

to cover foreign corporations which are 50 percent or more owned by Americans. Charges of "bribery" have been used by Atlanticists to go after pro-industrial forces in Europe, Japan, and the U.S.

This bill is complemented by new directions taken at the Justice Department. Attorney General Griffin Bell and William Shenefield, who is likely to succeed Donald Baker as chief of the Antitrust Division, favor stiff prison sentences for price fixing. Baker was recently fired by Carter for his softness on price-fixing violations. The Carter Administration just requested from Congress an additional \$31 million for the division's fiscal 1978 budget so that it can pursue more price-fixing cases. In a period

of continuing commodity price inflation, every industrial corporation is susceptible to charges of "price-fixing."

Appearing before the Senate Banking Committee the same day it passed the bribery bill, Harold M. Williams, Carter's nominee for SEC chief, told the committee that he favored a more active role for the SEC in the area of capital formation. However, all this involves is the possibility that the SEC might relax its regulations — for example, its requirement that small businesses file with the SEC on all issues over \$500,000, thereby making it easier for business to raise capital. A very meager carrot to be throwing out to the business community at this time!

## Commodity Prices Plummet

---

### COMMODITIES

---

Prices for major international trade commodities collapsed during the week ending April 5, stopping a speculative runup of roughly 35 percent on the leading indices since last September. The market break — despite a technical recovery on the last two sessions this week — flashed an emergency signal of primary importance to the world financial community.

The cases of cocoa, coffee and copper exemplify the present situation.

Cocoa and coffee prices went up by over 300 percent in the last year, based on growing rumors of "scarcity." Cocoa was at £800 per ton on the London market in March 1976, and reached £2,800 per ton on February 1977. But the raising of deposit requirements by the Bank of England was

down. Last week, the President of the Brazilian Coffee Institute, Camilo Calazans, had to admit that Brazilian coffee producers and exporters have 9 million sacks of coffee in private stocks.

Meanwhile, the Cocoa Producers Alliance was unable to reach an agreement in London on a minimum-maximum price structure, with the Ivory Coast even threatening to cut down cocoa production in favor of expanding cultivation of other commodities. Cocoa prices are now around the £2,000 per ton mark, while coffee prices went down by about 8 percent in the last shake-up.

The price of copper has fallen by about 10 percent, despite tensions in the copper-producing area of Zaire. A trader summed up the general feeling with the comment that "the surprise is not what is happening in Zaire, it is the relative lack of reaction in the market...Copper inventories are very high, and the economic situation is far from being encouraging." The prices are now only maintained by speculation around the U.S. strike by the United Mine Workers of America. But, both the metal companies and the trade unions understand that in the present depression, a strike could only hurt labor and industry. An orientation toward a Canadian settlement at

the Noranda copper refinery in Montreal — where workers continue to work in spite of the expiration of their labor contract — is seen as establishing a pattern for U.S. agreements in the whole copper and metal industry.

Other metal prices are also falling down — tin prices by 25 percent, lead prices by about 20 percent. The sharp price-decrease is further fostered by the agreement on a labor contract reached without a strike at the St. Joseph Minerals Moraca zinc smelters in Missouri.

#### *How Commodities Markets Work*

This is however only a holding action. Limited penalty measures cannot eradicate the roots of speculation. What determines market commodities prices in the short-term is not supply and demand for the commodities, but the internal dynamics of the whole money market. Speculation in commodities is conducted through the same international lending swindle that provided most loans to the Third World. The so-called Eurodollar market now contains at least \$100 billion of short-term refinancing of Third World debts. This mass of liquidity — credit for which there is no backing in real income — creates an environment of apparent easy money, some of which spills over into commodity speculation. At the point that short-term Eurodollar interest rates, now about 6 percent, are lower than the expected annual rate of increase of commodity prices, now about 10 percent or over in the case of metals and more for "soft" commodities, commodities become an attractive speculation.

In the upward side of the cycle, *apparent* cheap money and higher commodities prices inflate world trade in value, and in turn provide more liquidity for the Eurodollar pool. But the Eurodollar market is extremely shaky, as increasing amounts of long-term Third World debt comes due. Big international depositors, like the Arabs, are pulling funds out into gold or Treasury notes. Once any major group of participants in the gambling casino gets cold feet, the entire swindle will collapse.

Last week's price fall in London indicates that such a collapse could now happen at any moment, just like the first tremors which preceded the October 1929 stock market crash. Early last week, Eurodollar short-term

interest rates rose slightly (around .50 percent) because of a sudden shortage of funds to "roll over" the \$100 billion unpayable Third World paper. This interest rate rise was enough to scare the speculators, and commodity-buyers for future deliveries cashed in their holdings and ran out of the market.

Although interest rates temporarily dropped back to earlier levels, those commodities which had the biggest speculative buildup, like zinc, tin, copper or lead, fell back to their January price levels.

#### *Economics Intervenes*

The financial environment is now no longer the same. The New York-based speculation has lost its grip on the commodity market and can no longer play off between interest rates, inflation, commodity prices, and Third World debt service. Inflation is running at 13.2 percent on a yearly basis in the U.S.: the latest National Association of Purchasing Managers survey reports the worst inflation during the month of March since the peak of the last double digit price increase in September 1974. Inflation fosters higher interest rates, which in turn divert investors out of the commodities market and lead to a fall in commodity prices.

Moreover, under the present circumstances of deflation in world trade prices — according to the authoritative General Agreement on Trade and Tariffs report, trade immediately slowed down when inventories increased faster than industrial activity by the end of 1976 — a greater supply of money does not help. It pushes interest rates up, not down, and commodity prices down, not up. This means that the grip of the New York banks on the commodity market is definitely loosened. The merely physical regroupment of all existing New York commodity markets, with the exception of cocoa, into the World Trade Center building — pooling resources on a larger scale of operations — would not change the parameters of the problem and generate more "expansion."

Therefore, what the *Financial Times* calls "normal market forces," that is, a more adequate reflection of economic reality, tend now to be hegemonic over speculation. At a juncture of falling volume of world trade and industrial stagnation, there will soon be no room for a general commodity boom hoax. British traders comment in their own way that "prospects are none too bright for the 1977-1978 year from the producers' point of view."

Still, some commodities could be pushed up quite significantly on very short-term basis, but spill-over effects on the whole market are to be discarded.

#### *The Soybean Exception*

Soybeans are the only product for which there is an objective scarcity due to a 15 percent shortfall in the last

U.S. crops. Prices could very well go higher, but traders discount spill-over effects on other commodities and predict that the situation will remain under control for the following reasons:

1) U.S. farmers are already planning to switch acreage from corn to beans for the November harvest,

2) If the world market turns out to be too bad, the European Economic Community has already planned to enforce, through subsidies, the broad use of skim milk to replace soybeans.

3) Both Peru and Norway can produce more anchovy-based cattle feed, a high protein product broadly equivalent to soybeans.

The only possible basis for a worldwide soybeans crisis has been spelled out by the British daily *Manchester Guardian*, which sees the possibility of a U.S. export-moratorium provoking a price boom on the London market. Such a scenario is highly improbable given the U.S. farmers' opposition to such measures and the necessity to get cooperation from Brazil, the second world soybean producer. Brazil is maneuvering to boost the prices of soy futures on the Chicago market and plans to withhold export registration licenses, but it cannot go too far in this direction. At this point, U.S. Agriculture Secretary Robert Bergland has discarded a replay of the 1973 American export moratorium as politically infeasible when confronted last week.

If commodities prices have not continued to fall after April 5 it is because of West German monetary initiatives. Bonn is now engaged in a short-term stabilization of the currencies of the weak European sectors through a loose money policy. As a consequence, the Eurodollar Euro-DM interest rate spread is now about 1.25 percent, the highest in more than a year, which means that West Germany is voluntarily maintaining its interest rates at a relatively low level. The low Euro-DM interest diverts capital outflows from West Germany into Italy or Great Britain, helping to stabilize their currencies. But this in turn keeps the whole world structure of interest rates lower, thus making still more attractive the short-term speculation on commodities despite a general adverse long-term trend. Hence the "technical stabilization" on the commodities market by the end of this week, the West German policy acting as a ceiling.

This situation on the commodities markets cannot of course last very long. Well-informed market sources believe that the worst test will come in about three months. Not coincidentally, that is when the biggest debt payments of Third World countries start coming due — and when the European-Soviet negotiations for the broad use of a transfer ruble are said to be coming to a successful issue.