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As Currency Crisis Looms Before Maastricht Summit: Traders Rush to Buy Marks

By Carl Gewirtz

PARIS— Foreign exchange traders suddenly rushed to buy Deutsche marks Friday, setting the stage for what appears to be a European currency crisis just two weeks before the EC states are to sign a treaty on monetary union.

The mark rose not only against the dollar, which has been falling for the past week due to U.S. economic malaise, but also against the currencies linked to it in the European Community's fixed-band exchange system.

The German currency's across-the-board gains stemmed from sudden speculation of a coming revaluation of the mark, if not this weekend, then at the EC summit meeting Dec. 9 in Maastricht, the Netherlands, or right afterward.

The dollar fell a pfennig and a half to 1.5845 DM at the New York close from 1.5995 DM at Thursday's close. The Dow Jones industrial average, which has also fallen sharply in the past week because of fears for the U.S. economy, was down as much as 40 points Friday afternoon before recovering to close 30 down.

Analysts acknowledged that a revaluation of the mark would solve a lot of problems within Europe, but many doubted it would occur.

"The global economy needs lower interest rates," said Andres Drobny at Bankers Trust in London, "and a revaluation of the Deutsche mark would do the job."

But Jonathan Wilmot of Credit Suisse First Boston rates as "absolutely zero" the likelihood of a currency realignment. With wages rising in Germany and the economy slowing, Mr. Wilmot observed, a substantial mark revaluation would be "ludicrous," because it would make German exports more expensive.

"It would worsen the already poor economic outlook for German industry," he said.

He prescribed an incomes policy or government-imposed wage freeze that would free the Bundesbank from its tight-money anti-inflation policy and permit central banks in Britain and France to lower interest rates and boost sluggish growth in those countries.

But George Magnus at S. G. Warburg called a revaluation of the mark "absolutely inevitable." He added, "It's the only way the rest of Europe can break free from Germany's high level of interest rates."

France has long opposed the possibility of a revaluation of the mark as detrimental to its own policy of maintaining a strong franc.

But in a perverse way, analysts said that Monday's action by the Bank of France, raising short-term interest rates half a percentage point in an effort to buoy the franc against the mark, contributed to the mood that a revaluation is inevitable because sustained higher rates in France lack credibility.

The high jobless rate in France is a political issue and the slowed rate of economic growth means that interest rates have to come down, they said.

The French franc stood late Friday at 3.4181 per mark, perilously close to the 3.42 level that the market believes the Bank of France does not want to exceed. Late Thursday, the franc was at 3.4163.

With an even weaker economic situation prevailing in Britain and an election coming, the government of Prime Minister John Major is seen as being incapable of raising rates simply to defend sterling. Speculation Friday was that the pound, which ended the week at the bottom of the European Monetary System's exchange rate mechanism, was unlikely to stand the strain even though it is permitted a wider band of fluctuation than most other EC currencies.

The pound slid sharply to 2.8518 DM in London trading, from 2.8654, its lowest level in the EMS since it joined the system in October 1990.

The mark also rose against the yen, to 81.58 yen after opening at 81.30.

"We're seeing a significant move in the Deutsche mark taking place," said Mr. Drobny at Bankers Trust.

He said it was partly a shifting of portfolios away from the now suspect high-yielding European currencies like the pound, peseta and lira, and partly increased hedging activity in the futures market.

The peseta eased to a late 64.03 per mark from Thursday's late 63.64.

"Investors have been underweight in their exposure to Germany and the Deutsche mark and they're panicking a bit," Mr. Drobny said.

The dollar has lost 5 pfennig, or just over 3 percent since late last week, with a mini-stock crash and alarmingly weak economic data convincing the market that more interest rate cuts are needed to shore up the U.S. recovery.

The dollar was also weak against other currencies on Friday. By the New York close, it had dropped to 129.405 yen from 129.55 at Thursday's close, to 5.4165 French francs from 5.4645 and to 1.4105 Swiss francs from 1.4218. The pound rose to $1.7935 from $1.7915.

David Fuller, a London-based currency analyst, said coordinated intervention led by the Bundesbank was unlikely, because it would not calm the market.

"It's not a dollar problem. The dollar's weakness is a separate issue," he said.

"This is all about the impact of the recession on European countries that are sliding rapidly and deeply, the U.K. leading the way. The high German interest rates are creating a very powerful deflationary force within those economies because real interest rates are enormous.

"Inflation in France is 2.5 percent and short-term money rates are 9.25 percent, a real interest rate of almost 7 percent - that's crippling in a recession," Mr. Fuller noted.

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