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## COMMODITY COMMENTS

February 8th., 1973.

A few prefatory remarks are in order this week.

No sooner had the Free World finished celebrating the now famous Smithsonian Agreement in December 1971 that we noted: (a) the 25% premium that Free Gold commanded over the official \$38.00/oz.; (b) the burdensome and highly explosive 'dollar balances' held abroad, both publicly and privately. Aside from our strong recommendation to buy gold (then \$42.00/oz.), we suggested that currency 'disturbances' were to be expected in spite of the realistic realignment if only because nothing had been done about consolidating America's short term indebtedness. Thirty billion dollars were held as extortion money by jittery speculators who expected much in terms of a prompt improvement in the U.S. balance of trade and who didn't stoop to measure econometrically the relative gain in purchasing power of the greenback vis a vis its trading partners. This major blunder has cost us one major monetary crisis after another even when they are started and directed against other currencies than the U.S. dollar.

The summer of '72 saw the first such 'disturbance' as the British Pound, beset by runaway inflation, came under heavy downside pressure. It floated downwards from an overvalued \$2.60 parity to \$2.34 before finding support; in the process, the U.S. dollar came under heavy attack. Absurd, but true to form,

This last crisis was begun in Milan, Italy, and was directed against the Italian Lira. Intervention was dropped and a two-tier market created. Concurrently, Switzerland with an inflation problem of her own (latest rate of inflation 7% vs. 3½% for the U.S.) and therefore, acting purely on domestic grounds, suspended its dollar buying operations, which had been swelling the money supply. No sooner had these two otherwise harmless domestic measures taken place when speculators mounted a massive raid on the U.S. dollar knocking it down to the floor in Frankfurt, Amsterdam, Brussels, Tokyo and Paris. This threat is the most serious one so far to the parities established in the Smithsonian Agreement. Man's (and especially politicians') ingenuity will allow him to rationalize a two-tier system just like he devised a two-tier gold market - it's the last desperate act before the truth is revealed. Just like their predecessor, the two-tier gold market, two-tier foreign exchange markets will breakdown within one or two years and become de facto revaluations. Sometime in the next few years, these foreign revaluations will put a serious crimp on their exporters' profit margins bringing about nationalistic resentment and unemployment. The counterpart, the U.S. devaluations, will increase exports but will fuel the already burning fires of inflation bringing us ever closer to Boom and Bust, Act III.

Now that we have shared with you some happy thoughts let us review our latest recommendations.

TECHNICAL TRENDS

<u>Cocoa</u>	March '73	34.30
	May '73	32.65

This Bull Market is alive and kicking; having closed above 33.30 and 34.00 basis March '73, we feel quite strongly about the direction and the timing of the next major move. Upwards, to a first target of 38¢ basis nearest contract. Hold to existing long position; if flat, buy at the market.

<u>Copper</u>	May '73	55.55
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A countertrend flirt with the short side (at 53.65 basis May) proved a disappointment as expectations continue strong about a new raise in the producing price, possibly to 56¢/lb. Large LME withdrawals and a crippling strike at Metallryie Hoboken-Overpelt copper refinery in Belgium, Europe's largest, are lending this market firm support and, after being stopped out at 54.45 (as per our previous suggestion), we recommend moving to the sidelines.

<u>Cotton</u>	March '73	37.23
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Stopped out at 37.10 on long position established below 33.00. Move to the sidelines.

<u>Gold</u>	(Winnipeg) April '73	70.15
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Remain long April '73 bought at 65.44 and raise stops to \$65.00 basis the London Fixing.

<u>Live Cattle</u>	April '73	32.57
<u>Live Hogs</u>	April '73	30.07
<u>Pork Bellies</u>	Feb. '73	48.20

A major shakeout, and, perhaps, who knows? a Bear market. Yesterday and today we recommended to our clients outright short positions on the livestock group. If flat, sell April '73 Cattle at market, stop 43.60; sell April '73 Hogs, stop 31.20; sell Feb. '73 Pork Bellies, stop 49.70.

<u>Platinum</u>	April '73	142.40
	July '73	145.50

A very constructive chart pattern has evolved amidst a strong precious metals complex. Buy at the market with stops on close only at 138.00 basis April '73. More conservative traders should do well purchasing CALL OPTIONS on April '73 at 145.00 and 150.00 striking price (out-of-the-money calls).

<u>Silver</u>	March '73	213.20
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Short positions (for traders) established at 204.70 basis March '73 were stopped out at 200.10 per previous suggestion for a small gain. Long term, well .... long term, it's a Bull Market.

The best trading approach we know to this extremely volatile market is by way of Put and Call options. The risk factor is limited to the amount of the option premium while volatility increases the opportunity to 'trade against the option' profitably.

Soybeans

March '73 5.38 3/8  
November '73 3.77 3/8

One of the most dramatic and frenzied price surges in commodity futures' history may be coming to an end. Five consecutive up limit moves in the nearby Bean positions forced locked in traders to bid up new crop options to absurd levels - especially in view of the likelihood that '73-'74 supplies may well exceed the record 1,460,000 million bushels of 1969-1970. The enormous price gyrations witnessed today will be considered, in retrospect, the final distribution process. It may last two or three days but the end result will be a market top heavy with weak longs that will give way like a crumbling edifice.

Sell November '73 or January '74 at market and place a stop 15¢/bu. higher.

INTERNATIONAL MONETARY MARKET

Japanese Yen

March '73 .37100  
March '74 .34600

The heavy raids on the dollar in Europe are spilling over to the Yen. Hedge temporarily March '74 short position by purchasing April '73 against it. Retain March '73 - March '74 spread.

Deutsche Marks

June '73 .32440

A smashing success: bought at 31520 - 31600 as per previous suggestion and now showing a \$4500 - \$4900 gain per contract in just one week. Nail down profits; sell at market.

Canadian Dollar

June '73 100.300

Merits close watch; we strongly believe that the Canadian dollar will go to a substantial premium over the U.S. dollar. Waiting for the right moment and the right spot - keep in close touch.

Albert D. Friedberg  
Vice-President  
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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.