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FOCUS ON FUTURES

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How much platinum do the Russians really have?

Platinum prices have had an exciting run, rising by as much as 50% over the past six months. With Russian supplies absent from the market for close to a year, consumers and speculators alike bid the price up to levels not seen since 1989. News that the bureaucratic quagmire that had kept platinum exports off the market since last March was finally coming to a close brought an end to the rally. April platinum peaked at $555 per ounce in mid-February and has since shed as much as $100 per ounce, or about half the entire bull move. Will prices retreat to where they were before the rally began?

The Russian problem, without a doubt, was responsible for the spike in prices. Russia produces some 20% of the world's platinum supply and is the swing producer. The complete halt of shipments – for 10 months or so – forced auto makers and other industrial users to scramble for supplies. The tightness was real and was evident in 1-month lease rates that skyrocketed to as high 70%. Last week, when it seemed that platinum was beginning to trickle out of Russia, 1-month lease rates plunged to 20%.

A closer look at the chronology of the events surrounding Russian supplies brings optimism for resumed shipments into question. In December, when the Russian duma was debating whether to repeal the 1998 amendment that was responsible for keeping exports off the market, analysts made it appear that a favorable vote was all that was required to free up the logjam. At the time, early February was cited as the absolute maximum amount of time it would take to cut through whatever red tape remained and get platinum flowing to eager consumers. The vote passed the legislative body, and by January 6, the new law was in effect. The market was still skeptical, and prices continued to rise. On February 18 the government issued a statement indicating that shipments would resume at any time, and the market finally broke.

Here we are, in the middle of March, and still little or no platinum has emerged. Just the other day, President Vladimir Putin's office released a statement making it clear that despite media reports of progress, no licences or quotas have been designated.

Analysts scoffed when we asked whether it was possible that the Russians are not shipping because they have whittled down their stockpiles and don't have any significant quantities. In recent days, however, the chuckling has subsided. "Well, they certainly have inventory," we're told, only they may not have as much as we previously thought. Why aren't the Russians issuing those licences?

Lease rates have firmed back up to 30%, reflecting the confusion regarding Russian supplies. The most recent Johnson Matthey report estimates that there is a supply/demand deficit of 530,000 ounces in this market, or close to 10% of annual, global consumption. Johnson Matthey makes these estimates on the assumption that the anticipated 800,000 ounces of 1999 shipments will still find its way to the market. If the roughly 300,000 ounces that was not shipped never makes its way to the market, the deficit would represent about 15% of demand.

Ironically, the rush to develop autocatalysts that use palladium as a cheaper alternative to platinum has backfired, because the squeeze in palladium has been even more dramatic. The price of palladium has increased by some 500% since 1997. When Johnson Matthey estimated several months ago that the use of platinum in autocatalysts would decline by

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Note: This month's issue is abbreviated. The next issue will contain extra articles. Unless otherwise indicated, all articles have been written by Sholom Sanik (E-mail: ssanik@friedberg.com).

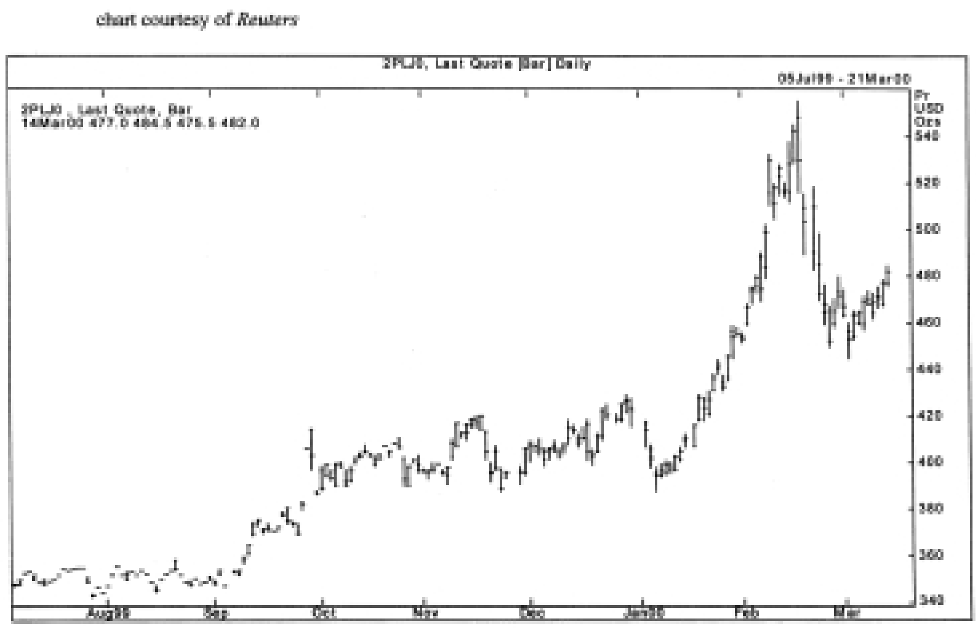
70,000 ounces annually, it had no way of knowing that the rally in palladium prices would extend quite as far as it did. Although it would be difficult to cite any figures, it is likely that palladium will lose some of the market share it has gained back to platinum. Automakers really can't become complacent with supplies of either of the two PGM sisters and must maintain production lines that can readily be retooled to accommodate either technology.

The market is taking nothing for granted. Prices have firmed $30 per ounce off the bottom of the correction lows. One-month lease rates have bounced back to 32%. We believe that the bullish fundamentals that piqued our interest in this market are present even if Russian shipments were to resume. If the size of the stockpile the market believes the Russians are sitting on turns out to be bloated, platinum prices will challenge their highs in short order.

[March 14, 2000]

CURRENT STRATEGY: *Remain long April platinum as per Flash Update of March 6. Raise stops to 458, close only.*

Chart 1 – April Platinum



CRB INDEX

While oil takes a breather, other commodities step in to carry the torch

On the morning of March 10, a little-noticed item appeared on Reuters: "Florida orange crop figure bearish, market seen testing lifetime lows." One broker who was interviewed for the story commented, "It was totally unexpected. It's very bearish." The USDA had raised its estimate of the Florida crop by 3% from its February estimate.

It's two weeks later, and aside from a brief dip that did not even last the session, orange juice futures are about 3¢ per pound higher than they were on the night before the March 10 report. Rather than challenge the contract lows, the market pushed up against the high end of this year's trading range. We're not out to ridicule anybody's analysis. The observation – based on the available information – was the responsible one. Besides, we're not exactly batting 1,000 ourselves. The point we're getting at is that commodities are oversold and are bottoming. We don't trade much orange juice and are therefore not fully qualified to say too many things about it. It does, however, provide some anecdotal evidence that both speculators and commercials have pushed commodity prices a bit too far.

Similar situations exist in other commodity markets, as well. You'd be hard-pressed to find a commodity with more (apparently) bearish fundamentals than cocoa. In just the past few weeks, as the Ivorian cocoa harvest is wrapping up, it seems that the most optimistic estimates of the size of the crop will be the accurate ones. ED&F Man released a glowingly bearish report, raising the surplus for the 1999-00 season to 97,000 tonnes, the largest since 1996. Ending stocks still represent a staggering 44% of consumption. Traders, however, have backed themselves into a corner, building up a monumental short position. Open interest has moved into record territory – over 100,000 contracts – setting up what is turning into a classic short squeeze. May cocoa is trading about $150 per tonne, or 20% off its low without having spent much of its burdensome open interest.

Although the actual balance between supply and demand in the grain and soy markets remains quite comfortable, we've seen sharp thrusts off their respective bottoms in recent months. Weather scares and improved demand have reinstalled premiums in these markets.

Another market that has had a spectacular run in the absence of any seriously bullish fundamentals, but in the presence of plenty of bearish fundamentals, is cotton. May cotton has rallied to 63¢ per pound, or about 25% off its lows. China has massive inventories of cotton, and the US crop is expected to be anywhere from 5% to 10% higher than last year's.

In a way, depressed commodity prices are symptomatic of the same complacency that has allowed overvalued stocks prices to run rampant. And, perhaps, they are as vulnerable as stocks to dramatic reversals. The population at large, supported by most analysts and economists, believes that the benefits of the new era of efficiency in the economy far outweigh any risk of inflation from the growth of money supply and all the wealth that has been created. In the commodity markets, participants have built a wall of confidence in the availability of supplies. However, in many cases producers' profits have been cut to the bare bone. Ultimately the producers will pare back output. We've seen it in the planting of a small winter wheat crop for the second year in a row. Although OPEC was not suffering from skimpy profits, look at what they've done with the production of crude!

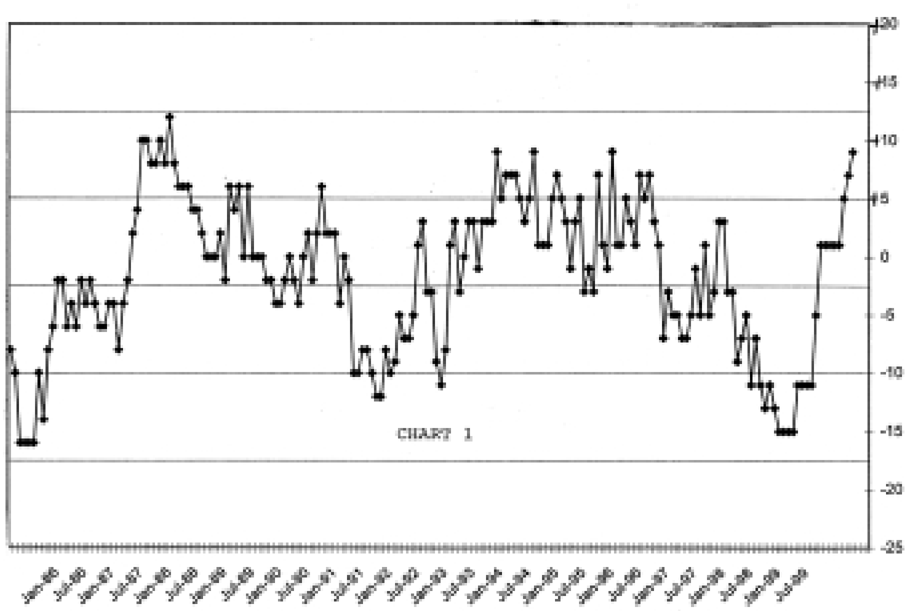
Which brings us to the main point of this discussion. There is a belief that the strength in the CRB Index is only as good as the strength in the petroleum complex. From a mathematical perspective, this is quite true. Say that the pressure from the US government works and OPEC increases production. Crude prices will likely drop a few dollars. Will this spell the end of the rally in the CRB? We think not. The recent action is the first bit of evidence. Crude oil prices have fallen $3 per barrel, or about 10%, from the recent highs. The CRB index has made new highs during this period and at present sits just half a percentage point below its high. It seems that the advance is broader than the public believes.

Commodity prices are but one of the many inputs that comprise the CPI. A discussion of the influence of commodity prices on the general level of prices in an economy is beyond the scope of this discussion. We are beginning to see, however, that the advance in commodity prices is not limited to petroleum.

Chart 1 shows a simple diffusion index of the main components of the CRB index: the year-on-year plurality of gainers over losers. Choosing the strongest horse may be more profitable, but continued strength in the CRB is much closer to a sure bet. *[March 17, 2000]*

CURRENT STRATEGY: *Remain long April CRB. Raise stops to 208.65, close only.*

Chart 2 – CRB Diffusion Index



HOTLINE UPDATE

***Flash Update* –Tuesday, February 29, 2000:**
Good Morning for Tuesday, February 29, 9 am. This is a Flash Update. We have bought June euro-yen cross at 105.50, placing our initial stop at 102.95, close only.

***Flash Update* – Tuesday, February 29, 2000:**
Good afternoon for Tuesday, February 29, 3:45 pm. This is a Flash Update. We have been stopped out of our short E-mini S&P position at 1371. We repeat our Flash Update of this morning that we have bought June euro-yen cross at 105.50, placing our initial stop at 102.95, close only.

***Flash Update* – Wednesday, March 1, 2000:**
Good Afternoon for Wednesday, March 1, 12:30 pm. This is a Flash Update. We have been stopped out of our long euro-yen cross at 102.54.

Friday, March 3, 2000:
Good afternoon for Friday, March 3, 5:00 pm. The following is a recap of our current open position recommendations, and our latest stop levels. We are
• Long April CRB Index, with our stop at 205.50.
• Short May copper, with our stop at 87.20.
• Long June Canadian dollar, with our stop at 68.10.
All stops are close only.

***Flash Update* – Monday, March 6, 2000:**
Good morning for Monday, March 6, 10:00 am. This is a Flash Update. We have purchased April platinum at 462, placing our initial stop at 412, close only. We have also purchased July corn at 233 3/4, placing our initial stop at 223 3/4, close only.

Friday, March 10, 2000:
Good afternoon for Friday, March 10, 4:30 pm. The following is a recap of our current open position recommendations and our latest stop levels. We are
• Long April CRB Index, with our stop at 205.50.
• Short May copper, with our stop revised to 81.50.
• Long June Canadian dollar, with our stop revised to 68.35.
• Long July corn, with our stop at 223 3/4.
• Long April platinum, with our stop revised to 440.
All stops are close only.

***Flash Update* – Wednesday, March 15, 2000:**
Good morning for Wednesday, March 15, 9:10 am. This is a Flash Update. We have sold short June E-mini S&P at 1380.50, placing our initial stop at 1435 close only. We have also been stopped out of our long June Canadian dollar at 68.35.

***Flash Update* – Thursday, March 16, 2000:**
Good afternoon for Thursday, March 16, 12:15 pm. This is a Flash Update. We have been stopped out of our short May copper position at 81.50. We have also been stopped our of our short June E-mini S&P position at 1435.

***Flash Update* – Friday, March 17, 2000:**
Good morning for Friday, March 17, 11:00 am. This is a Flash Update. We have sold short June E-mini S&P at 1478.5, placing our initial stop at 1500.50.

***Flash Update* – Friday, March 17, 2000:**
Good afternoon for Friday, March 17, 4:50 pm. This is a Flash Update. We have covered our short June E-mini S&P from this morning at 1485.25. The following is a recap of our current open position recommendations and our latest stop levels. We are
• Long April CRB Index, with our stop at 205.5.
• Long July corn, with our stop at 223.75.
• Long April platinum, with our stop at 412.
All stops are close only.

***Flash Update* – Thursday, March 23, 2000:**
Good afternoon for Thursday March 23, 12:00 pm. This is a Flash Update. We have been stopped out of our long July corn position at 239 1/4.

***Flash Update* – Friday, March 24, 2000:**
Good morning for Friday, March 24, 11:45 am. This is a Flash Update. We have two new positions. We have purchased the June Swiss franc at 61.25, placing our initial stop at 59.89, close only. We have also purchased July sugar at 5.46, placing our initial stop at 5.07, close only.

Friday, March 24, 2000:
Good afternoon for Friday, March 24, 4:45 pm. The following is a recap of our current open position recommendations, and our latest stop levels. We are
• Long April CRB Index, with our stop at 205.50.
• Long April platinum, with our stop revised to 458.
• Long June Swiss franc, with our initial stop at 59.89.
• Long July sugar, with our initial stop at 5.07.
All stops are close only.

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