FRIEDBERG'S
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China shoots for a record cotton crop, *again*

The most recent leg of the bull market in cotton began in early September at the 60¢-per-pound level and ended in late October at around 85¢ per pound. The start of the rally coincided precisely with release of news that inclement weather would reduce the 2003-04 Chinese crop by close to 20% from earlier estimates, for record output of 27 million bales. The market has now retraced most of the move, mainly, we believe, because analysts are calling for Chinese output to rebound sharply in 2004-05. We've even heard some wild estimates that put the new Chinese cotton crop at over 30 million bales.

On March 18, Cotton Outlook, the UK based cotton analyst, released its revised estimate for the 2004-05 season. US production is forecast to fall slightly to 17.96 million bales from 18.34 million bales in 2003-04. Any losses in US output, however, are dwarfed by the expected increase in Chinese output. Cotton Outlook estimates that the Chinese crop will grow to 27.91 million bales from the 22.37 million bales harvested this past season.

After including increases for other major production regions, such as India, Pakistan, Uzbekistan, and West African countries, global production is expected to grow by 11%, to 102.15 million bales. Global consumption is also expected to grow, but only by 1.4 million bales, to 98.23 million bales, a much smaller amount than the increase in output.

While ending stocks for 2003-04 are currently estimated at 31.73 million tonnes, or 32.4% of consumption, Cotton Outlook's forecast would push ending stocks for 2004-05 up to 35.64 million bales, or 36.3% of consumption.

The 20¢-per-pound drop we observed over the past several months was therefore well warranted. The market has known this information for some time, however, and we are looking at the current consolidation at the 65¢-per-pound level to determine whether the improvement in the global supply/demand balance sheet for the new crop year is not already "in the market."

Last summer, early estimates for the Chinese crop – based on planted acreage – reached as high as 27 million bales. Weather reduced the crop to 22 million bales, but China has not yet proven that it can produce a crop that large. The biggest crop China has produced thus far was in 2001-02 when output was 24.4 million bales.

On March 21, the Chinese Agriculture Ministry announced that it plans to limit cotton acreage to cap the potential crop at 26.6 million bales to make way for desperately needed grain planting. While this would still be a very substantial crop, it does leave us with the feeling that this is about as good as the news gets and underscores our theory that a large Chinese crop may already have been accounted for at current price levels.

In the US, acreage is expected to be lower than last year. Industry participants that we speak with tell us that the street is not being realistic about just how much cotton acreage will be lost to other crops, particularly soybeans, which are trading at 16-year highs of over $10 per bushel.

Turning to the demand side, although the estimate for US exports was already at record levels, traders were not completely surprised that the USDA raised its estimate further in its monthly supply/demand situation report released on March 10. But the 600,000 bale revision, to 13.8 million bales, was near the high end of analysts' guesstimates. The USDA also raised its estimate for Chinese imports by 1.5 million bales, to 8.5 million bales.

The most recent export commitment data show that the US has already contracted to sell over 80% of the USDA's target. With several months left in the marketing year, we

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could easily exceed the USDA target.

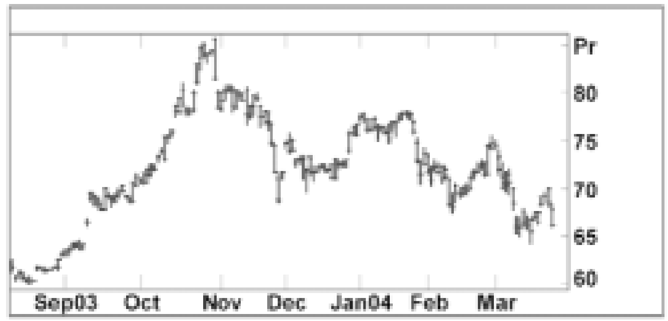
In conclusion, if Cotton Outlook's picture of the 2004-05 season is accurate, a 36.3% stocks-to-consumption ratio is indeed bearish, and prices may very well continue lower. However, the increase in available supplies makes several assumptions. Primarily, these estimates anticipate that nothing will go wrong with the Chinese crop. Perhaps nothing will. But the market is coming off a very tight season created by Chinese demand, and there is little evidence that this is going to stop. Anything short of an optimum crop will draw ending stocks back towards the 30%-of-consumption level. Then, there is ambiguity about how much US acreage will find its way to more profitable grain and soybean crops.

Rounding out our interest in trading this market from the long side from these levels is the behavior of the open interest, which has begun to rise again. Much of the recent increase in the open interest came after the market made its low on March 15. Commitment of Traders data show that commodity funds have been building a short position. Their inability to penetrate the lows shows strong commercial support at these levels.

We patiently sat out the entire slide in prices over the past few months, but have now taken the plunge and have entered the long side of this market. *[March 24, 2004]*

CURRENT STRATEGY: *Liquidated July cotton as per Flash Update of April 1.*

Chart 1 – July cotton



Courtesy Reuters

COCOA

Will bumper Ivorian crop mean lower prices?

On March 25 news broke that civil unrest in the Ivory Coast had flared up again with protests that had turned violent. The market was not inspired. Even the rather limp intra-day rally fizzled, with prices closing lower on the session. Recent news stories have intimated that the market's inability to muster a rally on what in the past has been a very bullish impetus highlights the overall bearish outlook for cocoa prices.

While the observations are quite logical, we do not necessarily agree with the conclusion.

As of March 6, arrivals at Ivorian ports had reached 1.025 million tonnes, compared with 1.036 million tonnes at the same juncture last year. If we add the reported 100,000 tonnes that were reportedly smuggled across the Ghanaian border, the actual 2003-04 main crop harvest will be even higher and will perhaps exceed the record 1.44-million-tonne crop harvested in 1999-00. With no known reason to doubt a successful mid-crop, the Ivory Coast will produce another optimum-sized crop despite the unstable political environment.

After two years of normal Ivorian output in the face of repeated fears of supply interruptions generated by the internal strife the country cannot seem to shake, the market will no longer be guided by civil-war-related headlines. In any case, about 80% of the 2003-04 crop has been shipped, so the danger of any major supply disruption has faded. This leaves the harvest and shipment of the bulk of the mid-crop. But as we mentioned above, we know of no reason for anything to go wrong.

That is the bearish case. Traders have focused their attention almost exclusively on Ivorian output. From media reports on the cocoa market, it appears at times that the success or failure of the Ivorian crop is the only factor that matters. There are, however, other issues to look at. Still on the supply side, Indonesia – the world's third largest producer after the Ivory Coast and Ghana – is expected to harvest a much-improved crop of 460,000 tonnes this season. There are reports surfacing that Indonesian crop quality is suspect, which will translate directly into smaller supplies of butter. This item does not show up when measuring available supply through global supply/demand balance sheets of beans, but it is essential in determining what the purchasing patterns of bean processors will be down the road.

With the end of the first quarter approaching, we will be looking for release of grinding statistics from US and major European processors throughout April. Estimates have not yet been released, but we hear that analysts are looking for robust numbers.

In Asia, butter ratios have been climbing steadily. A period of tight butter supplies should typically be followed by an increase in bean purchases by processors who are eager to capitalize on the higher profit margins, which should in turn result in tightness in the bean market. In late February, butter ratios were quoted at 1.9 times London futures and were hovering around 2, but over the past week have reportedly shot up to 2.3 times London. Data on this aspect of the cocoa market are scarce even when available.

If this item is accurate, however, we expect to see excellent grind figures in April.

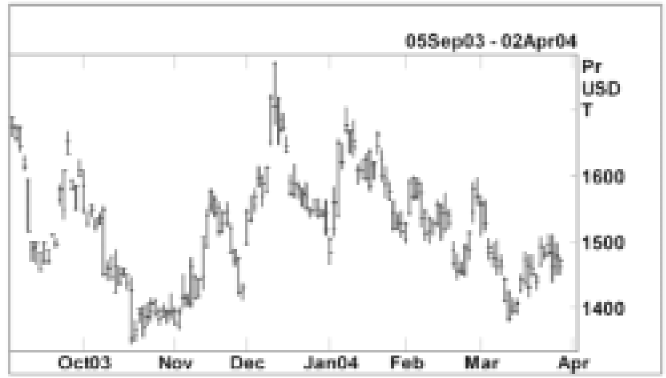
Leaving fundamentals aside for the moment, we believe that a more pressing issue that will determine the direction of prices in the near term is the activity of commodity funds. Last week's Commitment of Traders report showed that although the funds covered part of their large short position during the rally off the $1,400-per-tonne level, they still remain heavily short. Open interest has continued to build, which probably means that the funds have resumed establishing their presence on the short side. The funds can move the market for a while and create considerable pain for those speculating against them.

For the long term, however, we choose to focus on the supply/demand fundamentals, which, despite consistent increases in global production, may be turning bullish.

While we have seen periods of above average growth in consumption in the past, it has been sporadic. This market has little experience with sustained demand growth. We believe that the market is in transition from meticulously scrutinizing the supply side to being surprised by a stronger-than-expected demand side. *[March 30, 2004]*

CURRENT STRATEGY: *Buy July cocoa as per Flash Update of April 5. Place initial stops at 1310, close only.*

Chart 2 – May cocoa



Courtesy Reuters

SUGAR

Bubble operators rule the sugar pit, for now

Sugar prices advanced sharply in February and March. The rally ended abruptly with a 2-session, 1.06¢-per-pound thrashing that brought prices right back down to the breakout level (Chart 3).

Commodity funds were net-short over 60,000 contracts in mid-February. Their short-covering activity sparked the strength. The rally was then extended with a complete about face by the funds as they turned their positions around and became heavily long. This past week's Commitment of Traders report showed that commodity funds were net-long 63,274 contracts. These data, however, represent activity only up until March 23. More recently, over the past 4 sessions, open interest has fallen by more than 40,000 contracts, which in all likelihood means that the funds are not very bullish on the long-term prospects of this market, have begun to liquidate their short-lived long position, and are perhaps looking to the short side again.

Obviously, the recent volatility has little to do with supply/demand dynamics. What do the fundamentals look like?

Picking up where we left off in our February 27 article on sugar, we find that European analysts continue to revise their global balance sheets to reflect a tightening market. Earlier this season, the surplus for 2003-04 was thought to be as high as 4 million tonnes.

On March 4, the International Sugar Organization (ISO) lowered its estimate for the 2003-04 global supply/demand surplus to a mere 614,000 tonnes, down from its previous estimate of 1.374 million tonnes.

Czarnikow, whose February report lowered the estimate for the global surplus to 1.15 million tonnes from 1.32 million tonnes, has made a far more significant revision. On March 11 it reported that the surplus has now turned into a *deficit* of 2.26 million tonnes.

Far less dramatic, but in keeping with the trend, was F.O. Licht's March 18 forecast in which it estimated that the global surplus will fall to 2.6 million tonnes, from 2.8 million tonnes in its previous estimate. Licht also revised 2002-03 ending stocks downwards, which resulted in a revision of 2003-04 ending stocks to 46.79% of consumption, from 48.48% in its previous estimate.

Even with Cazarnikow's more bullish deficit estimate, we are not talking about shortages. Sugar prices may have bounced off their lows, but are still largely in the same range they were when estimates for the 2003-04 surplus were much higher. Ending stocks may be plentiful, but as illustrated above, they did not increase. The market may be well supplied for the moment, but there are some vulnerable spots as we head into the new marketing year.

Brazil is expected to harvest another record crop. Production in the center-south region, where 85% of the cane crop is grown, will be 6.8% higher, with 2003-04 output at 22.6 million tonnes.

When viewed in tonnage, the Brazilian crop seems overwhelmingly bearish for prices. Many growing areas endured prolonged dry spells, though, which has lowered per-hectare yields by about 3% from last year.

Ethanol production is estimated to grow by only 2%, to 13.3 million tonnes, but as we discussed last month, new markets for Brazilian ethanol are being created, and the potential for growth in that area may be understated. Interestingly, although there are significant trade barriers in the form of prohibitive tariffs, the US has been importing ethanol from Brazil. Despite the fact that more than 10% of the US corn crop is turned into ethanol, the Brazilian cane variety is preferred because it is cheaper.

China imported only 600,000 tonnes during the 2003-04 marketing year. Both the ISO and F.O. Licht estimate that China will import over 1 million tonnes this coming season to meet rapidly growing domestic demand.

Last month we detailed the very disappointing crop in India, citing a range of forecasts between 15 and 18 million tonnes, down from 20 million tonnes in 2002-03. It now seems that the crop will be at the low end of the range.

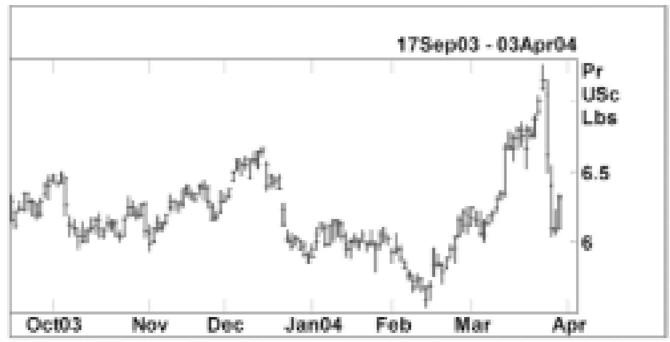
While Indian stocks are still ample, increasing domestic demand will draw those stocks down far enough to eliminate the possibility of any significant Indian exports.

Another alarming item that has emerged from India, which does not seem to have made any headlines that we've seen, is that acreage being cultivated for next year's crop (harvested in October) will fall by over 40% and will yield a crop of only 12.5 million tonnes. If consumption were to continue to grow at its current pace, the now burdensome stocks could be reduced to just a few million tonnes from the current 10 million tonnes.

We believe sugar is cheap, and long-term traders needn't wait for compelling "headline grabbing" statistics to trade sugar from the long side. *[April 1, 2004]*

STRATEGY: *Stay closely tuned.*

Chart 3 – May sugar



Courtesy Reuters

CORN

Disappointing US corn acreage and strong demand keep the bull charging

On March 31, the USDA released its first look at planting intentions for the 2004-05 US corn crop. In the weeks leading up to the release of this key piece of information, there was talk that farmers would favor soybean acreage over corn acreage. Chart 4 shows that soybean prices have risen dramatically *vis à vis* corn prices over the past year, to levels well above the historical norm, enticing farmers to lean toward bean planting.

The report did not disappoint. The USDA estimated that corn acreage would rise to 79.004 million acres, slightly above 2003-04 acreage of 78.736 million acres, but significantly below the average of analysts' guesstimates of 80.29 million acres. Analysts were really off the mark, with the figure coming in close to 500,000 acres below the lowest guesstimate. Corn prices responded accordingly over the following two trading sessions with yet another series of fresh contract highs, rising above price levels we have not seen since 1997.

The other important USDA report released on March 31 contained US quarterly grain stocks data. Polled analysts were much closer with this figure. As of March 1, on- and off-farm inventories of corn stood at 2.70 billion bushels, just a tad below analysts' guesstimates of 2.75 billion bushels.

Global corn consumption has been growing at a faster rate than output over the past few years. In 2003-04 production was up 1.3%, while demand grew by 2.8%. This pattern has drawn global ending stocks down to 68 million tonnes, or 10.5% of usage, compared with the 5-year average of 23.8%.

In 2003-04, US yields reached a record 142.2 bushels per acre, compared with a 5-year average of 134.7 bushels per acre. Under optimum planting and growing conditions, which assumes a trendline planted-to-harvested acre ratio of 90% and a repeat of last year's record yields, the 2004-05 crop will be about 10.1 billion bushels (257 million tonnes). Anything but a perfect performance in all categories will leave a big hole in global supplies.

The bullish case appears to be iron clad. To present a balanced picture, though, we should also point out that since agricultural technology has become increasingly advanced, corn can be planted quite late into the season. This means that if corn prices begin to improve significantly *vis à vis* soybean prices, farmers can still switch their intentions. In fact, during the two trading sessions since market participants have had a chance to analyze the planting data, the spread in new-crop months (November beans and December corn) has narrowed considerably (Chart 5), wiping out two months of any price advantage that farmers may have had in planting soybeans. The planting intentions report should therefore be considered preliminary.

But even if we use the average analysts' guesstimate for acreage and assume that weather will not be an issue, we still do not get the kind of crop that will alleviate the tight global supply/demand balance. At best, with 142 bushel-per-acre yields, the US crop would be 2 to 3 million tonnes larger.

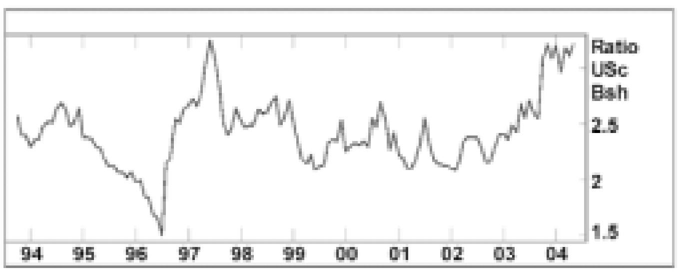
Prices were rising because of an already tight market before we knew that the new crop might be a disappointment. The only new corn that will become available for export before the US crop is harvested in late summer and early fall is the 12.5-million-tonne Argentinean crop, which will be much smaller than last year's 15-million-tonne crop. We therefore believe that prices can very well continue to rise even if some US acreage is shifted back to corn.

Demand is solid. USDA export sales data show that US commitments stand at 36.6 million tonnes, significantly ahead of last year's pace, when commitments at this point in the season had reached only 28.3 million tonnes. This week's sales of 700,000 tonnes were below the 4-week average of 868,000 tonnes. There are 22 weeks left to the marketing year. To meet the USDA export target of 50.8 million tonnes, US farmers will have to sell an average of 645,000 tonnes of old-crop corn per week for the remainder of the season. This gives traders something of a benchmark against which to measure the weekly sales report.

In conclusion, global inventories are at their lowest level in modern history. Demand growth for feedgrains is at its highest level in modern history. With little prospect of the major producing nations to come through with the kind of crops that will be required to meet this demand, we expect the bull to continue its charge. *[April 2, 2004]*

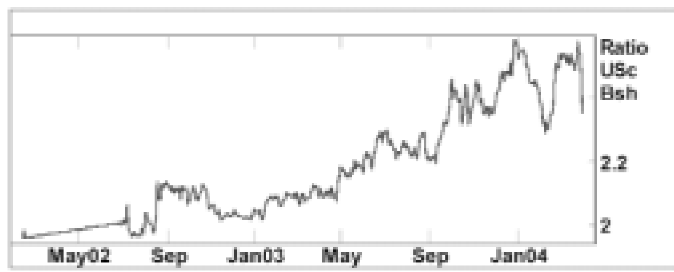
STRATEGY: *Buy July corn as per Flash Update of April 1. Place initial stops at 301, close only.*

Chart 4 – Monthly nearest contrct soybean/corn ratio



Courtesy Reuters

Chart 5 – November soybean/December corn ratio



Courtesy Reuters

HOTLINE UPDATE

***Flash Update* – Tuesday, March 2, 2004:**
Good morning for Tuesday, March 2, 11:45 am. This is a Flash Update. We have liquidated our long March Japanese yen position at 9080.

***Flash Update* – Friday, March 5, 2004:**
Good morning for Friday, March 5, 11:45 am. This is a Flash Update. We have covered our short March mini S&P position at 1161.50.

Friday, March 5, 2004:
Good afternoon for Friday, March 5, 4:45 pm. The following is a recap of this last week's trade recommendation history, and our latest recommendations and stop levels: On March 2, we liquidated our long March Japanese yen position at 9080. On March 5, we covered our short March mini S&P position at 1161.50.

We are currently long April gold at 396, with our stop at 378. All stops are close only.

***Flash Update* – Wednesday, March 10, 2004:**
Good afternoon for Wednesday, March 5, 12:10 pm. This is a Flash Update. We have purchased July corn at 304, placing our initial stop at 285, close only.

Friday, March 12, 2004:
Good afternoon for Friday, March 12, 3:50 pm. The following is a recap of this last week's trade recommendation history, and our latest recommendations and stop levels: On March 10, we purchased July corn at 304.

We are currently long April gold at 396, with our stop at 378, and long July corn with at 304, with our initial stop at 285. All stops are close only.

***Flash Update* – Monday, March 15, 2004:**
Good afternoon for Monday, March 15, 5:10 pm. This is a Flash Update. We have purchased June Japanese yen at 9093, placing our initial stop at 8890, close only.

HOTLINE UPDATE (continued)

***Flash Update* – Tuesday, March 16, 2004:**
Good afternoon for Tuesday, March 16, 12:30 pm. This is a Flash Update. We have purchased July wheat at 378.5, placing our initial stop at 358, close only.

Friday, March 19, 2004:
Good afternoon for Friday, March 19, 4:30 pm. The following is a recap of this last week's trade recommendation history, and our latest recommendations and stop levels. On March 15, we purchased June Japanese yen at 9093. On March 16, we purchased July wheat at 378.5.

We are currently long April gold at 396, with our stop at 378; long July corn at 304, with our stop at 285; long June Japanese yen at 9093, with our initial stop at 8890; and long July wheat at 378.5, with our initial stop at 358. All stops are close only.

***Flash Update* – Tuesday, March 23, 2004:**
Good morning for Tuesday, March 23, 11:30 am. This is a Flash Update. We have purchased July cotton at 67.40, placing our initial stop at 63.40, close only.

***Flash Update* – Thursday, March 25, 2004:**
Good afternoon for Thursday, March 25, 1:20 pm. This is a Flash Update. We have liquidated our long July wheat position at 410.

***Flash Update* – Friday, March 26, 2004:**
Good afternoon for Friday, March 26, 12:20 pm. This is a Flash Update. We have purchased July crude oil at 34.00, placing our initial stop at 31.75, close only.

***Flash Update* – Friday, March 26, 2004:**
Good afternoon for Friday, March 26, 12:55 pm. This is a Flash Update. We have liquidated our long July corn position at 309. We repeat our Flash Update of earlier today where we purchased July crude oil at 34.00, placing our initial stop at 31.75, close only.

***Flash Update* – Friday, March 26, 2004:**
Good afternoon for Friday, March 26, 1:35 pm. This is a Flash Update. We have liquidated our long July crude oil position at 34.30. We repeat our Flash Update of earlier today where we liquidated our long July corn position at 309.

Friday, March 26, 2004:
Good afternoon for Friday, March 26, 4:30 pm. The following is a recap of this last week's trade recommendation history, and our latest recommendations and stop levels: On March 23, we purchased July cotton at 67.40. On March 25, we liquidated our long July wheat position at 410. On March 26, we purchased July crude oil at 34.00, liquidated July crude oil at 34.30, and liquidated our long July corn position at 309.

We are currently long April gold at 396, with our stop at 378; long June Japanese yen at 9093, with our stop at 8890; and long July cotton at 67.40, with our initial stop at 63.40. All stops are close only.

***Flash Update* – Monday, March 29, 2004:**
Good afternoon for Monday, March 29, 12:05 pm. This is a Flash Update. We have purchased July crude oil at 33.95, placing our initial stop at 31.75, close only. We have also rolled over our long April gold position into June.

***Flash Update* – Tuesday, March 30, 2004:**
Good afternoon for Tuesday, March 30, 3:50 pm. This is a Flash Update. We have sold short June mini S&P at 1124.75, placing our initial stop at 1164, close only.

***Flash Update* – Thursday, April 1, 2004:**
Good morning for Thursday, April 1, 11:15 am. This is a Flash Update. We have liquidated our long July cotton position at 63.05. We have also purchased July corn at 326, placing our initial stop at 301.

Friday, April 2, 2004:
Good afternoon for Friday, April 2, 4:50 pm. The following is a recap of this last week's trade recommendation history, and our latest recommendations and stop levels; On March 29, we purchased July crude oil at 33.95, and rolled over our long April gold position into June. On March 30, we sold short June mini S&P at 1124.75. On April 1, we purchased July corn at 326, and liquidated our long July cotton position at 63.05.

We are currently long June gold at 422.20, with our stop at 378; long June Japanese yen at 9093, with our stop at 8890; long July crude oil at 33.95, with our stop revised to 32.25; short June mini S&P at 1124.75, with our initial stop at 1164; and long July corn at 326, with our initial stop at 301. All stops are close only.

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