Business Briefs

Commodities

Strategic metals at pre-war levels

International political tensions were the dominant factor behind the spectacular rise in metals prices the first week in January. "Even before World War II" there was not such "panic" buying of metals, the BBC commented.

According to one source, even the sharp rise in the silver price is due to the deteriorating military strategic situation. He said that the U.S. government has abandoned earlier plans to sell off its supplies of silver, which has important military uses, and instead will begin stockpiling as much of the metal as it can get its hands on. Like gold, silver is in extremely tight supply at the moment, which is compounding the upward pressure on the price.

On a lighter note: at least one department store in Philadelphia has sold off its stock of silver flatware to an area refinery. With the price of silver now higher than gold was ten years ago, sterling is a luxury few of the store's customers can afford.

Platinum grabbed the headlines last week, when it soared $113.90 to $806.50 an ounce on Jan. 2. Both its take off and the recent rise in the copper price—U.S. producers have now increased their prices to between $1.10 and $1.25 a pound—were generally attributed to the worsening U.S.-Soviet relations. Copper, used in electrical machinery, has obvious military use; the leading world supplier of platinum is the Soviet Union. Platinum, which can withstand extremely high temperatures and friction, is used in the production of jet aircraft and synthetic fibers, and it is widely used as a catalyst in jet and automobile engines.

"The issue of raw material supplies have never been higher on the national agenda" is the way one strategic metals specialist summed up the situation. A report issued last August by a special government interagency taskforce on strategic metals called the rebuilding of the government's three-year stockpiles of strategic raw materials an urgent national priority. The newly formed Federal Emergency Management Agency is charged with rebuiding those stockpiles and is reportedly withholding supplies of materials such as chrome from industry. U.S. corporations would be building up stockpiles of hard to get materials, too, the source added, if it weren't for the 15 percent prime rate.

Banking

German banks dominate gold auction

Three West German banks and their subsidiaries purchased all the gold offered for sale by the International Monetary Fund at its monthly auction held on Jan. 2. The banks paid a record average price of $562.85 an ounce for a total of 444,000 ounces. The next morning gold opened in Hong Kong at an all-time high of $648, followed by some profit-taking later in the day.

The spectacular run into gold was anticipated well in advance by *EIR* (see our regular gold column); it reflects the London-engineered disintegration of the existing world monetary system and its projected replacement with a system in which currency values are indexed to the price of gold and strategic raw materials.

Although West German banks do not favor the British scenario, they have adapted their own investment strategies to it in what can only be described as a "siege mentality." One West German characterized the gold markets as "insane" and declared that "gold will decline only with an improvement in the world political situation, which does not seem likely." The gold panic has also afflicted Paris, where the gold market had to be closed temporarily on Jan. 1 due to the absence of sellers.

The three successful bidders at the IMF auction were: Dresdner Bank (Frankfurt, Luxembourg, and Singapore subsidiaries), Deutsche Bank (Frankfurt), and Deutsche Genossenschaftsbank (Frankfurt).

Trade sources say there is now a severe global shortage of physical gold available for sale; much of the recent buying has been by large investors, including Arabs, who are investing on a long-term basis, with no intention of reselling. Given this supply situation, and continued international political instability, gold might very well reach $1,000 within the next six months.

Foreign Exchange

Dollar sell-off begins new year

The U.S. dollar fell to near-record lows during the first two trading days of 1980. Despite this poor performance, bankers expressed surprise that the dollar had held up as well as it did—leaving the foreign exchange markets to take "second stage" to the more dramatic developments in precious metals.

One possible explanation for the dollar's failure to fall completely through the floor is that the latest round of oil price hikes has created an increased demand for dollars to meet oil payments. Nevertheless, rumors are circulating that the dollar will again be undermined in the event of a U.S.-Iranian settlement of the hostage question. This could lead to a lifting of the U.S. freeze of Iranian assets, permitting Iran to withdraw its funds from the dollar at the same time that other OPEC nations are coming under severe internal pressure to "diversify" their reserves. (Our regular foreign exchange column will resume next week, with a full analysis.)

On January 3, at mid-day in New York, the dollar was selling for DM 1.7020, FF 3.9960, SF 1.5640, and the British pound sterling was worth $2.2425.

Technology

New Carter attacks on U.S. technology

The Carter administration has decided to speed the closing-down of advanced technology programs in the United States, according to reports and interviews in the Washington Post and Nucleonics Week, a trade journal. The proposed Federal budget for FY 1981, to be announced in late January, will feature a no-increase stipulation in the funding of the magnetic confinement fusion-energy research program; also featured will be major cutbacks in the leading laser-fusion project in this country, the Shiva-Nova Laser Upgrade effort at Lawrence Livermore Laboratories; and in both the fast-breeder, and high-temperature gas-cooled fission reactor programs.

Accompanying the cuts, which are of a shocking nature from the standpoint of the industrial future of the West, a committee is being formed by the Department of Energy to review the entire U.S. fusion program. This wil be the sixth such "review" in two years, Nucleonics Week reports.

Domestic Credit

New Year's message from Volcker

Any expectations that the Federal Reserve might let up on its tight money course in 1980 was dispelled by Chairman Volcker in his address to the National Press Club on Jan. 3. The question Volcker said he gets asked the most is 'will the Fed stick with it.' "My own short and simple answer to that question is: Yes."

Volcker's statement was hardly unexpected. More telling was the emphasis he placed on plans for the coordinated reduction of oil consumption. Volcker said that while conservation and the development of alternative energy sources might be fine for the long-term, coordinated actions undertaken through the International Energy Agency and other such international forums are needed in the "here and now." The present oil market chaos is an "opportunity" that the oil-consuming nations should seize immediately to mitigate the impact of rising oil prices on inflation, according to Volcker.

In view of Volcker's determined stance on monetary policy, the theory that interest rates have peaked seems sillier than ever. In fact the new catch word in the financial press is "plateau"—interest rates have plateaued for the moment, before renewing their ascent.

International Credit

France tries to cushion oil hikes

The French government adopted a series of measures Jan. 2 to shield industry from the effects of spiralling oil prices. Export-generating industry is to receive an additional $1.875 billion in credit through specialized lending facilities, while Electricité de France, the state power monopoly, will be ensured expanded financing capacities and increased state aid for the development of nuclear energy, which is regarded as essential for France's future.

In general, however, the sharp increases in energy costs would be passed on to the consumer almost in toto. France's oil import bill is expected to increase 43 percent this year to about $25 billion, a price rise that virtually nullifies the ability of the government to continue its various subsidy programs that have lowered prices paid by the population. Aid to the elderly, though, is to be increased.

Briefly

- **ALEXANDER HAIG'S** new appointment as president and chief executive officer of the United Technologies Corp. may be less than the presidency of the United States, but it is certainly quite a step up for the five foot two general. Sources indicate, moreover, that as head of the Hartford-based defense contractor, the former NATO Supreme Commander is delighted to have his finger close to the button again.

- **ALBERT WOJINLOWER,** of the First Boston Corp., contradicting the predictions of "mild recession" in 1980, told the annual meeting of the American Economic Association in Atlanta last month that the likelihood of further oil price hikes and "economic warfare" among the industrialized nations could lead to a drop in output of 4 to 5 percent in 1980, followed by a further drop in 1981.

- **ANTI-GOLD** policies on the part of the U.S.A. may soon end. An op-ed in the *Financial Times* last Dec. 24, "Gold: a 'myth' comes back to life," hinted that the U.S. Treasury is about to drop its nine-year vendetta against gold. The *Times* cites recent Congressional testimony by U.S. Treasury Under Secretary for Monetary Affairs Anthony Solomon: "... in a passage devoid of the normal demonetisation diatribes—he stated: 'Gold remains a significant part of the reserves of central banks, available in times of need. This is unlikely to change in the foreseeable future.' A shift towards grudging acceptance of the status quo might lead the U.s. to be rather grateful that its gold stocks, although down by half in volume terms since the war, are now worth over 120 billion."