COMMODITIES

Round two

Metals analysts across the United States released estimates this week of the inflationary impact on U.S. industry of the November 1978-February 1979 rise in base metals prices. In those four months alone, U.S. copper prices rose 42 percent, aluminum 5 percent, lead 21 percent and zinc 10 percent.

In a special report, Continental Bank of Chicago's industrial economics division predicted March 19 that metals price increases will continue for most of 1979, producing an average rate of annual inflation in industrial raw materials of 12 to 14 percent.

The open question at this point is whether a new round of price hikes will provoke a repeat of the 1974 combined oil and raw materials shortage scare, which laid the groundwork for the most massive inflationary explosion in U.S. history.

Corporations cautious

In contrast to 1974, U.S. corporations are presently taking a cautious approach towards the commodity price increases. The National Association of Purchasing Managers (NAPM), the group which handles materials buys for large industrial users, emphasized in its latest monthly report that the price situation, despite the increases, was still well under control.

This signals that the NAPM has not been pressed by corporations to massively stockpile copper and other materials "to head off" more pending inflation. The coming weeks will be decisive in determing whether U.S. companies are ready to stick with this attitude, or fly into

GOLD

New official price for gold?

The gold bullion price has remained remarkably stable, hovering near the $240 per ounce level for the past three weeks. But gold rose to as high as $244 at the London afternoon fixing on Friday, March 16, perhaps reflecting a dawning recognition that the Israeli-Egyptian agreement is more likely to promote war than peace in the Middle East region.

However, the gold price again came under downward pressure following the news that the U.S. Treasury, at its regular monthly auction held on March 20, had sold gold at an average price of $241.30 — considerably below that day's London fixings. West Germany's Dresdner Bank was once again the largest single successful bidder at the auction, taking 274,000 ounces out of a total 1.5 million.

Gold market experts have begun to openly discuss the stabilizing impact which the European Monetary System, formally launched on March 13, is likely to have on the gold market. The West German metals firm Degussa, which is closely associated with Dresdner Bank, stated in a recent report that the EMS would in effect establish a new official price for gold. Under the EMS agreement, the participating European central banks will pool 20 percent of their gold reserves in a central fund, known as the FECOM, and Gold will be valued at what was the average market price during the previous six-month period. Since these pooled gold reserves will in turn provide the basis for generation of credits, it will naturally be in the interest of the central banks to ensure that the gold price does not fluctuate too wildly in either direction.

Degussa's report predicts that gold prices will range between $200 to $275 an ounce during 1979. While the panicked, massive stockpiling which occurred through most of 1974, until the commodities boom blew out at the end of the year.

Oil factor

As in 1974, the November-February price takeoff can be traced to international oil developments.

The recent four month price jump began with copper, an industry which had slumped into a full-scale depression both on the mining and refining side since late 1974.

As a result of the long-term depression conditions in copper prices, industrial users permitted their inventories to be drawn down to very low levels, knowing that cheap copper would be available at any time. Starting in March 1978, inventories on the London Metal Exchange as well as those maintained by U.S. corporations were so low that commodity traders worldwide knew the bottom had been reached.

It was just a matter of timing for keen commodities investors in New York and London to set off a wave of new purchases in copper, the "pacesetter" in the nonferrous metals group which drags all the other metals along.

During October-November 1978, British Petroleum and Royal Dutch Shell launched a concerted effort to rig international oil prices upward, in conjunction with BP's open moves to wreck agreements with and destabilize the government of Iran. On cue, London-linked investors began to liquidate medium and longer-term investments, parceling out these funds released for short-term speculation between currency and commodities transactions.

When Iran's government collapsed and war broke out in Asia, the copper price took off, reaching $1.00 per lb. for a few days in the U.S.—almost double the 1978 price.

Numerous sources have suggested that the "take-off" last November may also have been triggered by major London market sales of copper, often called the "wartime metal," to the People's Republic of China. While such reports are nearly impossible to confirm, it has been definitively reported in the monthly statistical report of the U.S. Bureau of Mines that during January 1979, the very eve of the outbreak of war in Asia, the first shipment of U.S. copper to China in 30 years was concluded by a U.S. metals trading firm.

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downward pressure will stem from the enlarged U.S. Treasury and International Monetary Fund sales and from the possible deflationary effects of a U.S. recession, should one develop, Degussa notes that the existence of the EMS will put a defacto "floor" under the gold price.

The Degussa report confirms what other sources close to the West German monetary authorities have told *Executive Intelligence Review* in the past: namely, that the EMS governments are aiming to keep the gold price at about $230 to $240, in the middle of Degussa's specified "range." Jürgen Ponto, the assassinated chairman of Dresdner Bank, also sat on Degussa's board. Close to Chancellor Schmidt, Ponto reportedly helped to develop the "Grand Design" conception underlying the formation of the EMS.

—*Alice Shepard*

KEEPING TABS ON THE ECONOMIST

Whose follies?

In our weekly check of the accuracy of the London Economist's *reporting across a mendacious slur directed against French President Giscard, in the magazine's March 17-23 issue.*

The Economist

"French follies": President Giscard d'Estaing, in the chair, had a rough time at the summit...The initiatives he proposed did not go down well with the other leaders...But Mr. Giscard d'Estaing's embarrassment was not at an end...He had to share a platform with Mr. Roy Jenkins, the president of the commission...(who) insisted on giving his version of the events.

The facts

Giscard d'Estaing, President of the European Council, received a mandate from other government leaders to "meet with the current Organization for African Unity leader, Numeiry from Sudan, as well as with leaders of the Arab League," Giscard told a press conference, after "noting the positive atmosphere of the reactions" to his proposal for a European-Arab-African summit.