

## COMMODITIES

### International power play in metals

"Complete pandemonium" was the way one well-established veteran of international metals trading described the fantastic fluctuations in metals contracts on the New York and London commodities markets from late September through Oct. 3. "It has nothing whatsoever to do with fundamentals," he added.

Through September, the prices of silver and copper moved gradually upwards, from \$8 an ounce and 85 cents a pound, where they had been sitting through the summer months,

to \$13 and 90 cents, respectively. Even that gradual uptrend, especially in the case of silver, tipped traders off that some "big money" was spilling out from gold investments into industrial metals.

On Sept. 28, copper leapt 17 cents for the December contract in a single day triggering: a 1979 record producer price for copper of \$1.07/lb.; a 37 cent per pound price for zinc; forecasts that sugar and other agricultural futures would soon follow the upward spiraling metals; and a record Dow Jones commodity index of 280 points, a 14 percent rise in three weeks.

All in all, the boom held firm for

24 hours. On Oct. 2, copper slipped 14 cents in a few hours of trading. The price of oil on the spot market fell \$7 the same day. Across the board, New York's commodity trading houses were saying, "We don't know if we're bullish or bearish."

"I just did an analysis of the cost of producing a pound of copper," a leading trader underlined. "It's 75 cents. As far as I'm concerned, if you look at the fundamentals, copper could drop down to that region." When reminded that during last winter's metals price boom, this trader was predicting \$1.25 price for copper, he snapped back, "The U.S. wasn't in a recession then."

It wasn't the New York commodities houses who kicked the "boom" off, however. Silver and copper price rises were triggered by an international network of funds-rich investors leading a second tier of smaller portfolios around on a leash. Fantastic rumors are circulating in New York and London about where the

## DOMESTIC CREDIT

### U.S. interest rates? Look at Brazil...

"More interest rate rises will only cause more problems for the dollar," a top money market analyst at Crédit Suisse headquarters in Zurich commented last week. "Look at Brazil with 50 percent interest rates. They have what's called an 'exotic' currency. Up to 12 percent interest rates in the U.S. may have been all right, but no further."

While the growing perception among strategic-minded analysts may be that higher interest rates will

harm, not help, the dollar—by provoking a chaotic recession in the U.S.—domestic interest rates are now shooting up of their own built-in momentum.

#### The corporate sector

The massive \$1 billion debt issue placed by IBM last week—the largest by a corporation in history—was just the first of a flood of new bond issues that corporations are expected to float in the weeks ahead. IBM decided to accelerate its note and debenture sale on the belief that inflation and interest rates have *not* peaked and that the corporation

would have to pay even more to borrow later in the year than the 9½ and 9⅞ percent coupons on last week's triple-A-rated issues. And companies with less cash than IBM are probably going to be in an even greater hurry to borrow.

The main impetus for the anticipated rush by corporations into the bond market, after a period of exceptionally low volume, is the erosion of corporate liquidity.

Corporate treasurers who have been taking on short-term debt in near-record amounts since the beginning of the year—on the expectation that long-term interest rates would be headed down soon—are now under pressure to shift their borrowing into the bond market. Otherwise, their balance sheets will become even more top-heavy with short-term debt. The Miller-Volcker high interest rate regime has been the principal engine fueling the cycle of rising borrowing costs, inflation, and credit dependency.

big money came from, and whether or not it has already been liquidated for good, or is holding partial positions for another bout.

The impetus for the September-October rush into metals came from London, both in the leading financial press and the offices of the Bank of England. On Sept. 20, *Financial Times* correspondent Samuel Brittan proposed at great length that metals and other primary commodities should be officially consecrated, by international government agreements, as monetary assets.

Sir George Bolton of the Bank of England, the author of the concept, represents a specific alliance of international financial groups—stemming from London, and emanating through old colonial ties into South Africa and parts of the Mideast (the Persian Gulf, in particular).

Since last winter, Bolton has circulated speeches and proposals for “monetization” of commodities. Bolton’s network first moved into

action last January, in the wake of the destabilization of Iran, to trigger a metals price boom which netted an average 30 percent U.S. industrial metals inflation rate. At that time, leading South African investor Peter George made a special trip to New York to circulate the financial press interviews and private consulting hints which boosted the metals prices takeoff.

The call for “monetization” of industrial metals was a Bolton counterattack against continental Western European moves to remonetize gold. If the EMS takes charge of the Euromarkets, gold-poor Britain and its satellites, as well as their overall policy of rigged scarcity, will be an extreme disadvantage. Make gold just part of a “basket” of currency-linked metals, and the Bolton network’s vast international metals holdings will secure their international financial position.

But in comparison to the January-March boom in metals prices,

the September-October round was short-lived. Widespread awareness exists among trading veterans that if a metals bubble were to pop under the weight of declining U.S. industrial activity, a lot of investors could get burned.

Simultaneously, wild rumors are coursing through New York as to exactly how the “big money” which was brought into metals in August was “rigged.” One story going around, which has some credibility since it involves a network which overlaps Bolton’s, insists that Peter Fribourg, chairman of the Chicago-based Continental Grain company, made a deal through his Geneva office with major Arab investors to go heavily into metals. As the story goes, Fribourg’s European friends got a \$10-12 billion commitment in Arab funds to go into silver and copper, of which about \$3 billion was actually invested before the contracts were cashed in.

—Renée Sigerson

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### Public borrowing

The problems facing the credit markets are compounded by an especially heavy calendar of borrowing by the U.S. Treasury. The Treasury, which also “misjudged” the current interest rate cycle and counted on a peaking of rates by the fourth quarter, must finance in the neighborhood of \$15 billion in new cash needs this quarter, in addition to refunding a large slate of maturing securities.

The \$3.5 billion of two-year notes sold by the Treasury Oct. 3, which yielded a record 10.21 percent, was a preview of the yields the Treasury will have to offer in the weeks ahead. Just as the Treasury is entering the market, the sources of funds are drying up. Some 40 percent of the \$5.5 billion of Treasury coupons which mature in mid-November are held by commercial banks and thrift institutions, which are unlikely to roll over their holdings.

The commercial banks are presently liquidating Treasuries to ac-

comodate the surge in loan demand from debt-strapped, cash-short corporations; and the thrift institutions are having a lot of trouble holding on to their low cost deposits. Adding to the upward pressure on Treasury rates is the fact that European and Arab central banks, who indirectly held down the U.S. interest rate structure last year through their large purchases of Treasury securities, are now net liquidators of the bonds, and are showing a much greater eagerness to invest their dollar holdings in gold than depreciating U.S. Treasury paper.

### The lending institutions

The continuing rise in interest rates is causing big problems for the financial institutions themselves. Bond houses are taking sizeable losses on their portfolio bonds, which are being resold at large discounts. The bond houses are thus extremely reluctant to add to their own portfolios at present.

Thomas Synnott of U.S. Trust is closely monitoring the fate of a number of U.S. savings banks, which he described as being “on the edge.” The savings banks as a group are operating on extremely narrow margins because of the high rates they must pay out on the new monetary market certificates to compete for funds.

And one well-informed bank analyst expects a sudden deterioration in the relative financial health of the life insurance companies. Until now the insurance companies have been running substantial cash in flow positions relative to their commitments. But with no interest rate peak in sight, policy holders can be expected to take out loans against their policies (at fixed low rates) as they did in 1974-75, forcing the insurance companies to scramble for very dear short-term cash.

—Lydia Schulman