

Commodity Bubble Pricked

COMMODITIES AND GOLD

The speculative rise in world commodity prices came to an abrupt end this week with a major shakeout on the London metals, cocoa and coffee markets. According to the London *Financial Times*, the dramatic price slide of March 30 was sparked by "speculators scrambling to get out, either to take profits after the recent upsurge or to avoid heavy losses on purchases made at higher levels." Although metals prices recovered somewhat on March 31, cash tin prices are still nearly £1,000 below their peak of three weeks ago and cash lead prices are about £70 below their early-March peak. Authoritative commodity market sources are viewing this week's developments as no mere temporary shakeout but as indicative of a long-term trend.

There are a complex of factors responsible for this "letting out of hot air" on the London markets. The immediate trigger for this week's slide was the sudden upward lurch in short-term Eurodollar interest rates — reflecting the usual end-of-quarter "book-balancing" — which wiped out the easy money which had previously been available for commodity speculation. The market's exaggerated response to what would ordinarily be viewed as a merely temporary, tight-credit condition demonstrates the underlying extreme nervousness among investors. In particular, the reality that world industrial activity still remains very sluggish has once again impinged upon the speculative mentality.

The market has simultaneously been undermined by last week's refusal of Western European governments to

agree to any more than a watered-down version of the U.S.-backed UNCTAD "Common Fund" proposal which would have provided multi-billion dollar financing of commodity buffer stocks — a scheme which has been universally dubbed a "bail-out" for U.S. international banks. Without the hope of such an artificial rigging of the markets, the commodity boom would most likely have petered out much earlier.

According to a high-level source at a leading London metals trading company, industrial demand for copper is still very low, and the market is so tenuous that only rumors of a U.S. copper strike might prop it up. Copper, in turn, is holding up the rest of the metals market. A U.S. copper market source admitted he was "terrified" by the threat of sudden deflation.

Ironically, gold — the "ultimate refuge" — has led the recent commodities shakeout which was set off by the short-term interest rate hike. Easy paper money had also fed the gold boom, the thriving gold futures market of the Chicago Mercantile Exchange being a prominent example. At the same time, House Banking Committee Chairman Congressman Henry Reuss' call for a resumption of U.S. Treasury gold auctions to drive down gold prices temporarily chilled investors. London gold prices dropped from a two-year high of over \$153 last week to the \$148-149 range this week. Growing Western European and Arab sentiment that gold should play an expanded role in a new monetary system, however, makes the metal an exception from the general commodities trend.

In the meantime, the fall-off in export earnings for Third World commodity producers aggravates the international liquidity squeeze, and threatens a further downward spiral in economic activity.

Why The New York Banks Are Finished

BANKING

Now that Western Europe, Japan, and prevailing opinion in the U.S. Congress are vehemently against David Rockefeller's demand for a \$20 billion bailout scheme for the New York banks, the dollar international banking structure is on a fuse of weeks, perhaps days.

For the past year, the banks and their enforcer, the International Monetary Fund (IMF), have prevented the public collapse of \$300 billion in debt of the world's poor countries through genocidal levels of austerity, and elaborate refinancing swindles. These cannot hold

through the second quarter of 1977, *even if* the European, Arab, and other financial interests who hate David Rockefeller delay in setting off such a collapse intentionally.

The \$50 billion figure that the press normally cites as the quantity of U.S. bank loans to the Third World is nonsense. The nation's highest banking regulatory official, the Controller of the Currency, admitted in Congressional testimony last week that his agency has no idea what banks' foreign operations are really like. In fact, the total volume of bank loans to the Third World is closer to \$200 billion, and the American share more than half of that; the New York banks' loans to Third World borrowers who will never repay a penny is in the range of \$100 billion, by banking community estimates. Most of

these loans have been in effective default for more than a year, with Chase, Citibank et al. making additional loans to cover principal and interest on maturing loans.

The swindle works like this: Brazil must repay \$100 million (of its \$40 billion total debt) to Chase. Chase Manhattan's branch in the Cayman Islands borrows \$100 million from Citibank's branch in the Cayman Islands. Chase then "lends" the \$100 million to Brazil (which never sees the money), Brazil "repays" the \$100 million to Chase, and Chase then re-deposits the same \$100 million back at Citibank! Approximately \$100 billion of fictitious bank assets have been created in this fashion, by sophisticated banking estimates.

But the swindle depends on shutting off all credit to the Third World for new trade. In 1975, Third World countries ran up a trade deficit of \$31 billion; this was cut to \$20 billion in 1976; and New York bank projections expect the trade deficit to fall to zero during 1977. What this means is evident in the case of Mexico, the second-largest Third World debtor, whose imports fell by 29 percent (40 percent after inflation) in the year between February 1976 and February 1977. This has virtually eliminated Mexico's need to borrow for trade purposes.

For weak Third World economies, this cut in trade amounts to butchery of "marginal" sections of the population — giving the lie to Chase Manhattan's allegation that their International Monetary Fund bailout scheme would benefit the Third World.

Final Breaking Point

But the grim irony of the Third World payments situation is that not even the shutdown of Third World imports will save their creditors, the New York banks. The final breaking point in the swindle is that huge repayments of principal are due on loans made during the early 1970s. Between \$17 and \$20 billion come due this year, mainly during the second and third quarters. These loans involved the participation of hundreds of banks in large loans to borrowers like Brazil, Mexico, and the Philippines, in giant consortia. These principal repayments cannot be swindled away like Chase Manhattan's dirty laundry in the Cayman Islands. They must be repaid to large numbers of lenders, who want to get their money out of Third World debt entirely. The countries cannot repay them. And Chase Manhattan and Co. cannot raise the new funds required to refinance the \$17-20 billion.

Most of these large loans, unlike the \$100 billion of short-term "fluff" loans issued through the Cayman Islands and other offshore swindles, were raised by enticing regional banks, European banks, and others into large lending "syndicates" for loans to Third World borrowers of \$50 to \$500 million. Not a single syndicate has been put together for a loan to a non-oil-producing Third World country in the last two months.

Meanwhile, the New York banks' own sources of funds for debt refinancing, including large parts of the \$60 billion in Arab bank deposits, have been cut off. Starting this year, Saudi Arabia stopped placing its oil revenues in large banks, and bought safe short-term U.S. Treasury securities instead. For one reason: the Saudis know the banks are bankrupt and are covering their hindquarters.

Major international depositors used to leave their funds with the banks for periods of three to six months. Now virtually no one will make deposits for more than a few days at a time, indicating a general preparation to pull money out in case of trouble. The Eurodollar market (borrowing and lending of dollars outside the United States) is saturated with money, but borrowers are shy of lending to the bankrupt New York banks. Sudden, unexplained shortages of funds have emerged in the last week, indicating the short-term potential for a volcanic liquidity crisis.

In addition, industrial country and Arab governments, as well as the IMF and related agencies, lent as much to the Third World as the banks did last year; this \$22 billion input, \$14 billion of which went to refinance debt, cannot be repeated. The IMF is clean out of money to lend, as are several of its subsidiary agencies, and governments will not refund it. Several governments, including major lenders like West Germany and Saudi Arabia, have declared that they will not make more funds available to refinance debt.

In the purely technical sense, there are sufficient funds circulating in the dollar credit system to refinance the \$8 to \$10 billion in Third World principal repayments that mature during the second quarter of this year. (The third quarter, when the U.S. Treasury will have spent its April 15 tax receipts and will have to borrow over \$30 billion, is a different story). But there is no political agreement to place these funds at the disposal of the Rockefeller banks. Major contributors of deposits — the Arabs, Europeans, regional banks, corporations — will not throw their money down the sinkhole.

Common Fund Flop

One blow after another is hitting the banks. Rockefeller counted on a continued rise in commodity prices, the main export items of Third World countries, to generate sufficient income to allow these countries to pay more of their debt service. But after the 35 percent rise in the leading commodity price indices between September and February, commodity prices have begun to fall sharply. The fall is due to the decline of advanced sector trade, undercutting the market for Third World exports, and the defeat of Rockefeller's "Common Fund" scheme to artificially raise commodity prices by paying countries to withhold goods from market.

Most of the world is now anticipating the banks' collapse, and taking appropriate safety measures — such as shortening the maturity of international deposits. A collapse could occur at virtually any moment, when any major participant in the swindle decides to pull out.

As for the New York banks, if their totally uncollectable assets were made public, they would exceed their stockholders' capital several times over. The collapse of the refinancing game will expose them as bankrupt. At this point, the only suitable alternative open to the Federal banking authorities is to immediately take over operations of Chase et al., to ensure the safety of deposits and continued checking-account operations.

— David Goldman