Soviets make power play in the world gold markets

by David Goldman

Harry Oppenheimer's London front organization, Charter Consolidated, raised its stake in the London gold pool bank Johnson Matthey from 27.9% to 46% in the course of a Bank of England bailout operation announced on Monday, Oct. 1. The new manager of JMB brought in by the Bank of England, J. N. Clarke, is head of the Oppenheimer-linked Charter Consolidated mining group.

All indications are that the reorganization of one of the five London gold pool banks, under the direction of the Bank of England, reflects a fundamental strengthening of the Soviets' hand in world gold markets. With South Africa in economic desperation, the latter's flexibility in gold marketing no longer matches that of the Soviets, who have been able to obtain new credits at an $8 billion annual pace during the third quarter of this year.

The context for the apparent reorganization of the gold pool is the waiting game over the U.S. dollar. As we wrote in the Foreign Exchange column last week:

"It appears that the same European banking cartel which plans a 'monetary Pearl Harbor' against the United States has cut a deal with the Reagan administration: The dollar will remain strong, at least through the election, provided the United States 1) can use the full power of the State Department to terrorize the restive Ibero-American debtors, and 2) will agree to accept a major degree of supranational surveillance in the context of next April's super-meeting of the International Monetary Fund's Interim Committee."

In light of the reported results of the Reagan-Gromyko meeting on Sept. 28, the viability of such a deal must be questioned. In the minds of Secretary Regan and his friends in the administration, such a deal unquestionably exists. Whether it will be honored by the Soviets and their friends in Western European financial circles is an entirely different matter.

Swiss financial circles, probed during early September, indicated that the results of the Reagan-Gromyko meeting would heavily influence Soviet strategic planning on the financial markets. The threat of a debt crisis in the dollar sector, with possibly disastrous impact on President Reagan's reelection chances, has been a weapon in the Soviet arsenal all along.

The fact that the Johnson-Matthey disaster coincided with the Reagan-Gromyko meeting is, by itself, cause for concern. Also, the fact the Oppenheimer group brought in new capital and new management points toward the Soviets; in July 1980, Oppenheimer negotiated the first Soviet-South African agreement for exchange of gold-market information, paralleling their combined operations in the diamond cartel.

EIR reported on July 22, 1980: "Consolidated Goldfields, the London-based holding company that controls South Africa's second largest mining group, sent a team of gold experts to Moscow last week to confer with Soviet officials. A source at Consolidated Goldfields says the visit was at the invitation of the Soviet government, and marks the first time ever that the Soviets have shown a willingness to share intelligence on the market.

"'If Consolidated Goldfields is going to Moscow, it is probably correct to conclude that they are discussing the coordination of gold sales,' commented a European gold source."

The above report was re-circulated by the London *Financial Times'* David Marsh, and was denounced as "Goebbels-like misinformation . . . and fabrication" in the Nov. 30, 1980, *Izvestia*. The same month, however, Harry Oppenheimer's son-in-law, Anglo-American Mining official Gordon Waddell, turned up in Moscow for discussions with the Soviets, as a result of which the Soviets' Zürich gold outlet, the Bankhaus Wozschad, emerged as the best-informed gold trading operation in the world.

Johnson Matthey's problems have been variously attributed to Nigerian trade credits, Hong Kong real estate, Taiwanese tanker loans, and a variety of other bum loans. One

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Zürich banker commented that its collapse is "part and parcel of the international debt crisis. There are so many foul situations, especially in the U.K. and the U.S. You will be seeing many more of these bank failures over the next 12 months. Large amounts of dollar debts will simply disappear." But the Bank of England's decision to bring it down, rather than bail it out silently, indicates that more was at stake than a simple bad-loans situation. Wire service reports from Oct. 5 indicate that Britain was threatened with a generalized withdrawal of gold transactions from London on the part of Mideast purchasers, as well as the Soviets themselves:

"London (DJ)—Johnson Matthey's troubles have sent ripples throughout the international gold market. If the Bank of England hadn't intervened, 'there would have been widescale withdrawals of gold and silver from London,' says a Zürich trader. The crisis even 'caused a flutter in Moscow,' because of the Soviet Union's major gold sales in the West, says an official at Moscow Narodny Bank.

"Johnson Matthey traditionally was known as one of Britain's most conservative, old-line firms. It helped found the London gold 'fix' in 1919, where five British firms set the world gold price twice a day.

"Gold specialists say JMB's Mideast clients will feel nervous about channeling their business to what is now a subsidiary of the Bank of England. The British central bank says it isn't meddling in the fix, and is running the bullion side of JMB with maximum autonomy. Even so, bankers expect the Bank of England to offer the bullion division—with its seat at the London gold fix—for sale soon."

Don't make waves

A high degree of anxiety regarding the state of the international banking system is evident in an abrupt shift of policy on the part of the American money-center banks, who, until last week, had refused to extend their exposure to Argentina by another nickel. Argentina faced major deadlines at the beginning of this week; not a word has appeared in the financial press. However, *EIR has learned that Argentina was given a roll-over until January 15* of one $750 million loan due Sept. 15. In addition, Argentina owed $950 million in overdue interest payments on Sept. 30, of which the country only paid $200 million on Oct. 1. But based on Argentina's new IMF agreement, the banks, on Kissinger's urging, agreed to give Argentina a short-term "bridge loan" for the remaining $750 million, to be repaid when the IMF loan comes through later. This allowed Argentina to pay the interest on time and prevented the U.S. banks from taking big Argentine losses in September.

Postponing trouble for the banking system with respect to the Ibero-American debt mess is essential to preserving the capital inflows into the United States for at least the next several weeks. However, the tremors on the markets today following First Chicago's announcement of a $70 million third-quarter loss indicate how shaky the situation is. The sharp fall of other bank stocks in the context of First Chicago's problems indicates how nervous stockholders are; the sharp rise in Treasury bill prices show how nervous depositors are.

On Wednesday, Oct. 3, when First Chicago's stock failed to open for trading on news that the bank would report a $70 million third-quarter loss, Treasury bill rates fell 5 to 10 basis points. One wire service reported that morning, "A number of bank rumors emanating from the futures pits in Chicago have also spurred a minor flight to quality. The three-month bill is now bid at 10.14%, down 11 basis points while the six-month bill is down five basis points to 10.28%, and the year bill is down 10 basis points to 10.30%."

It is worth noting in this context that the *New York Times* on Oct. 5 led its business section with a feature story under the headline, "Swiss Banks Avoid the Storm," writing: "While most big international banks have been buffeted in recent years by the world financial crisis, Switzerland's Big Three have been quietly scoring success after success . . . analysts cite the Swiss banks' conservative lending policy, through which they managed to avoid the high-risk Eastern European and Latin American loans that have proved so troublesome for their West German and American competitors."

The Swiss-British-Soviet consortium on the other side of the table from the U.S. Treasury may decide, before the elections, that the execution is mightier than the threat.

An additional weapon in the Soviet arsenal is the softness of the international oil price. Although fears of an early oil price collapse evaporated over the summer, recent developments show the potential for a renewed collapse of OPEC oil prices. This, at this moment, would have devastating impact on especially Nigeria, Mexico, and Venezuela. The latest indication on the present "soft" world oil market is the warning on Oct. 3 by the United Arab Emirates that it may unilaterally lower its oil price. This is the first such warning from any OPEC member since the March 1983 OPEC vote to slash the OPEC price by 15%, which spread near-panic in banking circles then. According to French industry sources, UAE is considering a 50¢ per barrel price cut in order to move more of its light crude. UAE accuses Qatar of exceeding its OPEC agreed quota of 250,000 barrels per day by selling 450,000 barrels per day, dumping up to 250,000 barrels each day on spot markets far below OPEC price. It is also reported that Saudi Arabia, over the last few days, sold 1.5 million barrels via Singapore from its huge floating stock at almost $2 below OPEC official price.

As a result of such spot dumping by other OPEC members, the UAE has dropped sharply below its daily official output ceiling of 1.1 million barrels per day (bpd) and seeks to increase output to 1.5 million bpd. Present OPEC output is 1 million below its official ceiling of 17.5 million bpd because of glut conditions.

At the same time, the UAE is involved in negotiations with France to barter, outside OPEC production limits, 15 million barrels of crude for 18 Mirage 2000 jets, a deal valued at $450 million.