Business Briefs

Agriculture

USDA economists bet on 1981

Farmers will be in better shape in 1981 than 1980, USDA economists have told the 1981 Agricultural Outlook conference in Washington, D.C.

The cheery picture, according to economist Dean Hughes, who echoed other speakers at the four-day session, is based on "projected increases in their incomes and real estate values and the almost negligible chance that a credit squeeze will reoccur."

USDA proections for a 1981 net income level of between $27 and $31 billion, if they materialize, would just barely bring net income back to the 1979 level.

Hughes grounded his predictions on the assumption that the renewed interest rate spiral will turn back down by the end of the year as demand for credit drops.

World Trade

Japan lifting export sanctions against U.S.S.R.

By Jan. 20, Japan may have totally lifted its post-Afghanistan economic sanctions against the U.S.S.R. The latest development in the quiet step-by-step relaxation was the announcement Nov. 14 that the Japan Export-Import Bank will resume issuing suppliers' credits on deals to the U.S.S.R. For now, the limit per deal is $100 million. Government sources have indicated that Western Europe's failure to adhere to the Carter-imposed sanctions was the major factor in the relaxation process.

Japan's business community is gambling that incoming President Reagan will totally lift the sanctions. It is believed that when ruling Liberal Democratic Party leader Susumi Nikkaido visited the U.S. to meet with Reagan advisers before and after the election, he raised this issue, among others.

In the last four weeks, the Soviets have offered Japan up to $3 billion in project deals that will go to European firms if Japan maintains the sanctions. With car exports under heavy pressure from both the U.S. and Europe, the business community is urging the government to accelerate relaxation of the sanction.

Domestic Credit

New bank act raises fed fund rates

The implementation of features of the Monetary Control Act of 1980 gave cause to Federal Reserve Board chairman Paul Volcker to raise the rate on federal funds this week.

Nine thousand financial institutions joined the Federal Reserve System the week of Nov. 10-14 under the conditions specified in the act, to bring the total number of member banks in the system to 14,000. "Many of these smaller banks tended to hoard federal funds," reported one analyst, "and thus they caused the demand placed on these funds to grow. This pushed up the cost of federal funds."

The new reserve requirements imposed on the smaller banks did *not* cause an increase in federal funds demand pressures. While many of the smaller banks had to pay for new reserve requirement balances for the first time, this was offset by the fact that the Monetary Control Act of 1980 reduced the reserve requirements on demand deposits from 16.25 percent to 12 percent.

"The reduction in the reserve requirements on demand deposits lowered the reserves on large money center banks," reported Elliot Platt of Donaldson, Lufkin, Jenrette investment bank. "The net effect of the reserve requirement changes, both the lowering of the demand deposit requirements and the imposition of requirements on the small banks, was to inject about $3 to $4 billion into the banking system."

While small-bank hoarding of federal funds probably reduced the supply of fed funds by about $3 to $4 billion, the change in reserve requirements added $3 to $4 billion. Thus, the amount of net funds in the fed funds market most likely remained unchanged.

Why did the federal funds rate rise from an average of 13.99 percent for the week ending Nov. 7 to being at 16.79 percent on Nov. 18?

Fed chairman Paul Volcker apparently used the confusion generated around the entry of 9,000 new banks into the Federal Reserve Board System to go ahead and push up interest rates, by posting a very high rate for federal funds. This made the cost of banks funds more expensive, and forced an upward movement in the prime lending rate.

Technology Transfer

Exim chief advocates nuclear exports

John Moore, president of the U.S. Export-Import Bank, told interviewers that he hopes U.S. nuclear exports will rise dramatically under the Reagan administration.

Moore's efforts to get financing for a revival of U.S. nuclear sales abroad are getting full backing from the office of Republican Senator Jake Garn, to be the chairman of the Senate Banking Committee. Associates of Garn report they are working on detailed proposals to allow Eximbank to stock up its capital base, both through borrowings from the private market, and through liberalized access to the discount facilities of the Federal Reserve.

In a discussion held during the joint annual conference of the Atomic Energy Forum and the American Nuclear Society in Washington, D.C. held this week, Moore stated, "We hope the new administration will quickly and carefully review nuclear export questions and move to clarify and speed up . . . procedures" of approval for such exports. "I believe," Moore stated, "that American nuclear suppliers can meet the challenges of selling in tomorrow's export market and, for their own survival, they must. . . . The market potential for nuclear power is enormous."

Moore noted that Eximbank's resources could be strained by nuclear export financing needs. Garn's staff is now working on this problem.

Associates report that Garn wants to free Eximbank from the congressional appropriations process, where it is often hobbled by restrictive legislation. Eximbank must be allowed to borrow freely on the capital markets as well as get loans at "special discount rates" from the Federal Reserve, they insist.

At the same time, the Utah Republican wants to reverse the politically motivated constraints imposed on trade relations in recent years. His staff is planning a comprehensive review of all laws which impose political regulation on trade, including the Foreign Corrupt Practices Act and constraints on East-West trade.

Foreign Exchange

Deutschemark gains medium-term strength

A sharp rise in Eurodollar interest rates permitted the dollar to recover some lost ground against the deutschemark during the week of Nov. 17. However, foreign-exchange analysts see the deutschemark as the stronger currency in the medium term.

The increased confidence in the deutschemark is partly based on widely circulated reports that the Saudi government has agreed to invest $9 billion in instruments denominated in deutschemarks, to help finance West Germany's large current account deficit. According to a source at the New York Federal Reserve, the Fed expects such a Saudi-German deal to be concluded, although the figure of $9 billion may be overstated.

The Bundesbank president, Karl-Otto Poehl, visited Riyadh last week, giving rise to speculation that the purpose of his trip was to negotiate a loan package. This was denied by West German Finance Minister Hans Matthöfer, in a Nov. 17 press conference. Matthöffer stated that it would be his own role to negotiate such matters.

The West German government's new determination to defend the deutschemark was underscored by Chancellor Helmut Schmidt's public remark that he thought the deutschemark was undervalued relative to the British pound sterling but that "this should correct itself" in the coming months.

It is highly unusual for heads of state to comment on foreign exchange parities in this fashion. Moreover, Schmidt said this on the day Prime Minister Margaret Thatcher was visiting with him in Bonn.

The pound has shown some weakness since it reached a $2.45 high against the dollar earlier this month (see Currency Rates).

Oil Diplomacy

Reagan: PEMEX gas stations

President-elect Ronald Reagan revealed that he has suggested to Mexican President José López Portillo in one of their meetings over the past year that PEMEX, Mexico's state-owned oil company, enter the U.S. retail gasoline distribution market.

"A PEMEX distribution network is a plausible question, since Shell operates here, and that is also a foreign company," Reagan stated in an interview granted to the West Coast Spanish magazine *Imagen* last week.

In an interview with the Mexican press the next day, Jorge Díaz Serrano, head of PEMEX, confirmed Reagan's initiative. "We are studying the proposal," Díaz Serrano said; "the problem that we foresee is that the fiscal systems of the governments that have made similar proposals to us are so severe . . . that so far we have not found an attractive proposal." Mexico has discussed such arrangements with Spain, Japan, and several other countries.

Briefly

● **PAKISTAN** is expected to get $1.7 billion from the Internatonal Monetary Fund (IMF) as part of a debt rescheduling package. This is the largest loan to a developing country in the IMF's history. Following months of negotiation, the IMF preliminarily granted the loan, although Pakistan will not devalue its currency.

● **THE WORLD BANK** has announced plans to float two large loans denominated in Japanese yen in early 1981. Completion of the loan deal hinges on implementation of Japanese central bank plans to lower interest rates in December.

● **ARGENTINIAN** banks are a "barrel of rotten apples," according to the Nov. 18 London *Financial Times*. "British banks have been given the impression that the Argentinian authorities will not be unhappy to see further collapses among the country's smaller private banks," the *Times* reports. "They have been assured, however, that international . . . creditors will not suffer loss. . . ." Internal debt to Argentine banks is estimated at $3.5 billion.

● **CITIBANK** has received approval from the Comptroller of the Currency to move its credit card operations from New York State to North Dakota. This will allow Citibank to charge higher interest rates on its credit card operations.

● **THE HEADS** of Germany's five leading econometric institutes, a group known as the "Five Wise Men," have issued their 1981 projections for the German economy. They say growth will be at zero levels for the first six months, bringing unemployment to the 1 million level. If wage austerity is practiced for that period, growth will resume, at about a 2 percent annual level for GNP, for the final months of the year, they claim.