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COMMODITY COMMENTS

June 1, 1972

N. Y. SILVER

	July '72	153.50
Comex Warehouse Stocks		106,484,000 unch

Discouraged liquidation drove Silver prices down more than 300 points in the first two trading days of this abbreviated week. The myth of the gold-silver price relationship was once again demonstrated as gold bullion prices soared to new record highs. This divergence comes as no surprise to readers of our Comments.

For the last few months we have repeatedly stated that the continuation of the silver mini-bull market hinged on it being able to hold the major uptrend line connecting the intermediate lows since November '70. An intact uptrend was indicative of upside momentum, of continued speculative interest. The moment the latter began to falter, silver prices were bound to fall as the weight of the onerous contango made itself be felt. Indeed, it is not beyond the realm of possibility that equilibrium in the supply and demand world of physical silver could be attained at far lower levels than 1.60/oz.

Let us make ourselves clear: there is no shortage of silver in the world today nor is there a major production shortfall. It is only when speculative demand is factored into the total equation that demand outstrips supply. But speculative demand feeds itself on potential users demand and when the latter is seen to falter (for whatever reason) the former vanishes rather quickly. This phenomenon is well known in the bond market where professional mark ups cannot have any worthwhile follow-through if ultimate retail demand does not support it. If one cools speculative demand further by confusing the investing public with price ceilings, thus robbing it of upside potential, equilibrium must inevitably be found at the reduced level of demand characteristic of the physical sector. The proof that a true shortage does not exist is simply the fact that supply is forthcoming at prices below the ceiling.

The peak in speculative demand was reached in mid-December coincidentally with the huge attack on the U.S. dollar and the subsequent doubts casted on the Smithsonian agreement. Open interest peaked out, then, at slightly over 51,000 contracts, an historically high level.

Subsequently, prices moved up in sympathy with gold prices as the latter moved from approximately \$ 42/oz to \$ 48¹/₂/oz, but remained in a broad 12¢ range until late April. Open interest had declined to 44,000 contracts, indicating that speculative enthusiasm was on the wane.

The total blow came with the growing realization that silver had to move on ultimate consumer demand and not just on rising gold prices. Almost simultaneously, an unclear ruling concerning a ceiling on silver prices clouded the picture and speculative interest nosedived as evidence by the sharp decline of open interest to 36,000 contracts.

The market must now find a new level of equilibrium, one that will factor in a much reduced level of speculative demand. Price itself is a potent source of potential speculative demand and silver has a very large following of 'bargain hunters'. This can be attested by the fact that silver prices bottomed out in October '71 with a rising open interest, a most unusual event in the annals of commodity futures prices where liquidation is almost prerequisite for sound bottoms.

One can expect prices to work lower over the next few weeks perhaps retracing 50% of the total advance (approximately 148.00 basis July '72). Where one goes from there will depend greatly on the level of consumer demand, the standard bearers of rising commodity prices.

Establish short positions on rallies of 100 points.

COPPER

July '72	49.20
December '72	50.50

A smaller than expected drop in LME Warehouse Stocks and settlement of strikes at two large foreign copper producing facilities triggered a 5 decline in London Copper which was duplicated and later exceeded, in New York.

Workers at Chile's El Teniente mine and Japanese smelters returned to work earlier in the week. The LME Warehouse report showed a drop of only 575 tons, to 156,650 tons as against an expected 1,000 tons.

Traders should still keep to the sidelines but investors may consider a scaled down purchase program as prices may still work 100 points lower.

Keep in close contact.

PLATINUM

July '72	109.00
January '73	112.10

Prices continued to display technical strength this past week as new recovery highs were reached.

Platinum remains the best speculation in the metal area and advise continued accumulation.

Protective stops may be raised to 104.00 basis January '73.

TECHNICAL TRENDS

COCOA

The Bull Market continues intact with deferred contracts bettering the August '71 highs.

Continue to hold long positions with short term traders placing stops at 26.75 basis July '72. Position traders can risk the major uptrend at 26.00.

CATTLE

June '72 37.30

Remain long raising June stops to 36.90.

COTTON

July '72 40.51

Remain on the sidelines as uptrends have been badly mauled and a serious decline is a strong probability.

PLUMHOOD

July '72 110.60
September '72 105.20

Continue to buy nearby contracts on dips for a move to 120 basis July '72.

WORLD SUGAR # II

July '72 7.17

Long positions may be maintained raising stops to 6.90 basis July '72.

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All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.