Business Briefs

Commodities

Price fluctuations, some rises on commodity front

Prices for coffee, zinc and tin have leapt upwards since May, in the first noteworthy commodity-price rise since mid-1979. At the end of July, zinc started trading at £493 per ton on the London Metals Exchange, its highest level since its 1974 record, with tin only 20 pounds per ton lower than its record high of £800 per ton. On news of a major frost, which has wiped out 45 percent of Brazil's 1982-83 coffee harvest, prices on this market rose 32 percent in a two-week period to $1.23 per pound.

There is no reason to project that commodity prices will sustain an upward rebound across the board in the short term. Nevertheless, the latest round of price rises, which occurred amidst widespread fluctuations of price, are an important signal that speculative investment is beginning to pour into the commodities markets.

The last time commodity prices took off in a major speculative climb was following the 1979 Iran crisis. New international upheavals may trigger a new round of 1979-style speculation within the next few months.

Domestic Credit

U.S. bond prices forebode Treasury problems

Ten-year U.S. notes with coupons of 14⅞ percent sold at 14.98 percent on Aug. 5, a record for that maturity, as high U.S. interest rates continued to lay low the U.S. bond market.

The high yield on the 10-year notes attracted an oversubscription for the $2.25 billion issue, but the rate does not bode well for U.S. Treasury financing operations for the rest of the year. The Treasury requirement for the balance of the calendar year should total $40 billion. "A lot of people still are shell-shocked by what's happening to bonds," stated George Johnston, president of Scudder, Stevens and Clark, a large investment management firm. "There is skepticism over the high [federal] budget deficits and whether monetary policy will succeed."

With no indication that interest rates will fall by more than 1 to 2 percentage points within the next two weeks, bond prices will continue to hit record lows.

Agriculture

New grain pact postponed at least until 1982

U.S. Special Trade Representative William Brock announced Aug. 5 that the U.S. and U.S.S.R. had agreed to extend their existing grain agreement for another year guaranteeing 6 to 8 million tons of grain to the U.S.S.R.

The decision to give leadership of the negotiations to the Special Trade Representative, a decision apparently made by the White House, finally allowed the talks to proceed. But the extension, instead of a new pact, means that State Department interference is probably continuing.

Brock also announced that U.S. and Soviet officials will meet in September or October for consultations on grain supplies for the 1981-1982 marketing year, and that negotiations on a new trade pact would probably begin before the end of the year.

Soviet Deputy Minister of Foreign Trade Boris Geordeev, leader of the Soviet delegation, refused to tell reporters how much grain the Soviets will buy. As of Aug. 5 they have contracted for just over a million tons of U.S. corn. Analysts predict that the Soviet grain crop may be even less than the projected 200 million tons, already 36 million tons under the Soviet target. Purchases from the U.S. could range anywhere from 6 to 15 million tons, they estimate; but the Soviets have built up significant and diverse trading arrangements with Brazil, Argentina, and other suppliers.

Foreign Exchange

Dollar rise due to Polish invasion threat?

West Germany's *Handelsblatt* reported Aug. 6 that the steep drop this week of the German mark and other European currencies against the U.S. dollar was due to fears of imminent Soviet invasion of Poland. German bankers confirm that Soviet officials have been warning Western contacts that they consider the behavior of the American banks in Polish debt negotiations unacceptable, and that they may be compelled to intervene in Poland to take over direct economic management.

The sharp Aug. 4-5 rise in the dollar occurred despite a reported widening trade deficit in the U.S. and indications that the U.S. current account balance was moving into deficit, presaging a weaker dollar before the end of the year.

Energy Policy

French unionists strike for nuclear power

The Communist-controlled CGT labor federation, and its Socialist counterpart, Force Ouvrière, have held demonstrations and sit-ins throughout the industrial region of Lorraine in opposition to Socialist President François Mitterrand's effort to halt construction of the 5,000-megawatt nuclear reactor complex at Cattenom, near Metz. On July 31, the CGT launched the world's first strike on behalf of nuclear energy at the 1,400-worker site.

Spurred by the "Committee for Cattenom," unionists and industrialists whose businesses depend on the nuclear industry have begun mass mobilizations in other cities, such as Golfech. The committee, initiated by the European Labor Party, has brought together the French Fusion Energy Foundation, unionists, and the Young Giscardians in Metz.

Mitterrand has already been forced to permit the first two Cattenom reactors, each 1,300 megawatts, to be completed, but still intends to postpone indefinitely work on the remaining two. The CGT's regional leader has stated to the news media that the nuclear complex is indispensable to "sustain, through hydrogen production, the redevelopment of the crisis-stricken Lorraine industries—steel, iron mining, petrochemicals, and carbochemicals."

U.S. Industry

Capital-goods investment takes second-quarter dive

Planned capital investment in the second quarter fell significantly from what had been planned three months earlier for the quarter, according to figures just published in the June *Survey of Current Business.* The decision to downscale investments, according to the Machinery and Allied Products Association, is primarily due to high interest rates. The high rates, a spokesman told *EIR,* are drying up internal funds and making external funds prohibitively expensive.

However, the just-released figures also reveal a very hesitant attitude toward the Reagan tax and budget program. First-quarter investments, made before the Reagan program had been revealed, showed a 1.7 percent increase over previously planned levels, while the second quarter level, at an annualized rate, fell 3.7 percent from previously planned levels. Corrected for inflation, second quarter investments were below the level of 1980.

The only area of general increase was in capital goods for petroleum exploration and production, the most buoyant sector for investment in the last year and a half. At annualized levels, investment in petroleum development rose 14 percent in real terms, and 18.9 percent in nominal terms.

International Credit

Polish debt talks up in the air again

An agreement reached in mid-July between Polish representatives and Western commercial banks for rescheduling Poland's 1981 debt has run into a new hitch. On Aug. 5, the negotiating partners were unable to put the finishing touches on the agreement, which extends repayment on this year's debt component over a seven-year term, after the Poles indicated they considered unfinanceable a 21 percent interest rate on the fourth-quarter component.

The hitch has provoked a new round of rumors that Poland may be forced into a default. In June, Western governments, which hold $11 billion in Polish debt, did succeed in concluding a seven-year agreement with Poland. The private debt accord, which involves a total outstanding debt of $15 billion, has been held up, according to all accounts, by New York-based commercial banks, which have insisted on adding tough financial provisions to their side of the agreement.

A Polish economist living in the West stated in an interview Aug. 6 that he expects the wrangling between Poland and its private creditors to go on for two months. In September, he asserted, Poland will begin harvesting its fall grain crop, which has turned out to be much larger this year than was expected. Food supplies from the harvest will begin to hit the market in mid-September, partially alleviating the food crisis.

Thus the New York banks appear to be attempting to gain time in an effort to push Poland towards economic decentralization and further deindustrialization. Polish debt expert Richard Portes stated in the Aug. 6 *Handelsblatt,* however, that Poland will default, and much of the fault lies with the Western creditors.

Briefly

● **TED HEATH,** former Conservative prime minister of Great Britain, and Commonwealth Secretary Shridath Ramphal will be in Washington in September for private dinner meetings with administration officials to promote the Brandt Commission report.

● **EUROPEAN** Monetary System currencies will have to undergo a major realignment with devaluations of the French franc and Italian lira, argues the London *Economist.*

● **PETER PETERSON** of Lehman Brothers-Kuhn Loeb is projecting a $100 billion U.S. government deficit for the next fiscal year.

● **PRESIDENT REAGAN** will replace both Federal Reserve Board vice-chairman Fred Schultz and chairman Paul Volcker when their terms expire within the next 18 months with hide-bound monetarists, mooted Rupert Murdoch's *New York Post* on Aug. 5. The resurfacing of this rumor seems to be a Mont Pelerin Society signal that Volcker will hold to a high-interest rate course even if the economy buckles in the third quarter, and will resist all attempts to bail out faltering firms.

● **STEEL PRICES** in the U.S., which rose by 15 percent from June 1980 to June of this year, are softening, with discounting beginning to occur, because steel users have overstocked steel inventories.

● **BRAZILIAN** farmers are increasing their corn plantings by 10 percent to take advantage of the $5 billion trade deal signed by their government in Moscow last month.

● **THE REAGAN** administration's response to the air controllers' strike was planned by the Carter administration as part of the latter's deregulation and contraction push.