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COMMODITY COMMENTS

March 27th., 1973

Silver: A trading strategy

N.Y. Silver	*March '73*	*230.20*
	July '73	*234.70*
Comex Warehouse Stocks	*70,006,000 mm ozs*	*- 760,000 ozs*
London Silver	*3 months*	*95.80 - 95.90 p*
Canadian Silver Coins	*Spot 1230 - 1341*	
	Sept'73 1341 - 1396	
	Dec'73 1374 - 1424	
	Mar'74 1420 - 1450	

In attempting to evaluate the present and the future prospects for Silver with a view towards establishing an overall trading strategy, one should focus attention on:

(a) supply and demand,
(b) monetary considerations,
(c) technical and psychological factors.

The first one such factor undoubtedly constitutes the basic long term influence; the second one may be deemed the short to medium term influence while the latter makes up for the short term input, which we aptly term market timing.

SUPPLY AND DEMAND

Well known to silver followers is the statistical consumption shortfall which has been seriously estimated at up to 50 million ounces yearly at the present time. In essence, more silver is consumed yearly than is produced and the balance is made up of scrap recoveries and a drawdown of speculative holdings.

The economic upswing began late in 1970 and has accentuated this problem. On the next page we present a table comparing U.S. silver consumption in 1971 and 1972 (in millions of ounces).

	1972	1971
Electroplated Wear	12.5	10.9
Sterling Wear	26.1	22.7
Jewelry	4.7	3.4
Photo. Mat.	36.7	36.
Den. & Med. Supplies	1.9	1.1
Mirrors	1.2	1.1
Brazing	11.9	12.1
Electrical:		
Batteries	5.7	5.6
Conductors	33.	27.9
Bearings	.33	.35
Catalysts	3.43	1.7
Misc.	6.3	5.6
Total Net	146.70	129.14
Total Incl. Coins	148.98	131.61

Aside from the direct effect of higher demand for the tune of 17 million ounces, we face a far more potent source of increased demand in the re-building of industry-wide inventories. Unusually large inventories and falling prices forced manufacturers to draw down inventories. This process reached too far and put manufacturers in a near hand-to-mouth situation when inventories reached the low 50's million ounces. Beginning 1971 rising prices (which makes speculators even from the holiest ones of us)convinced manufacturers that their inventories were sublevel. From a 58.7 million ounces figure at the close of the 3rd quarter of 1972, industrial stocks rose to 63.7 million ounces at the close of the 4th quarter, an absolute rise of 5 million ounces, a yearly rate of 20 million ounces. A further 10-15 million ounce increase is a distinct possibility(a six months' supply (similar to the one experienced in 1970-71) for the first and second quarter of 1973. Since the U.S. represents slightly more than one third of total world industrial consumption, total restocking to desired levels may represent a staggering 30-45 million ounce additional worldwide demand compressed over 3-6 months. In a market that is in precarious equilibrium, a 10% upward shift in demand can have a much wider repercussion on prices.

Our foregoing analysis bases itself almost entirely on industrial inventory restoration. Restoration of speculative holdings can be of even greater significance and it is well known that such holdings rise, do not decline, as prices rise. Suddenly, what has been counted upon as Supply in the amount of 300-400 million ounces held in the hands of speculators, may become the speculators' rock-bottom level of desired holdings.

In short, desired levels of inventories or stocks are more a function of price expectations than is normally reckoned. The inventory cycles may cause powerful movements in aggregate demand which may take place without appreciable charges in ultimate demand. It is therefore more important to notice a slakening in the rate of inventory accumulation than it is in estimating final user demand. Based on the above, inventory restoration has not yet reached its peak but such an occurrence may take place in the second or third quarters of 1973.

On a yearly, end-user analysis, one should note:

(a) a large influx of silver from the Trucial States began in December1972 and running at 50 million ounces yearly and

(b) scrap recovery, especially from photographic material, can go as high as 2/3 at prices over 2.00-2.25/oz.

These factors may not offset our estimated demand for the first two quarters of 1973 (predicted upon inventory rebuilding) but will undoubtedly be felt when demand begins to taper off towards year end.

MONETARY CONSIDERATIONS

Lack of dollar convertibility and the associated problem of the huge short term U.S. debt have boosted free gold prices ever higher. It is redundant to note that at $90/oz., gold is closer to monetary equilibrium than at any time since 1965. However, with this in mind, we offer two thoughts:

(a) the higher gold climbs, the less room is there for silver to go up on monetary considerations; but

(b) each incremental $1/oz. rise in gold has a far greater price impact on silver as the run from paper currencies reaches a cresendo and becomes more and more visible.

Therefore, every $1/oz. rise in gold will exert a proportionately greater impact on silver prices, although it is reasonable to suppose that there will not occur that many $1/oz. rises once the $90. mark is passed.

TECHNICAL AND PSYCHOLOGICAL

Silver prices are well known to move inversely to the degree of bullishness prevalent in commission house boardrooms and Swiss banks. Large price drops accompanied by a drop in open interest have signalled a psychological reversal in mass thinking, just when prices get ready to turn up again.

Our indicators show that the large drop in the open interest that accompanied the 50¢ drop from recent highs has had the salutary effect of dampening bullish enthusiasm. This action has been strengthened by two unfavourable events:

(a) potential stockpile releases of silver and

(b) strengthening of the U.S. dollar.

A technical and psychological bottom of major proportions was reached on March 15th when Spot silver sank to $2.11/oz.

CONCLUSION:

A higher silver price is envisioned over the next 2-4 months triggered by heavy industrial and speculative "re-stocking" and supported by monetary considerations.

The attainment of a desired level of inventory will flatten out the huge incremental rate of buying and will turn slowly into a partial liquidation which will be reinforced by an industrial slowdown and, more importantly, an ever increasing cost of carrying silver (as interest rates soar). High scrap recovery and heavy bullion influx from the East as a result of high relative prices will add on to an already declining inventory restocking program and turn early year estimates of tightness into a more or less balanced supply and demand equation. Towards year end prices should move below the yearly average by a wide margin.

TRADING VEHICLES

Following is a brief description of the different silver trading vehicles and some comments:

	N.Y. SILVER	LONDON SILVER
Exchange	Commodity Exchange Inc.	London Metal Exchange.
Contract Months	January, March, May, June, July, September, December.	Spot, 3 months, 7 months.
Contract Size	10,000 Troy ounces.	10,000 Troy ounces.
Price Fluctuations	Quoted in cents & points per ounces (i.e. 235.40= $2.3540/oz).	Quoted in pences and decimals per ounce (95.6p/oz).
	Minimum fluctuation is 10 points, the equivalent of $10 per contract.	In tenths of pences per ounce (approximately $24.50 per ounce).
	Maximum fluctuation is limited to 10¢/oz. above or below preceding day's settlement price.	No maximum fluctuation.
Margins	Original $2,500. Maintenance $2,000. Straddles $1,500.	Original $1,500. Maintenance $1,000.
Commission	Regular round turn $45.50; day trades $23.00.	Regular round turn $60.00.
Trading hours N.Y. Time	10:00 - 2.15 pm	6:05 - 6:10 am 7:00 - 7:05 " 7:10 - 7:25 " 9:55 - 10:00 " 10:30 - 10:35 " 10:35 - 11:10 " 11:10am- 4:30 pm (N.Y. afternoon dealers' market.)

Comments	Highly liquid market, suitable for in and out trading. Lower commission rate.	-----
	-----	Denominated in weaker of two currencies, therefore preferred to bulls.
	-----	Open longer hours.
	-----	Lower Margin requirements.
	Highly levereged in both up and down markets.	Highly levereged in both up and down markets.
	CANADIAN SILVER COINS	U.S. SILVER COINS
Exchange	Not traded in an Exchange; dealers' market.	New York Mercantile Exchange.
Contract Months	Spot July 1973. September 1973. December 1973. March 1974.	January 1974. April 1973, 1974. July 1973, 1974. October 1973.
Contract Size	\$1,000. face value.	\$10,000. face value.
Specifications	Dimes, quarters, halves minted 1966 and prior (contain approximately 585 net 1,000 fine ounces of silver per \$1,000. face value).	Dimes, quarters or halves 1964 or prior (contain approximately 715 net 1,000 fine ounces of silver per \$1,000. face value).
Price Fluctuations	Quoted in dollars (U.S.) per \$1,000. face value. Minimum: \$1/\$1,000. Maximum: None.	Quoted in dollars per \$1,000. face value. Minimum: \$1/\$1,000. Maximum: \$100. per \$1,000. above or below preceding day's settling price.
Margins	Original: Difference between offering price and \$1,000.	Original: \$2,000. Maintenance: \$1,500.
Commission	None.	Regular: \$35.00 Day trades (2 or more) \$17.50.

Trading hours N.Y. Time	*9:00 am - 6:00 pm*	*9:25 am - 2:15 pm*
Comments	*Limited downside risk (floor price: $1,000. per $1,000. face value).*	*Limited downside risk (floor price: $1,000. per $1,000. face value).*
	Lower premium over face value (therefore lower risk).	-----
	-----	*Higher degree of liquidity.*
	Selling at par with silver content value (relatively cheaper).	*Selling at a premium over silver content value (relatively dearer).*
	Smaller size contract.	-----
	Easy delivery.	-----
	Open longer hours.	-----

TRADING STRATEGY

Long positions are recommended at these levels. For aggressive accounts looking to take a daily position in the market, we recommend N.Y. Silver futures Aggressive accounts, looking to capitalize on intermediate price movements, London Silver futures are preferred.

For accounts with a longer term frame of investments and a high degree of risk aversion we recommend Canadian Silver Coins.

SPREAD RECOMMENDATION

For those wanting to take a premature bear position on Silver, we recommend the purchase of 17,000. face value of Canadian Silver Coins March 1974 delivery versus the simultaneous sale of March 1974 N.Y. Silver. As $17,000. face value Canadian Silver Coins represent approximately 10,000 ounces one is fully protected on a rising market (except for having to put up additional margin on the short March 1974 bullion position) while a declining market will find bullion going down but coins stopping at the $1,000. mark.

TECHNICAL COMMENTS

Copper	*May 1973*	*66.55*
	January 1974	*63.15*

Our spread long May 1973 U.S. short January 1974 recommended last issue has widened to 350 points and has shown us a 100-150 point profit.

Take it and move to the sidelines.

Coffee	*July 1973*	*65.07*

Remain long as the market should retrace a good part of the decline. Volume has declined considerably of late while open interest has begun to contract.

Hold.

Cotton	*July 1973*	*42.10*
	October 1973	*40.70*

Remain long; we now are ahead about 300 points. Keep in close contact.

Cocoa	*May*	*40.65*

March 1973 expired on a very strong note at 40.40. Our long standing bull position is paying off handsomely as we are now ahead almost 10¢/lb since our last major Cocoa report.

Remain firmly long.

Gold	*April 1973 (Winnipeg)*	*86.00*

Limit up bid today as London's Second Fix is $90/oz. We have come a long way from $65.44. The risk/reward ratio has shifted in favour of Silver.

Sell April 1973 at $88.00 or better and switch to Silver.

Live Cattle	*April 1973*	*45.57*

Stopped out at 45.85. Hogs and Bellies seem to have definitely topped out. Contact us for initial short positions in Hogs and Bellies.

Platinum	*April 1973*	*141.50*

Marking time under the negative influence of a possible 260,000 oz. release from stockpile and a one-year extension to the auto emission control regulations. All the negatives still do not add up to below $150/oz. quotations.

Remain long in the newly established positions.

Albert D. Friedberg
Vice-President
Commodity Futures