COURSE OF THE EXCHANGE

Futures contracts/bills of exchange

Developments in metals

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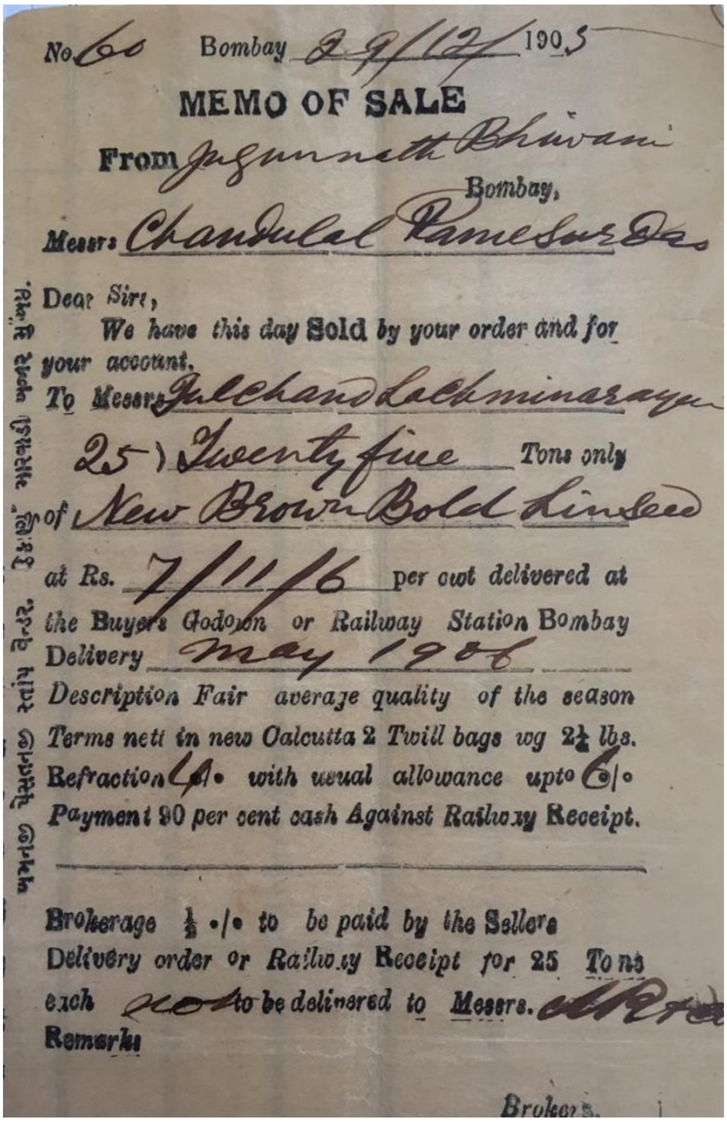
Futures contracts/bills of exchange



No 60 Bombay 29/12/1905

MEMO OF SALE

From Jugunnath Bhiwani

Bombay,

Messrs Chandulal Ramesar Das

Dear Sirs,

We have this day Sold by your order and for your account,

To Messrs Julchand Lachminarayan

25) Twenty five Tons only

of New Brown Bold Linseed

at Rs. 7/11/6 per cwt delivered at the Buyers Godown or Railway Station Bombay

Delivery May 1906

Description Fair average quality of the season

Terms nett in new Calcutta 2 Twill bags wg 2¼ lbs.

Refraction 4% with usual allowance upto 6%

Payment 90 per cent cash Against Railway Receipt.

Brokerage ⅛ % to be paid by the Sellers

Delivery order or Railway Receipt for 25 Tons each to be delivered to Messrs.

Remarks

Brokers.

Here, we examine how agricultural/horticultural produce results in futures contracts and bills of exchange and how they relate to each other. Indian use of bills of exchange goes back into archaic history. The variety of bills and actions they accommodated are great.

This 'memo of sale' (see left) from Bombay, India, 1905 for linseed highlights how 'discount banking' would work with bills of exchange. Julchand L. has bought from Chandulal R. 25 tonnes of 'new brown bold' linseed at a price per tonne of Rs.7/11/6 (7 rupees/11 annas/6 pies †.) The sale (otherwise known as 'first of exchange; incomplete') is dated 29th December 1905 with delivery (otherwise known as 'second of exchange; complete' when completed) in May 1906 at the Railway Station Bombay.

It's not unreasonable to assume that Chandulal R. is a linseed farmer, or near to them and that Julchand L. is someone involved in linseed processing.

90% of the final payment is paid upfront by Julchand L. against 'railway receipt' for delivery. He can be considered as holding a futures contract, with 90% of final payment already paid. What can be said of Chandulal R.'s situation? He will receive this final 10% payment at delivery; when total exchange is complete. In this way, as Julchand L. has acknowledged his obligation to exchange this final 10% payment in May 1906, Chandulal R. can be considered to *possess a bill drawn on* Julchand L.

This 'memo of sale' is Chandulal R.'s copy of what is effectively a futures contract held by Julchand L. *This copy of a 'memo of sale' is suitable and sufficient for Chandulal R. to make up a discountable bill of exchange:* Chandulal R. *will receive the remaining 10%* on May 1906 and this action *can be* *discounted*. We might superficially understand 'discounted' but what does it mean in terms of some human's action? This will be developed later on. With this development, we will see how banking as we have never known it would evolve.

At this stage, it's important to appreciate that agricultural/horticultural goods and their sale against monies crystalizes futures contracts and bills of exchange automatically. Consider that summation in monetary terms of all outstanding agricultural futures contracts and their attendant bills of exchange. How does this relate to 'a banking system?' What constitutes 'a banking system?' Such considerations are likely to be taxing for those who engage with and find meaning from such meaningless; fiat terms as 'trade deficits' and 'government expenditure.'

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† From having a free-floating 'gold mohur, silver rupee and copper paisa' organisation under Moghuls, a (statist) system making 1 rupee 'equal to' 16 annas 'equal to' 192 pies was promoted by British authorities (c.f. 'pounds/shillings/pence'.) Rupee coins were made of silver, whereas anna and pice coins were made of varying alloys as the years passed. Before British meddling in India's monetary organisation, three pies originally made one copper paisa – making pies copper coins. With an aim of creating a 'worker class' being remunerated in 'token' money, British authorities' actions resulted in widespread Indian poverty – as those same authorities did to the British 'worker class' during the British 'industrial revolution.'

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Developments in metals

In *Money, Prices, and Civilization in the Mediterranean World C5th to C17th*, Carlo M. Cipolla informs us of the nature of debts/obligations and their settlement:

"In many instances where the debt was stipulated only and explicitly in an amount of solidi, it was tacitly assumed that the payment could be settled with any other commodity of an equivalent value. A debt stipulated in 20 solidi in a French document of November 1107 was, we know from a later document, settled with a horse. In Spain in 905 a debt of 25 solidi was settled with cloth, oxen and silver. In Spain, again, in 962 a debt of 4 solidi was actually paid with cloths, food and drink, and in 933 a debt of 600 solidi was paid with vases, horses fine clothes and coins. Most frequently in Spain debts stipulated in solidi were settled with grain or ewes and the practice was so defuse that in course of time, it was commonly understood that solidus was synonymous with one modius of grain or one ewe and equivalence of these things was commonly and generally accepted."

"The general impression is that any commodity was considered a potential means of exchange, and coins were considered just like any other commodity, one among hundreds of possible means of exchange, sometimes particularly desired and sometimes not. Often preferred were peculiar types of primitive money like pieces of bread of standard weight. Only for international transactions with coins perhaps still preferred as a means of exchange to any other commodity."

This way of conducting interaction back then highlights that silver and gold coins were rarely, if ever, required of themselves by those parties behind contracts, whereas what *could be acquired* with those coins was invariably preferred. This is an important facet present in global medieval trade that has been eroded year after year, century after century, by 'state authorities' until our arrival at global fiat. Those degenerated 'state authorities' – who began trying to ossify the way that citizens' 'obligations' were paid to them for their own nefarious ends; demanding payment in one particular medium such as gold or silver coins, interfering with rates of exchange between gold/silver/copper coins – failed to understand human nature…or perhaps they did and tried to 'control it.'

Gold/steel ratio currently stands at 1/116,083. For comparison, at Hinderclay, Suffolk, just before the Black Death, steel was being sold at £50/tonne. '£50' in this context means 'fifty pound-weights of silver' which is 288,000 grains of silver or '22.7kg silver' in less scientific terms. With gold/silver ratio at c. 1/15, this makes a gold equivalent mass of 19,200 grains of gold or '1.5kg gold.' This places gold/steel ratio at c. 1/667. Will gold/steel ratio fall back to this level? Arguments from mainstream economists about why gold/steel ratio rose so dramatically in the first place from medieval times revolve around 'productivity improvements' but such management-speak phrases are meaningless, especially when understood in the context of 'state authority' interference in public coinage. There's no doubt that the gold/steel ratio will collapse; just to what levels cannot be determined.

Backwardation

As prices for gold and silver have recently fallen over the past 10 working days to $1256 and $16.18 respectively (having risen sharply beforehand) both metals have started to move into backwardation – an action we haven't seen in recent previous price declines. August gold's co-basis has moved from –1.5% to –0.75% and September silver's –2.3% to –1.6%. The extent of these moves towards backwardation hasn't been paralleled since just after 2008. This indicates that *retail* interest in gold and silver bullion is being heightened at these prices. This should be viewed in conjunction with COMEX open interest increasing, as discussed in the last missive. Interestingly, copper, a 'monetary' metal of comparable importance to gold and silver, has moved into (actionable) backwardation; with a positive co-basis (spot-three month) reached for the first time in many years on 22nd June.

27th June 2018

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