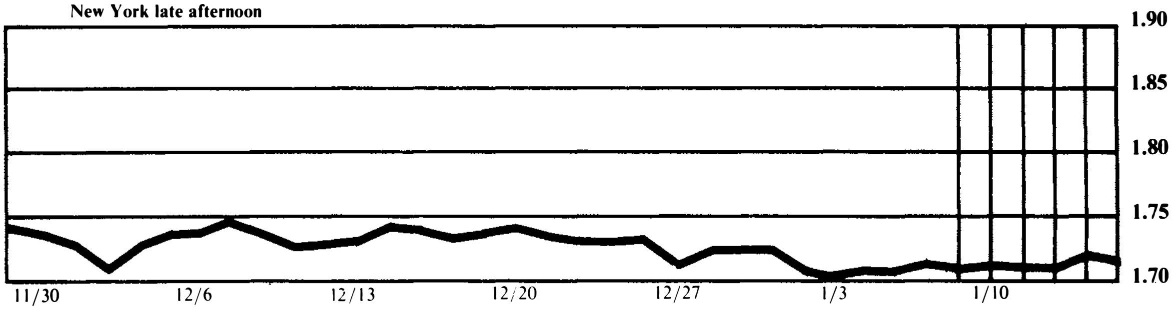
Direct cooperation of the Europeans with the Fed in upholding the dollar has not been necessary since selling pressure against the dollar remains suspended. Many of the Mideast countries which had been moving out of the dollar, such as Saudi Arabia, renewed support for it following the Afghan crisis. As with the Europeans, the Saudi action does not entail support for Carter policy but unwillingness to trigger a major crisis of the dollar at this time. Saudi Crown Prince Fahd made his objections to Carter policy clear when he told *Le Figaro* that the U.S. administration was complicit in a campaign of slanders intended to undermine the Saudi regime and then added, "Nothing forces us to remain friends with America. Numerous other alternatives are available to us in the military, economic and technological domains."

Chicago mercantile exchange

The major exception to the current, relative stabilities of the dollar and the European currencies may be the yen. Significant downward pressure on the yen may occur if Japan goes ahead with its current plans to ignore the U.S. trade embargo against the U.S.S.R. Last week, the government announced it had no intention of applying sanctions against the U.S.S.R. and would watch to see what Europe did. Some U.S. sources expect this to produce a serious strain in U.S.-Japan relations that might put a strain on the yen as well as nurture new protectionist pressures within the U.S. Only last week United Auto Workers President Douglas Fraser announced the UAW's intention to push for a new law mandating that a certain portion of Japanese automobiles be manufactured within the U.S.A. At the end of last year, the Congress held the first of a series of hearings on Japan's computer-related shipments to the U.S., such as semiconductors. So far the yen has fluctuated within the same bounds as the European currencies but the new tension around Iran, including a threatened oil cutoff to Japan, and U.S.-Japan tensions over the U.S.S.R. may alter the situation.

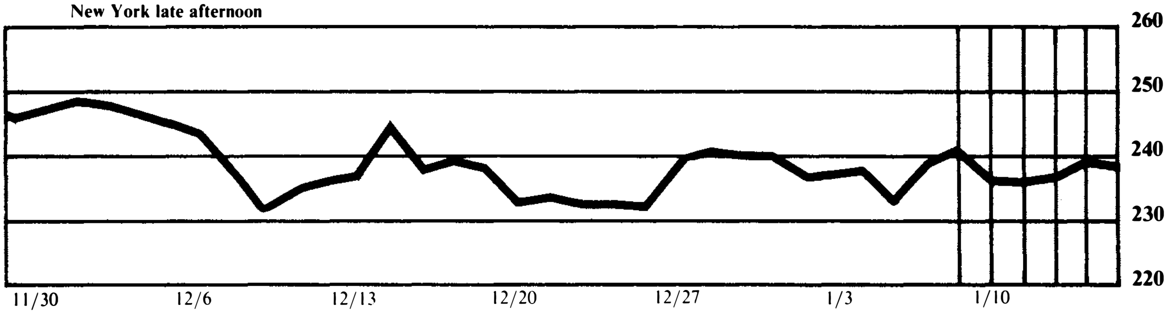
The dollar in deutschmarks

New York late afternoon



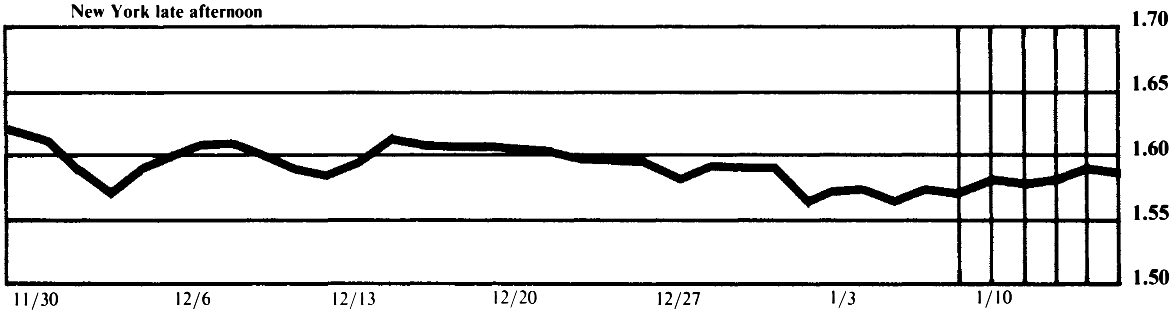
The dollar in yen

New York late afternoon



The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon