# Business Briefs

*Petrodollar flows*

## Projecting OPEC's bullion placements

A recent study prepared by British journalist Frank Vogel showed that the OPEC countries invested about 10 percent of their cumulative surplus during the years 1973-79 in gold. OPEC's 1980 current account is expected to run at about $120 billion. If OPEC were to continue to invest in gold at the same 10 percent rate, or $12 billion, they would have to buy 600 tons of gold at current market prices. This represents more than one third of 1979 world supply, including Western mining output, Soviet sales, and official sales by Western institutions.

Even if OPEC invested as little as $4 billion in gold in the course of a year, it would be enough to send the gold price flying. The 1979 experience, when OPEC investors shunted huge amounts into gold—using Dresdner Bank and other continental European banks as intermediaries—should serve as a warning to those who gamble heavily on a gold price collapse.

*Agriculture*

## Drought menaces U.S. cattle herds

U.S. government projections as of July 24 reported no basic change in the weather pattern that is destroying lives and crops in the Southwest and Plains states. Last week, the drought had moved up into the southern areas of the Corn Belt, just as the feedgrain crop is entering the critical pollination phase when ears form and kernels develop. At least 10 million broiler chickens and, most importantly, 800,000 breeder hens have perished in the heat in the Southeast. Estimates are that half of the soybean crop has already been lost in the Southeast and Delta states, where 40 percent of the nation's soybean production is located.

The most serious damage in the Northern Plains and the Southwest, where the drought has been most intense, is to the American livestock industry. Pastures and forage crops have burned; stock ponds have dried up; supplemental feed costs are soaring. Fully one half of the U.S. cow herd is threatened. Already most cattle have been moved out of the Northern Plains, either shipped straight to market or relocated at great expense. In Texas and Oklahoma, state agriculture department spokesmen emphasize that producers realize the disastrous implications of selling off their foundation stock and are desperately trying to hold on.

*Public policy*

## U.K. hails economic collapse as new victory

Statistics released by the British government July 22 show that unemployment has reached a postwar record of 1.9 million. At the same time, inflation—which has doubled since the government of Prime Minister Margaret Thatcher came to power in May 1979—fell from 21.9 to 21.0 percent. Government spokesmen hastened to claim a victory for Thatcher's "anti-inflation program."

Chancellor of the Exchequer Sir Geoffrey Howe declared: "We are making headway. Money supply is coming under firm control. So are prices."

The 0.9 percent fall in inflation is due to a sharp contraction of both industrial production and personal consumption. Manufacturing was down 11½ percent in the first quarter, and fell nearly 9 percent during the last 12 months.

Prime Minister Thatcher was received by angry demonstrators in Wales July 19, where she addressed the annual conference of the Welsh Conservative Party. Thatcher had to be escorted by police into the hall through a rear entrance, in what one newspaper described as "the biggest security operation ever."

At the conference, Thatcher defended her austerity policy and called for increased labor mobility. "Adaptation is painful," she said.

*Taxation reform*

## CBO says economy must dry out

The U.S. Congressional Budget Office, under Carter appointee Alice Rivlin, issued a report this week attacking proposals for a federal tax cut. The report insists that "a tax cut would be very hard to structure that speeds recovery of the economy from its current recession without re-igniting inflation." The customarily liberal CBO appears to reflect the commitment of its unofficial mentor, the Washington-based Brookings Institution, to a recession persisting over the next 18 months.

The CBO concludes that there is "a pessimistic outlook for output and employment through 1981, together with longer-run problems of chronic inflation and slow growth of productivity." The report coincided with announcements that U.S. auto sales fell 27.7 percent in the second 10-day period of July from the same period of 1979—after a 20 percent slide in June. The decline had been expected to abate. Although it was supposed to show an improvement, the Consumer Price Index rose one percent in June, fueled by hikes in mortgage interest rates.

*Oil marketing*

## London offers new counter-cartel plan

A British economist who advises Lloyds Bank has come up with a new scenario for breaking OPEC. Christopher Johnson proposes in the July 20 London *Telegraph* that Western governments respond to future OPEC price hikes by cutting their oil purchases "just enough to ensure that OPEC suffered a marginal loss in its revenue." They could also agree to "produce and trade non-OPEC oil at a price below at least the highest OPEC prices, taking the Saudi price of $28 a barrel as a guidepost." Although this might require forming an "anti-cartel" through the International Energy Agency, Johnson thinks a "free market" in crude and refined oil products would be best, established in the City of London and "wider and more representative" than the Rotterdam spot market.

Johnson ignores the likelihood that an "anti-cartel" based on non-OPEC oil would strengthen the factional position of OPEC's price hawks while weakening that of the Saudis, who depend on their ability to maintain a modus vivendi with Western oil consumers. If the Saudi oil flow is shut off, Western industrialized countries could, under the Lloyds scheme, find themselves dependent on London for non-OPEC oil at $40 to $50 a barrel rather than the Saudis' $28.

*Gold*

## Can a price rally be sustained?

Traders express frustration over the past three weeks' gold market, which has fluctuated at times without showing a clear trend. The spot price jumped more than $25 an ounce July 22 to $637.50, but the rally quickly fizzled. "The gold market is always very much subject to surprise developments," commented Marc Berkowitz, an analyst at the New York trading firm Sinclair & Company. "But technically it's showing a lot of weakness right now. We feel much less confident than we did a week ago that gold will reach its old highs before the end of the year."

Consolidated Goldfields analysts, who were talking about a $1,000 gold price at some unspecified point when they released their "Gold 1980" report three weeks ago, are also more cautious. "I was surprised gold rose as much as it did," commented Ronald Conley, head of Consolidated's commodities division, in reference to the earlier $687.50 level. "It was a bit of froth. David Potts [the company's senior gold analyst] has been trying to get across the impression that there aren't enough things going for gold right now." Conley, interviewed before the latest $25 jump, predicted gold would soon subside below the $600 level. Yet another sustained upward shift is not to be ruled out, if only because conservative sheiks and European investors will seek a haven in the event of a Persian Gulf destabilization.

*Foreign exchange*

## Dollar's rise doesn't mean firmness

Talk is widespread that the dollar is now set to rise dramatically in the foreign exchange markets. The United States is expected to swing into current account surplus by September, the only industrial power to be out of deficit. The U.S. inflation rate is also expected to moderate, giving the dollar a preferred interest-rate differential. The dollar's outlook was further buoyed this week as the dollar rose from 220 to 224 yen, partly on the strength of a report that the Japanese central bank will soon lower its discount rate from its current level of 9 percent, and take some of the bloom off the yen.

But in fact, the dollar may weaken, or at least fail to strengthen. One New York analyst for an overseas securities house reported July 23, "The dollar looks good on the surface, but you have to look at the economy underneath. The U.S. economy is still going downhill, while the German economy is doing okay. I would still look for German DM bonds over dollar Eurobonds during the next few months." This source added that he was aware that Britain has managed to bolster the pound on the basis of a ruined economy. "But the U.S. doesn't have North Sea oil," he added, "nor does the U.S. Fed have the same maneuverability in managing the dollar as the Bank of England has in managing the pound."

## Briefly

- **PETER JAY,** former British ambassador to the U.S. and son-in-law of ex-Prime Minister James Callaghan, recently accepted a post at the Washington, D.C. office of the Charter Company. Charter is the oil corporation that had attempted to use Billy Carter as a broker in obtaining Libyan supplies. Jay, like his wife Margaret, was a frequent visitor to the White House.

- **WILLIAM CASEY,** Reagan's campaign manager, has something special in common with Reagan adviser Richard Allen: an acquaintance with the elusive swindler and dirty money expert Robert Vesco. In 1968, Casey formed Multiponics Company, and sold a one-third share to IOS, the offshore operation run by Bernie Cornfeld and then bought out by Vesco. In 1972, Casey was whisked from the SEC to the State Department because someone thought it would be improper for him to hear cases against Vesco. Allen was hired as a Vesco consultant after the SEC started investigating the latter.

- **RONALD REAGAN's** reported first choice as Agriculture Secretary is Chicago Mercantile Exchange president Clayton Yeutter, who as Earl Butz's international program director ran export embargoes in 1973-75 against Japan, the U.S.S.R., and Poland.

- **THE DAKOTAS** and Montana, hit by drought, have been denied federal emergency grants. Instead, on July 18 President Carter awarded a $250 million loan guarantee to developers of a proposed $1.5 billion coal gasification plant in North Dakota to hasten construction for the highly water-consumptive process. Attorney Generals from Colorado, Idaho, Montana, North and South Dakota recently voted up a little-publicized resolution demanding that the federal government develop the nuclear breeder reactor and downplay synfuels.