DOMESTIC CREDIT

T-bill forwards show market deregulation

The U.S. credit markets are undergoing their own version of deregulation—and experiencing the same unpredictable and disorderly effects that the airlines industry, trucking, and banking are suffering under "dereg." The "liberalization" of the credit markets underway was epitomized by the opening of Treasury bill futures trading in New York last week, after a two years' experiment at the Mercantile Exchange in Chicago, home of the "free market" Chicago School of economics. Now speculators in New York and Chicago can buy and sell futures contracts on the prime credit instrument of the United States government—just as they make a market in Ghanaian cocoa and pork belly futures.

According to one futures market observer, Treasury bill futures have introduced an element of extreme unpredictability into the overall T-bill market, and have recently driven up prices and driven down yields in the cash market to an extent beyond everyone's expectations. Encouraged by the extremely thin margin requirements in the market—for $800 one can buy an option to take or make delivery on $1 million in Treasury bills six months hence—speculators who are betting that U.S. interest rates have peaked because the recession has arrived have been buying Treasury bill futures in amounts far in excess of actual deliverable bills. Open interest (outstanding futures positions in the September contract, for example, currently amounts to $13 billion on only $5.5 billion in deliberable bills! As the delivery date on T-bill futures approached this past month, speculators entered the cash market en masse to cover their short positions, driving up prices and depressing yields in the cash T-bill market.

"We haven't been able to discern any undue effects," Vernon Pherson, chief economist for the Commodity Futures Trading Commission in Washington, which just approved the trading of T-bill futures on two exchanges in New York, said in an interview. However, the fact remains that in the face of all sorts of developments which the market usually

COMMODITIES

Chevron platinum project: Test case for caterlization

Chevron Resources Co.'s recent purchase of an 18,000-acre tract of land in Montana reported to bear platinum reserves now stands as one of the test cases which may force major changes in U.S. mining and raw materials regulations.

Chevron purchased the tract in a joint venture with Johns-Manville, following a heavy battle with another leading U.S. minerals firm which lost out because it couldn't match the oil-backed financial resources Chevron was willing to throw behind the bid.

However, Chevron will now have to get final approval from the Interior Department to start up mining and exploration—since the tract lies under a national forest. If the platinum venture goes through, this will set an important precedent for shifting the Carter administration's long-term pro-environmentalist mining policy in favor of a new, equally dangerous policy: massive mining development by oil companies striving to make the U.S. more "raw materials independent," or autarkic. Chevron itself is known to be playing a key role in the Seven Sisters oil and minerals hoax which is plunging the U.S. into deep recession (see U.S. REPORT).

The crunch hits metals

The latest *Business Week* fed U.S. industry's fear that the 1979 fuel crisis is about to become a full-scale raw materials crisis. *BW* reports that under the impact of the post-1974 decline in mining industry profitability, U.S. mining is losing ground to foreign firms. Over the last year, U.S. zinc imports rose 30 percent and copper imports upped 20 percent, while since 1976, the debt-to-capitalization ratio of 10 major U.S. mining firms rose from an average 11 percent to 33 percent.

The cartel push

Companies like Chevron, as well as Asarco, the leading U.S. copper smelter, are pushing hard for a complete turnaround in U.S. legislation governing mining development. Their chief forum is the House Sub-

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takes as signals of higher interest rates—the 1.1 percent spurt in the May consumer price index, alarming money
heavy corporate credit demand—yields on short-term Treasury bills have dropped precipitously over the last few weeks to their lowest level since last November.

When overall interest rates begin to move upwards again—as is widely expected because of the effects of soaring energy prices on business operating costs and credit demand among other factors, the existence of a highly-leveraged T-bill futures market could easily exaggerate interest rate movements in the opposite—upward—direction.

—Lydia Schulman

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committee on Mining and Minerals, chaired by Nevada Democrat Santini. In the same way that the oil companies are pushing for creation of a federally financed resources bank to subsidize
fuels" production, modeled on the War Production Board of World War II, Santini's committee would like to get the federal government to subsidize mining through exploration guarantees and subsidies on a substantial scale. Simon B. Strauss, vice-chairman of Asarco, justified this switch from "free enterprise" to state-aided cartelization with the accurate statement that "should supply shortages occur through the end of this century, they are far more likely to be due to governmental policies or disputes than to physical shortages or internal inabilities."

—Renée Sigerson

U.S. trade picture gets worse

This week's Egg-On-The-Face award goes to Treasury Undersecretary Tony Solomon. When the Commerce Department released figures on June 21 showing the U.S. in balance-of-payments surplus for the first quarter of 1979—the first such quarterly surplus in two years—Solomon, perhaps imagining himself possessed of the wisdom of his Biblical namesake, hailed the figures as "greatly encouraging" and "concrete evidence of the substantial improvement in our fundamental position."

Before one week had passed, the Commerce Department issued another set of figures, in this case the trade figures for May. The figures show the U.S. running a balance-of-trade deficit of $2.48 billion for that month. On an annual basis, this works out to a trade deficit of almost $30 billion, worse than the $28.5 billion deficit of 1978.

How did Mr. Solomon get that egg on his face so soon? Mainly because he was treating modest payments surplus as though it were a fundamental improvement on the trade account. In actuality, trade in real goods (as opposed to transfer payments from "services") remained in deficit by a whopping $6.1 billion during the first quarter, almost the same as last year's dismal figure. For technical reasons, however, this massive trade deficit was covered over by a surplus in the "invisibles" or "services" account, actually the dollar reflow to the U.S. in response to (1) the November 1978 dollar support measure and (2) sharply higher U.S. interest rates.

The dollar-support action was a useful antispeculative monetary measure. But monetary measures merely establish necessary conditions for expanded industrial growth and exports, and are not sufficient by themselves. The second measure, the policy of higher interest rates under Federal Reserve chairman Miller, by contrast, has had a more than sufficiently negative impact. It has helped put the brake on investment in new plant and capacity and R&D—both essential for a sustained export boom.

This is unintentionally underlined by a recently issued OECD report on what effect the "Newly Industrialized Countries" (NICs)—Brazil, Taiwan, Spain, Mexico, and Korea, etc.—have had on advanced sector economies. The report notes that Japan, Germany, and Italy—countries which all have seen significant capital formation in the past fifteen years—enjoy positive trade balances with the NICs. The U.S. and Canada, by contrast, are in deficit with the NICs. So much for much of the howling about "unfair competition" in the U.S.

Treasury Undersecretary Soloman, for his part, doubtless wishes there was less competition between the Commerce Department quarterly figures and the monthly ones, since he evidently has difficulty reading either.

—Richard Schulman