Foreign Exchange by Richard Katz

Arab money shifts show dollar weakness

In the last few weeks Saudi and other Arab money has still been arriving in Frankfurt and Paris in huge chunks, despite overall market prejudice against the European and Japanese currencies.

Saudi Arabia contracted a huge private placement purchase of West German Treasury bills during the first two weeks of January, according to an unconfirmed report, despite the general move back to the dollar in the post-Afghanistan period. The exact size of the off-market purchase is not known, but it is said to be a significant cause of the reported $4 billion in discreet pro-dollar interventions conducted during Jan. 1-14 by the joint efforts of the U.S. and German central banks. A week later, Arabs, mainly the Saudis, purchased a billion dollars worth of French francs, according to French sources, leading to a 1 percent fall in the three-month Euro-Franc rate. Moreover, a planned 8 billion French government loan sold so well that it was raised to 12.5 billion francs, thereby solving a deficit problem that was becoming a major embarrassment for President Giscard d'Estaing.

The Saudi move at first glance seems even more surprising since in December—before the Afghanistan invasion—the Saudis increased their official dollar holdings by $2 billion, the first increase in eight months.

These renewed Euro-Arab financial deals are part of a package involving a new round of European loan and trade deals that look beyond the temporary buoying of the dollar. The conventional wisdom and current market trends suggest that Europeans and Japanese currencies are to be avoided because the current international crisis poses an immediate threat to their oil supply and, as one banker said, "who knows what the Soviets will do after Tito dies, and not just in Yugoslavia?" Since the dollar remains fundamentally weak, money is leaving it, going into gold and commodities, not European currencies. Yet, the international isolation Carter's confrontationist posture has suffered could produce an American strategic debacle. At that point, as one French banker predicted, "the pound, the world's most overvalued currency, will drop like a rock; the yen, the most underdevalued currency, will rise; and everyone and his brother will sell the dollar."

At the current time the European longterm interest in dollar stability coincides with the Carter administration's short-term concern with shoring up the dollar to attempt to enhance NATO unity. Thus, at the same time that Europe grabs Arab funds, the European central banks cooperate in dollar-support interventions and new swap arrangements.

At the point that war crisis no longer is capable of artificially holding up the dollars, Europe neither will nor can intervene sufficiently. Most observers outside the Office of Management and Budget regard Carter's projection of a $15 billion budget deficit as hopelessly optimistic. Financing the deficit will become difficult unless Europe absorbs the bonds; in December, Fed Chairman Paul Volcker had been forced to completely reverse his monetary restrictions in order to get the markets to swallow Treasury bills; banking reserves rose at an annual rate of 19 percent in December. The inflationary implications of this action are bound to hit the dollar hard and make the Europeans very reluctant to accept U.S. dollar-denominated bills just at the point at which U.S. domestic finances necessitate such purchases. Not only do Europe's leaders refuse to back up Carter's foreign policy politically, but their banks will refuse to finance it.

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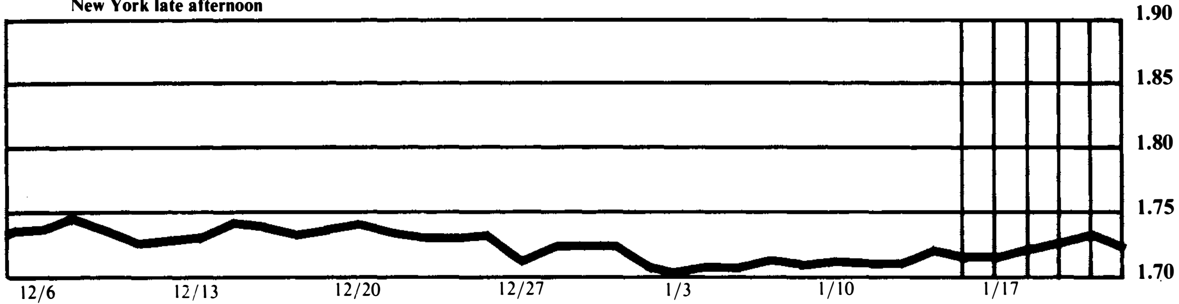
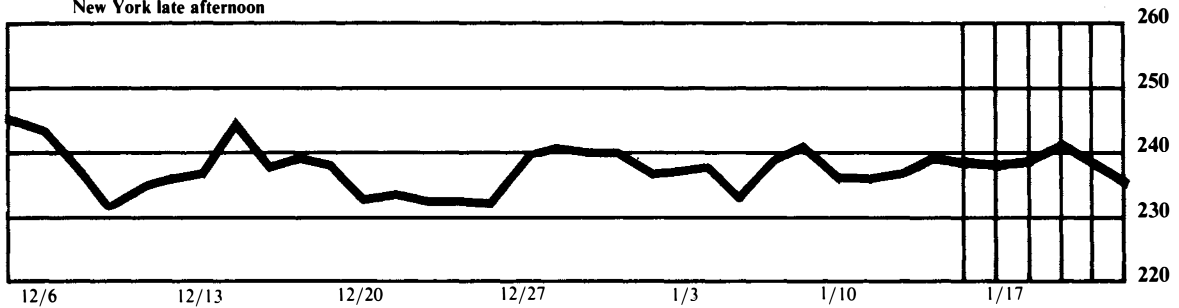
The dollar in deutschmarks

New York late afternoon



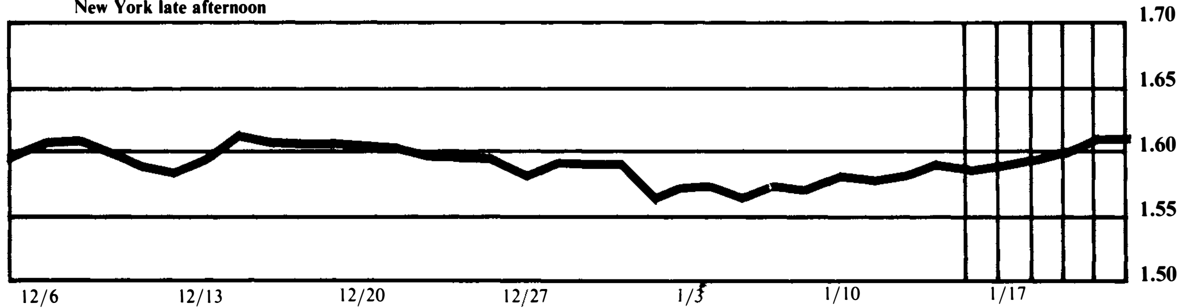
The dollar in yen

New York late afternoon



The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon