Click here for Full Issue of EIR Volume 13, Number 30, August 1, 1986

# Foreign Exchange by the EIR Economics Staff

## The dollar plunges

*Bankers' Eurodollar paper is in real trouble as the dollar falls to new lows, threatening to shut down the "globalized" financial market.*

From UPI, July 22: "The U.S. dollar was lower again on most major European money markets and fell to a second consecutive post-World War II low in Tokyo Tuesday [July 22]. The price of gold turned slightly lower. The Central Bank of Japan said the dollar closed at 155.30 yen, falling 0.20 from 155.50 at the close on Monday. . . . A major commercial bank predicted that the dollar would decline below the 150 level because there is little possibility that the U.S. current account deficit will shrink in the near future. The dollar opened in Frankfurt at 2.1245 German marks, down from Monday's close of 2.1299."

The dollar registered all-time lows against the Japanese yen virtually every trading day since June 15, and also fell to a 5½ year low against the German mark. Superficially, the trigger for the dollar collapse came with Salomon Brothers economist Henry Kaufman's warning that day, that the U.S. currency would fall below DM 2.00.

In fact, the dollar's fate was sealed June 12, when the Federal Reserve unilaterally lowered U.S. interest rates, after failing to secure an agreement from the Germans and Japanese to lower interest rates simultaneously.

The Germans and Japanese agreed to one round of interest-rate reductions in March, but balked at the second. The American delegation to the Tokyo Summit in May came back to them with an astonishing scheme: to authorize the International Monetary Fund to fix a set of indicators which would compel national monetary authorities to alter their policies.

Drawn from the most egregious of the Trilateral Commission's "world central banking" plans of the early 1970s, the Treasury scheme met with restrained outrage in Tokyo: Certainly, replied the Germans, we would like to see such a set of indicators, but it will take years to determine what they might be.

The real debate is not over whether economic policies will be "coordinated" to manage exchange-rates, but, rather, who will kick in how much to bail out the American banks? As *EIR* reported last issue, Federal Reserve chairman Paul Volcker cut the discount rate under pressure of a financial storm that has already brought down 75 American banks this year, including the second-largest failure in U.S. banking history, the $1.5 billion First National Bank of Oklahoma.

European banking spokesmen, as we have reported, have debated whether to pledge their own currency systems to the bailout of the U.S. banking system, and decided firmly against it.

There is a double danger in the dollar's plunge. An American economy dependent upon net imports for one-sixth of its total physical consumption cannot continue to function, even at present depressed levels of physical output, when the price of net imports exceeds a certain threshold. In all probability, that threshold was reached in April of this year, which explains the across-the-board decline of industrial output during May and June.

But the more immediate danger is that the dollar's collapse will shut down the "globalized" financial market. According to a senior analyst at the London financial journal *Euromoney*, beginning May-June of this year, a "real bear market in Eurobonds started. The reason is that Japanese investors stopped buying U.S. corporate paper. Now they are just buying paper for sovereign governments like Kingdom of Sweden bonds. Investors in these markets no longer want U.S. corporate paper, even so-called blue-chips." Total outstanding obligations on Eurobond markets are estimated far in excess of $1 trillion.

American banking issues on the Euromarket have been in trouble for some time. According to a Salomon Brothers commentary June 27, "The dramatic oil price drop this year complicated the situation further, influencing the market perception of those U.S. multinational banks with exposure to oil-producing countries such as Mexico. Issues by these banks . . . are currently trading at their cheapest level in over two years. . . . In the past two weeks, discussions concerning the possibility of Mexico defaulting on a large volume of interest payments due to banks has taken center stage. . . . This situation would impact the trading performance of the Floating Rate Notes issued by banks with significant lending exposure to Mexico."

The dollar fall is the immediate product of the banking crisis, mediated by Volcker's printing-press bailout. But the dollar's fall also hurts the banks' and others' capacity to sell dollar notes to European funders. A vicious cycle has emerged, leading to general financial crisis.



© 1986 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.