
GOLD

Market shakeout foreshadows stabilization of the EMS

The price of gold bullion plummeted \$14 on Monday, March 5, pulling the rug out from under gold speculators — at least for the moment. The gold price fell from \$248.00 an ounce at the London afternoon fixing on Friday, March 2, to \$238.15 at the afternoon fixing on March 5 and reached as low as \$234.80 in U.S. commodities trading later the same day. Gold had rebounded to the \$242 level as of March 7, but the mood has definitely shifted.

Perhaps the most important indicator is that some London gold experts have suddenly become

decidedly less "bullish" on the metal. A month ago, N.M. Rothschild's director Robert Guy was predicting that gold would shoot up to \$260 to \$280 an ounce within a few months. At that time, Christopher Glynn, a leading gold analyst with the London-based mining finance house Consolidated Goldfields, agreed with Guy's prognosis. However, in a Feb. 20 speech to the British mining analysts conference, Glynn stated that based on "ordinary" supply and demand considerations and assuming a "surprise-free" political environment, gold should fall back to \$200.

Glynn knows perfectly well that the gold price is largely *politically* determined and that "objective" supply and demand conditions are purely tertiary. The point is that Glynn and other London experts have decided to downplay gold just now.

What has occurred is that continental European governments are now ready to make the European Monetary System operational. The Europeans intend to remonetize gold by pooling their gold and dollar reserves in a central fund and using those reserves as "backing" for development loans. To succeed, this plan will require that much of the speculative fluff be knocked out of the gold market, so that gold will remain stable in the \$230 to \$240 range.

The coalescing of the EMS has intersected a number of other political developments which have been interpreted by ordinary investors, rightly or wrongly, as "good for the dollar and bad for gold."

CORPORATE STRATEGY

Japanese communications industry maps response to U.S. market demands

In a fresh instance of U.S. government least-favored-nation treatment of Japan, Nippon Telephone and Telegraph (NTT) is facing a Washington demand that it open its protected supplier market to U.S. manufacturers. The market is worth some \$3 billion a year. By private arrangement, the U.S. itself has a protected market in this field — the three American telephone giants own their own manufacturing subsidiaries. There is no technical advantage in U.S. communications technologies; and like all countries, Japan considers internal

communications a matter of national security.

The Carter administration demand has triggered a \$500,000 advertising campaign by Japanese equipment supply firms like NEC and Hitachi, with support from the one-million-member communications union, to keep full control of the communications industry. Meanwhile, Japanese electronics companies have already tried to get around the restrictions on television imports to the U.S. by, among other things, using U.S. firms to market Japanese goods. The Nicoh-Savin

deal was a big example; it resulted in Savin profiting from Nicoh's superior products, with Nicoh getting the short end of the stick. And the attempt to invest in manufacture of sets in the U.S., using American-made parts and labor, has faded since the Hitachi-General Electric joint venture was squelched by the Justice Department last fall.

However, some Japanese businessmen believe that the worst restriction is not U.S. trade-war measures but the COCOM list of items banned for sale to the Com-econ and China.

The Japanese now have state-of-the-art technology in virtually all aspects of the communications/data processing field, including Very Large Silicon Integration (the microchips for processors and memory), satellite-borne direct TV transmission, mainframe computers, and optical transmission and computer peripherals. The Japanese can handle any kind of export market at this point. The London

President Carter's latest effort to achieve an Israeli-Egyptian agreement and extend the arm of NATO into the Middle East, an effort which will provoke war, not stop it, is seen as "good for the dollar." The contrary is clearly the case: if the EMS does not succeed in establishing a new detente with the Soviet Union and Carter proceeds on a confrontation course in the Middle East, gold is going through the roof!

Interestingly, the Soviet Union has reportedly been selling moderate amounts of gold on the Swiss market during the last two weeks, after being out of the market since October. Perhaps the Soviets are anticipating European efforts to stabilize the price as part of launching the EMS.

—Alice Shepard

Financial Times Feb. 19 computer industry survey suggested that Japan will accept a sort of gentleman's agreement with IBM to hold a slowly growing share of the Western computer market. Japanese concessions on the NTT market probably would be a signal of such an agreement.

But Japanese manufacturers see the extraordinary drive for vertical integration of the communications/data processing industry in the U.S., and they know that IBM is threatening to develop machines that are not plug-compatible with their own equipment.

American electronics companies know in turn how the Japanese deal. They let loose with a full package of top technology, full-scale production facilities, and a highpowered sales and service capacity. The question is which markets they will target.

—Leif Johnson

BRITAIN

Back to the Coal Age? North Sea oil hopes fade

The euphoric claims of the British Government and press that the UK could easily weather the effects of an oil shortage or an OPEC price increase because of its much-touted North Sea oil reserves are proving premature. Contrary to earlier reports, latest forecasts from the British government's own Energy Department and corroborating reports from the British National Oil Corporation (BNOC) reveal that the build-up of Britain's North Sea oil production towards self-sufficiency is nearly a year behind schedule.

Revised estimates of the country's domestic oil reserves now being prepared by government departments show that Britain will be lucky if it becomes self-sufficient in oil by the end of next year rather than by the beginning of 1980, as jubilantly forecast last spring. According to the London *Guardian*'s energy correspondent, government estimates have been "consistently over-optimistic about the increase in oil production in past years." Based on a short-lived boom in oil production during 1978, energy officials were talking about self-sufficiency arriving in mid-1980. The somewhat more sober estimates now being prepared are premised on the assumption that energy self-sufficiency will arrive "only by 1981" — if at all.

Lord Kearton, the chairman of the British National Oil Company, highlighted some of the problems in a speech last week. Apart from unforeseen technical difficulties in the oil fields, the biggest problem in

1979 will be the effects of a two month-old strike by nearly 4000 offshore construction workers who install equipment on the production platforms. By the time the strike is settled, the oil companies expect to have lost nearly four month's construction time.

Oil production from the North Sea is now running at about 1.3 million barrels a day — about two thirds of Britain's needs, but the rate of increased production is dropping off as the oil companies develop more complex fields.

Coal Now, Peat Next?

At last week's meeting of the International Energy Agency in Paris, UK Energy Secretary Anthony Wedgwood Benn attempted to set an example for self-contracting by pledging that Britain will make a 4 percent cut in oil use, and turn back to coal as a primary energy source. Benn wants UK power stations to burn an extra 5.5 million tons of coal per year to save 2.5 million tons of oil. The nationalized Central Electricity Board has already stepped up coal consumption to 74.5 million tons this fiscal year. The Daily Telegraph reports that the government will spend \$35 million to subsidize Benn's further increment. Whether industry will be asked to burn the low-grade coal China is expected to export in payment for PRC-UK trade deals, or whether the government will promote its reexportation, remains uncertain.

—Marla Minnicino