

Rising commodities prices confound the financial gurus

by Marcia Merry Baker

The first week of the New Year saw dramatic price run-ups of several commodities on trade exchanges, that fed crystal ball commentary about what is ahead in 1996. The London gold price rose to an eight-month high. The Chicago corn price rose to the highest level since 1974. Natural gas and crude oil shot up.

The usual commentary is that some local, immediate cause lies behind each increase or decline. For example, the third winter snow storm has moved into the U.S. Midwest and Northeast—this is to explain the fuel price rises. Or, for the corn price rise, fingers point to the U.S. Agriculture Department's Dec. 28 report "finding" a larger than expected national swine herd, constituting a larger than expected demand for livestock feed.

In fact, such factors may have a transitory effect on commodity prices. But the defining influences on commodities supplies and their use in the economy, not just on commodities exchange speculation prices, are coming from two larger, related sources.

First, the world physical economy is in a breakdown process, worsening by the day. This is most clearly seen in the present, historic shortages of such commodities as agricultural staples, which are in short supply because production itself is breaking down. Strategic and precious metals output capacity, and fuels production are likewise becoming more limited.

Second, there is a rush of "smart" money flows *out* of derivatives, exchange positions, and exotic "financial products" of all kinds, and into hoarding of commodities, and control positions in production and distribution of commodities: strategic metals, minerals, precious metals, fuels, agricultural goods.

During 1995, many big money investors, mostly tied into

the House of Windsor financial and political circles, began stampeding from financial investments into hard physical assets. Their motivations run from making a killing off shortages, to surviving the oncoming economic debacle—the rest of the world be damned.

This journal issued a report on this process, "The Big Commodities Hoarding Crunch of 1995" (*EIR*, Sept. 15, 1995). An additional *Special Report* was released on food shortages, agriculture commodities, and who controls them, called "Food Control as a Strategic Policy" (Dec. 8, 1995).

A sign of economic collapse

This is the only context in which to view events on the commodity markets, and to evaluate prospects for commodities supplies. Reflecting the shortages, economic decline, and hoarding stampede, last year saw an overall rise in the Commodity Research Bureau (CRB) commodities price index from 236.64 (December 1994) up to 243.18 (December 1995), with the most striking moves in agriculture commodities. The grains CRB index went from 185.5 to 274.01; the oilseeds from 269.27 to 303.12; and livestock/meats from 184.64 to 210.90. Relatively, fuels and precious metals rose less. Energy moved from 173.79 to 190.01, and precious metals from 269.62 to 270.20.

Now we have the New Year price jumps. On Jan. 3, the London gold price was fixed at \$393.40 a troy ounce, its highest fixing since April 19, 1995, when it was \$396.95. Silver and platinum also rose.

On Jan. 2, West Texas Intermediate crude oil jumped up to \$19.83 a barrel (compared to \$17.45 a year ago), up 26¢. Heating oil went up 1.31¢ to 59.93¢ a gallon. Natural gas went up 24¢ to \$2.859 per million British Thermal Units.

The most dramatic price rises appeared on the Chicago

agriculture exchanges the first week of the year. Soybeans rose 13.5¢ up to \$7.58 per bushel; and soybean meal rose likewise, up \$4.50 a ton to \$241.10. Corn shot up 4¢ to \$3.73 a bushel, after gaining 46¢ in the previous six weeks, and over 50% during the year.

By historical standards, these commodity prices are still dirt cheap. For decades, farmers and Third World producers have been forced to sell at prices below the minimum return they needed to maintain ability to produce. The corn and soybean prices are still below historic highs, and below parity.

A look at the World Bank price index for all food and non-fuel commodities, pegging 1990 as 100, shows that we have come nowhere near the 1970s, the last heyday of commodities-price rises. The price levels of today, though showing an upturn since 1993, are a fraction of their 1970s high point.

What then is in store for 1996?

The way *not* to predict the future, is provided by the market prognosticators. Take a couple for comparison: The Jan. 4 London *Financial Times* "Commodities and Agriculture" column is headlined, "Downbeat Year Forecast for Commodity Markets," and begins, "The world commodity markets' bubble appears to have burst, with forecasters who had been trumpeting rising prices in previous years now taking a decidedly downbeat view of the outlook for 1996." The *Financial Times* cites London broker GNI, which released a report opining that commodity-price inflation will be delayed until 1998 or the end of the century.

In contrast, the "Commodities Corner" of the Jan. 1 *Barons* predicts that commodities will rise, and focuses on precious metals markets, in a forecast called, "Alluring Metals—Gold, Silver, and Copper Seen Climbing in '96."

Profile of the commodities lock-up

The way to understand what is happening with commodities in the real world, is to understand the profile of control over vital supplies exerted by an interlock of mostly London-connected companies and groups. The relevant point about any significant commodities markets price movements, is that any price increases, or strategic declines, redound to the advantage of these private interests—best known as the House of Windsor "Club of the Isles" network. Whatever other whiz-kid betting that goes on in the markets is also part of the parasitism killing the economy, but does not warrant analysis. (And the outright market-rigging that goes on in Chicago and other exchanges, we will report in upcoming issues.)

This is the current summary picture, in three main commodities categories (energy, food, metals and minerals):

- **Energy.** British, and Anglo-Dutch companies dominate the world for oil distribution. While the major oil producers in the world are State-run companies such as those of Saudi Arabia (the largest OPEC producer, accounting for 8 million barrels a day, or 11% of world output), Nigeria,

Mexico, Iran, and Venezuela, it is British-linked companies that dominate the distribution market. For example, about 67 million barrels of oil are sold each day. Heading the list, with 5.5 million barrels of oil marketed per day, is Royal Dutch Shell, most of whose oil sold, is not produced by the company. The number-three oil marketer is British Petroleum Corp.

Rumors now coming from the Middle East and other locations, are that the oil cartels hope to pull off a repeat of the 1970s oil price/oil shortage hoax, one of the "coups" of the Henry Kissinger era in foreign policy. The growing instabilities in the Middle East, furthered by covert British intervention, are leading to that potentiality.

- **Food.** Both international and U.S. domestic markets for key staples, such as cereals, edible oils, meats, and dairy foods, are controlled by a tight cartel of mostly Anglo-Dutch companies. The "Big Six" grain cartel companies are: Minneapolis- and Geneva-based Cargill; New York-based Continental; Paris-based Louis Dreyfus; Brazil and Netherlands Antilles-based Bunge and Born; Switzerland-based André; and Illinois- and Hamburg-based Archer Daniels Midland/Töpfer. Just two of the companies, Cargill and Continental, control 45-50% of the world's grain trade.

Domestically, the main grain companies control over 70% of all U.S. flour milling; 57% of the dry milling of U.S. corn; 74% of the wet milling of U.S. corn; and 76% of the crushing of U.S. soybeans.

At present, federal grand juries are still weighing evidence of global price- and supply-rigging by two of these companies, Cargill and ADM/Töpfer, along with London-based Tate and Lyle (owner of A.E. Staley in Illinois) and CPC, for wet corn-milled products including lysine (feed additive) and citric acid.

These same firms are part of the cartel of companies that also dominate meat processing and distribution, and are to be the subject of monopoly investigation by a special commission due to be established this month by the Agriculture Department, in response to demands from U.S. farmers, now being wiped out by deliberate low payments for cattle and other commodities.

- **Metals.** The high degree of London- and British Commonwealth-based control over metals makes the above two categories of commodities control look "fair and open." Start with precious metals: London- and Commonwealth-based firms and nations control 59.5% of world production of gold. The top three gold-mining companies of the world, all British-controlled—Anglo-American Corp. and Consolidated Goldfields, both of South Africa, and Barrick Gold of Canada—alone control 20% of total production.

The total amount of annual world gold production in recent years, around 2,300 tons by the time it reaches the market, is worth about \$29 billion a year. The British have 60% of the take. The London- and British Commonwealth-based group controls 29% of silver production and 78% of platinum production.