Business Briefs

Commodities

Hunt challenges comex ruling

In a series of unusually frank interviews with reporters last week, Bunker Hunt, son of the late Texas billionaire H.L. Hunt, protested moves by the New York Commodity Exchange to restrict silver futures trading. Hunt stated that the COMEX decision to restrict silver futures trading had made him more determined than ever to take delivery on large quantities of silver.

Hunt's statements immediately pushed up silver prices, which had plunged from $38.80 (January delivery) on Jan. 7 to $31.10 on Jan. 8 following the COMEX action. Silver climbed back to $33.60 by the close on Jan. 9.

Members of the Hunt family are believed to hold at least 4,000 silver futures contracts, repesenting 20 million ounces of silver. By comparison, U.S. silver mining production this year totaled only about 43 million ounces. COMEX has ruled that no individual customer may hold more than 2,000 contracts.

The Hunts have been building an enormous hoard of physical silver since at least 1974. Court records reveal that at one point in 1976 they owned more than 20 million ounces and appear to have added substantially to these holdings since. During 1979, the Hunts attempted to take over Sunshine Mining, a leading U.S. silver producer. The takeover was successfully resisted by the company's management, including Sunshine president G. Michael Boswell, a former Hunt employee.

Britain

Government lets steel strike drag on

The British government has no intention of intervening in the strike by 100,000 steelworkers against the nationalized British Steel Corporation, now in its second week. Nor is there any hope for an early settlement in the strike which was originally designed to be a "short, sharp engagement." The two sides are deadlocked, with the unions seeking a 17 percent increase and BSC insisting it cannot afford more than 8 percent, which includes productivity agreements.

In fact, the British Steel Corporation is close to bankruptcy and the government has refused to subsidize further losses until the company reaches a "breakeven" point. This has forced British Steel to implement a program of plant closures and layoffs in the ten of thousands.

A prolonged strike is part of the government's plan to reduce the British steel industry even further. Industry Minister Sir Joseph said in a BBC interview that many plants closed by the strike would probably not reopen. Joseph was quoted in the British press as remarking that "there is too much steel in the world anyway."

World Trade

Multis forge oil deals with Saudis, Iran

Coinciding with the sudden trip of British Energy Secretary Howell to the Persian Gulf in early January, both Iran and Saudi Arabia entered into negotiations with British Petroleum, Royal Dutch Shell, and Mobil over the participation of their respective state oil companies in the marketing of the petroleum produced by the multinational oil companies

The set up arrived at will work as follows: Petromin, the Saudi state oil company will sell to British Petroleum about 50,000 barrels a day, which will then be refined in BP's refineries in Europe; BP will then act as "an agent" for Petromin in selling the refined oil.

Similarly, the National Iraaian Oil Company will sell up to 700,000 barrels a day to major companies in exactly the same arrangement that Saudi Arabia has entered into with BP. British Petroleum is thus far the only publicly disclosed company in in the Iranian deal.

This is the first time ever that members of OPEC have demanded to participate in the marketing of refined oil produced by the multis. The terms of the deals indicate that the development could mark the beginning of the integration of the refining and marketing apparatuses of the two nation's state oil companies with the multinational companies—specifically with BP, Royal Dutch Shell, and Mobil—a member of the Aramco consortium. Is this the "process of reintegration" of world energy spelled out in the Council on Foreign Relations Project 1980s report on oil?

Domestic credit

It started in Hong Kong

On Dec. 26, a New York brokerage house received a request from its Hong Kong office for a list of recommended defense-related stocks. This was just as the Soviets were crossing the border into Afghanistan and right before "hardliners" in the Anglo-American camp began calling for increased defense spending. Within a fortnight the vaunted defense stock-led rally of the U.S. stock market was underway, spreading from the issues of such companies as Boeing, McDonnell Douglas and other aircraft makers to the "electronic countermeasures" group and other defense-related companies. "Then on Jan. 8," reported one trader, "everyone remembered that steel and aluminum go into airplanes, and those stock took off."

The stupendous rise in the price of steel issues that day took a number of seasoned industry analysts by surprise, for the reason that none of the "fundamentals" have changed at the nation's profit-poor steel companies. "Even if U.S. Steel were to get a pile of contracts from the defense department tomorrow," one analyst reflected, "that wouldn't do much to change the fact that they're losing money on all the steel they produce."

Gold

Heavy European demand for gold

U.S. brokers reported continued heavy demand for gold coming out of London and Europe last week, much of which was on behalf of Arab customers. The increased European interest in physical gold contrasted with the U.S. gold futures market, where American investors sold off the metal out of fear that the New York Commodity Exchange would place restrictions on gold trading similar to those in silver. U.S. investors' more negative attitude about gold also reflected the false euphoria which swept the New York Stock Exchange last week in the wake of Carter's adoption of a new "tough-guy" image against the Soviets. America's European and moderate Arab allies are not so sanguine.

Futures Market

Will silver crack-down give business to London?

On the evening of Jan. 7, the New York Commodity Exchange (COMEX) enacted severe restrictions on silver futures trading. The COMEX action followed a warning by James Stone, chairman of the Commodity Futures Trading Commission (CFTC), that the efforts of certain speculators to corner physical metals supplies had disrupted the normal functioning of the U.S. futures markets.

The ultimate purpose of futures markets is to aid industrial users (or suppliers) of commodities, who use the markets to hedge spot purchases (or sales). Under normal conditions, only one or two percent of all futures contracts result in actual deliveries, since the hedgers "close out" their contracts before delivery time arrives. In recent weeks, however, well-financed speculators have established massive "long" positions in silver, gold, and copper and have sought to take delivery.

This raised the threat of a financial squeeze on the "shorts" who might not have been able to locate sufficient physical supplies, particularly in the case of silver. According to a COMEX spokesman, although the COMEX holds almost 76 million ounces of silver in the vaults of New York banks, it was theoretically possible that holders of March contracts would attempt to take delivery of 140 million ounces.

"We are increasingly concerned about the high delivery ratios in metals futures, prticularly in silver," stated Stone. "This is not what the futures markets were designed for. It leaves us increasingly concerned about the viability of the futures markets"

The largest known speculators holding "long" positions in silver include the Texas billionaire Nelson Bunker Hunt, his brother W. Herbert, and Norton Waltuch, a broker with Conti-Commodities who manages an offshore fund for Arab interests. Swiss banks and British silver bullion dealers, however, have also played a major role in the silver runup

The new COMEX regulations provide that an individual customer's silver futures holdings must be limited to 2,000 contracts or 10. million ounces, a requirement which could force liquidations by speculators over the limit. COMEX is also requiring that traders reveal the identities of all clients, including foreign clients, holding more than 100 contracts. This requirement, long demanded by the CFTC, has been resisted by Swiss and British banks who claim that their clients are protected under banking secrecy laws.

Some U.S. brokers are complaining that the CFTC/COMEX actions will play into the hands of the British, who hope to siphon business into London. On Jan. 9, Ian Foster, chairman of the London Metal Exchange, announced that he was taking steps to facilitate the launching of a gold futures market.

Briefly

● **CONSUMER CREDIT** for purchases of particular items in France has now reached "virtually usurious rates," according to *Le Figaro* Jan. 9. For electrical household appliances, the rate is now 23 percent and for cars, 22.5 percent. The rate of usury is officially fixed at 23.2 percent for this quarter. Interest rates in France have been skyrocketing since U.S. Federal Reserve Chairman Volcker pushed American interest rates up this October.

● **HERMANN ABS,** former chairman of the Deutsche Bank, said in a rare appearance on West German television on Jan. 9, that sanctions against Rhodesia didn't work because various countries including the U.S. quietly continued to engage in trade with the outlaw state. And he warned that the sanctions against the Soviet Union called for by President Carter won't work. West German businessmen, sources in that nation report, will not stand for the cancelling of the trade deals that they have sealed with the Soviets and other East bloc countries.

● **UNITED AUTO WORKERS** president Doug Fraser has signed his name to the newly revised contract with the Chrysler Corp. mandated by the $1.5 billion federal loan guarantee package. Whether he can swing the Chrysler work force behind the pact is another story. The concessions written into the government "rescue" package work out to $450,000, mostly in lost paid holidays and benefits.

● **UNEMPLOYMENT** remained stable in the last month, rising only .1 percent, according to the Department of Labor in Washington. The department also reported that the number of jobholders also increased. Most observers called these statistical results, to say the least, "surprising."