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## COMMODITIES

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### U.S. pushing hard for Common Fund

In the final hours of the conference of the UN Commission on Trade and Development (UNCTAD), held in Geneva March 12-20, U.S. officials pushed through a compromise agreement for the founding of a Common Fund for raw materials buffer stocks, which proves to be identical with former U.S. Secretary of State Henry Kissinger's 1976 proposal for an International Resources Bank (IRB).

Kissinger's IRB was launched unsuccessfully at that time in an effort to ensnare international commercial bank investments into a

global raw materials pricing and investment scheme, resuscitating the nearly-expired International Monetary Fund (IMF) and World Bank.

Kissinger proposed that an international bank be founded which would direct investment in the Third World exclusively into raw materials extraction, putting a halt to Third World projects in energy development, urban construction and new types of technology. Kissinger suggested that the safety of raw materials investments could then be guaranteed by raw materials pricing agreements at levels which

would ensure export earnings.

In a background discussion March 28, a member of the U.S. delegation to Geneva revealed that a major source of conflict during the recent Geneva UNCTAD meeting was the demand by a number of African countries that the Common Fund be supplied with funds for generalized Third World investment projects, not just raw materials extraction.

According to this source, the Africans insisted that a "second window" be set up which could provide low interest loans for construction of factories, such as jute processing plants, which the World Bank had already refused to finance.

The U.S. response was to emphatically assert that the Common Fund must not compete with the World Bank in any way, nor should it ever get involved in factory or plant construction. If a second window were to be financed, the U.S. delegation added, then it

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## DOMESTIC CREDIT MARKETS

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### Credit in the U.S.: calm before the storm

The release of the Consumer Price Index for February, which signaled a 15 percent annual rate of inflation, and the announcement by OPEC last Tuesday of a 9 percent price rise for benchmark crude, did not cause a ripple in the U.S. credit markets last week.

The apparent calm in the credit markets is hardly symptomatic of a promising situation, however. While money market analysts are talking about the new trend toward lower interest rates, this apparent calm has been due to the continued heavy influx of funds, foreign and domestic,

into short-term dollar investments in recent weeks.

In addition, if a Tory government comes to power in Britain, it is likely that one of its first acts will be to lift controls on capital outflows and accelerate the "Buy America Cheap" program outlined in the December 1977 *Economist*. This also means that a growing proportion of the available funds in U.S. credit markets will be coming from London.

William V. Sullivan and Nicholas Marrone of the Bank of New York pointed out last week

that private money market rates declined between 39 and 181 basis points since January, despite hefty business demand for credit, because of the large volume of funds seeking short-term "defensive" investments. They report that over this period three-month dealer-placed commercial paper rates declined from 10.60 to 9.80 percent; three-month certificates of deposit in the secondary market fell from 10.85 to 10.15; and three-month Eurodollars moved down from 12 to 10.56 percent — a drop of 144 basis points. The erratic easing in Eurodollar rates since January has also been influenced by the stabilization of the dollar and the unwinding of short positions that took place after the arrival of the European Monetary System.

The rate-depressing flow of money into short-term bonds and money market instruments has been accelerating over the last several

should only be allowed to allocate funds for management, research, marketing and feasibility studies and training on matters related to commodity sales.

At 2:00 a.m. March 20, the U.S. delegation succeeded in ramming through a compromise "guideline" for the Common Fund, by suggesting that it not be put up for final vote until the end of this year. If U.S. corporations are wondering why the price of copper and other metals has been skyrocketing in recent months, the answer can be found by taking a look at the implications of the U.S. adopting Kissinger's IRB proposal.

The speculation on metals stocks was kicked off by a number of London investment banks, which work closely with the IMF on Third World policy. The copper price takeoff (which tends to push the entire market forward) has been sustained since mid-November by

financial panic produced by a combination of factors including: rising oil prices; copper strikes in Peru and threatened strikes for April in Canada; rumors of a major destabilization and guerrilla war pending in Zaire; record copper sales to Red China from the West to supply its war machine against Vietnam; and bad weather this winter in the U.S., leading to several cases of "force majeure" on deliveries.

This week, Asarco, Inc., the largest U.S. copper smelter, pushed its producer price to a record \$1.02.

London investment banks are using this boom to push raw materials investment in a handful of Third World countries — at the expense of other types of investment.

If U.S. and other commercial banks go along with London's game, then the first phase for actual implementation of the IRB-Common Fund will be underway long before the official UNCTAD

vote at the end of this year.

In New York, on March 27, the policy-setting Council of the Americas opened a week-long conference tour for Peruvian Finance Minister Silva-Ruete, to get U.S. investors to move in on Peruvian mining and oil development. As reported in the *Journal of Commerce*, the Council is pushing Peru's credibility as an investment target by asserting that the Peruvian government has dropped all ambitious, non-mining development plans, and has followed an IMF program for austerity and cut-backs.

Indicating that preparations for a boost in raw materials extraction in Latin America have been underway for some time, New York's St. Joe Minerals announced the same day that it had just approved an \$80 million investment in new copper mining capacity by its Chilean subsidiary.

— Renée Sigerson

weeks because investors believe that yields are currently as high as they are going to go. The recent issue of Morgan Guaranty's *World Financial Markets* also pointed up the pronounced trend of money leaving low interest rate sectors, like the yen, for high interest rate, oil-producing countries like Britain and the U.S. The new buoyancy of U.S. oil stocks is part and parcel of the same trend.

But whatever calm prevails in the credit markets over the easing of interest rates and exodus of funds to the U.S. markets is deceptive. Corporate liquidity steadily worsened over 1978 as the nonfinancial sector acquired a near-record amount of new short-term debt to keep up with its inflating costs. First Pennsylvania pointed out last week the cash liquidity ratio — cash and marketable securities to current liabilities — of the aggregate corporate sector stood at .27 percent at the end of last year. Although this is still up

from the trough of .23 percent reached in the third quarter of 1974, it is significantly below the .34 percent reached at the end of 1976.

#### Statistical deception

The deterioration has been somewhat hidden by the publicity about a number of cash-rich corporations. While corporations' bank loans have been growing only moderately, they have been borrowing record amounts in less obvious ways, such as via the commercial paper market. According to Bankers Trust's measure of short-term borrowings (commercial and industrial loans, finance company borrowings, and nonbank commercial paper), credit demand from business rose by \$6 billion through March 7, for outdistancing the record years of 1974 and 1978.

In addition, U.S. corporations have been making much heavier use of the Eurodollar market for short-

term funds.

But whatever form a short-term liability takes it is still a short-term liability. As a result, this record expansion of short-term business credit adds up to a rapidly worsening liquidity picture.

Predictably then, when the new downturn begins, a lot of corporations are going to get burned — many more than in 1974-75. And U.S. corporations are going to be increasingly reliant on the London market for their short-term credit life line.

— Lydia Schulman