

Message Text

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21

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /096 W
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R 191600Z OCT 76

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 3446

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LODNDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

UNCLAS COPENHAGEN 3511

EO 11652: N/A

TAGS: EFIN, EC, DA

SUBJ: SNAKE REALIGNMENT EFFECTS STILL UNDRAMATIC

REF: COPENHAGEN 3497

1. THE COPENHAGEN FOREIGN EXCHANGE MARKET OCTOBER 19 CONFIRMED THE TRENDS OF AFTERNOON OF OCTOBER 18 WHEN DANISH KRONER REGAINED PART OF A MORNING LOSS. DANISH KRONER THUS FAR HAVE LOST ONLY TWO PERCENT, SIGNIFICANTLY LESS THAN THE SIX PERCENT WHICH THE SNAKE REALIGNMENT WOULD HAVE PERMITTED. CORRESPONDINGLY, SWEDISH AND NORWEGIAN KRONER LOST ABOUT ONE PERCENT; THE OTHER SNAKE CURRENCIES REMAINED STABLE IN RELATION TO DOLLARS AND OTHER NON-SNAKE CURRENCIES. THE DOLLAR/KRONE RATE IN COPENHAGEN WAS 600.40 NOON

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CLOSING OCTOBER 19.

2. THE RELATIVE STRENGTH OF DANISH KRONER REGISTERED YESTERDAY AND TODAY IS PARTLY TECHNICAL AND MUST BE VIEWED AGAINST THE BACKGROUND OF THE SPECULATIVE ACCUMULATION OF UNCOLLECTED DANISH CLAIMS, WHICH ARE NOW BEING COLLECTED, AND ALSO THE LARGE VOLUME OF FORWARDS DURING THE PERIOD BEFORE THE GERMAN ELECTIONS AND THE DECISION TO REALIGN. IT MAY TAKE SOME TIME BEFORE THESE EFFECTS BECOME EXHAUSTED AND THE MARKET BEGINS TO REFLECT ACTUAL TRADE AND PAYMENTS CONDITIONS. SPECULATIONS ARE THAT DANISH KRONER AFTER A WHILE WILL REGISTER AN ACTUAL DEVALUATION OF 4-6 PERCENT, WHICH WOULD BRING THE DOLLAR-KRONE RATE TO 610/620. HOWEVER, CONSIDERING THAT DANISH KRONE, OUTSIDE OF PERIODS OF INTERNATIONAL MONETARY SPECULATION, HAS MANAGED RATHER WELL TO KEEP ITS POSITION IN THE SNAKE WITH ONLY A MINIMUM OF INTERVENTION, THE NEW MARGIN MAY NOT BE FULLY UTILIZED, PARTICULARLY NOT IF THE GOVERNMENT'S PRESENT EFFORTS OF GAINING CONTROL OF THE BALANCE OF PAYMENTS ARE REASONABLY SUCCESSFUL.

3. AGAINST THE BACKGROUND OF THE LIMITED REAL EFFECTS OF THE SNAKE REALIGNMENT, THUS FAR DANISH MEDIA PRESENTATION OF DEVELOPMENTS HAS BEEN SOMEWHAT EXAGGERATED WITH REGARD TO BOTH BOP AND INFLATION EFFECTS. BUSINESS AND LABOR REACTIONS, HOWEVER, WHILE NOT PARTICULARLY HAPPY, WERE MODERATE, AND BOTH STOCK AND BOND MARKETS REACTED POSITIVELY. THE SOMEWHAT DEPRESSED BOND MARKET RECOVERED SHARPLY YESTERDAY, AND MARKET INTEREST DROPPED BY TWO-THIRDS OF ONE PERCENT. THE MARKET CLEARLY ANTICIPATES REDUCED STRAIN ON LIQUIDITY IN CONCERT WITH THE EXPECTED EASING OF THE MONETARY SITUATION.

4. PM ANKER JORGENSEN AND OTHER CABINET MINISTERS AT A PRESS MEETING OCTOBER 18 TRIED TO DE-DRAMTIZE THE EFFECTS OF THE REALIGNMENT. PM EXPRESSED SATISFACTION THAT FRG HAD ACTIVELY CONTRIBUTED TO ECONOMIC STABILIZATION. HE SAID THAT THE ADJUSTMENTS WERE UNCLASSIFIED

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NOT GREAT BUT REALISTIC AND THEIR LIMITED INFLATIONARY EFFECTS WERE ACCEPTABLE. PM ADDED THAT THE TIME FOR REDUCTION OF THE RECENTLY INCREASED DISCOUNT RATE (FROM 8.5 TO 11 PERCENT) HAD DRAWN CLOSER. THE GOVERNMENT DID NOT CONTEMPLATE ADDITIONAL ECONOMIC MEASURES BUT APPEALED TO BUSINESS AND LABOR TO CHECK COST DEVELOPMENTS IN LINE WITH THE RECENT (AUGUST) ECONOMIC-POLITICAL COMPROMISE ON FISCAL AND INCOMES

POLICY. IT IS ASSUMED, NEVERTHELESS, THAT COST-
OF-LIVING DEVELOPMENTS WILL LEAD TO WAGE
ESCALATION NEXT MARCH AT THE RATE OF ABOUT FIVE
PERCENT.

5. THE EXCHANGE RATE REALIGNMENTS INVOLVE INCREASE
IN THE DANISH FOREIGN DEBT MANAGEMENT
BURDEN, DEPENDING UPON THE EVENTUAL EXTENT OF ACTUAL
ADJUSTMENTS. THERE WILL ALSO BE SOME INCREASE IN
IMPORT COSTS AND SOME, MORE UNCERTAIN, GAINS ON
EXPORTS. IT WAS IMPLIED AT THE GOVERNMENT'S PRESS
MEETING THAT IT ANTICIPATED AN ADJUSTMENT OF THE
SO-CALLED GREEN CURRENCY RATES TO BE DECIDED AT THE
FORTHCOMING MEETING OF EC AGRICULTURAL MINISTERS
NEXT WEEK; THIS WOULD GIVE DENMARK SOME BENEFITS ON
FARM EXPORTS AND PARTLY OFFSET INCREASED IMPORT COSTS.
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