friedberg & co. ltd.

INTERNATIONAL COMMODITY BROKERS
FOREIGN EXCHANGE DEALERS
FINANCIAL SERVICES

34 ADELAIDE STREET WEST
TORONTO 1, ONTARIO, CANADA
TEL: (416) 864-1195
CABLE ADDRESS: FRIEDCO TORONTO

COMMODITY COMMENTS

October 1st, 1973

The Breakfast Complex - An unusual inflation hedge

Over the past 4 months we have repeatedly hammered the point that inflation can be brought under control only by a monetary policy that made business borrowing uneconomic, i.e. a rate of interest in excess of current & expected inflation rates. Thus, a 10% rate of interest would be a gift to business if inflation was expected to rise at an annuel rate of 15%; conversely, a modest 6% rate of interest would bite rather sharply if inflation was going to remain at 3% or below.

From May onwards, a tightening monetary squeeze brought key deposit rates (Eurodollars & CD's) to the 10.95 - 11.5% range, well below current inflation rates but roughly in line with anticipated price behavior (after one factors out the distorted effects of Phase lV). Just as this policy was beginning to have some effect on commodity prices, witness the sharp retreat of most indices since the middle of August, a cowardly & politically influenced Federal Reserve gave signs of faltering. In a brief 2 weeks, 3 months treasury bills slumped to a 6.93% yield from over 9% & long term triple-A bond rates collapsed from 8.25% to 7.70% at this writing. While some explanation may be found in dealers' low inventory positions & a light corporate bond calendar, the important thing to remember is that it is happening with the Fed's acquiescence.

Having shifted direction in mid-course, we must now ask ourselves what is a plausible economic scenario for the next 18 months & what is the outlook for inflation.

Our guess on the first score is that the U.S. is facing an economic slowdown (we hate the term) for the last quarter of 1973 & first part of 1974 comparable to the 1966-67 experience & much milder than the 1969-70 period. Of more immediate concern, prices will tend to level off at a high 5-6% per annum increase at the retail level & build a base for a much more violent inflation late in 1974 & early 1975. In the technical jargon of commodity futures, prices will tend to decline a bit further, & rather very gradually, & then enter a base-building process that should catapult the well-known indices to new highs in late 1974.

Most of the downside momentum in the price structure will come from grains & cotton; most of the decline in the livestock group is behind us already, at least for the time being; the metals, as a whole, are probably entering their base building process & the wood complex has almost completed it; finally, a small but dynamic group may be in the throes of a major rise in prices. This group we have deemed to call the Breakfast Complex for lack of a better generic term.

Coffee

	December '73	68.00
	March '74	68.55
London Robustas	Jan. '73	Ь477.50

A 1973/1974 world coffee crop production of 65.4 million bags (132 lbs per bag), 12% below the revised estimate for 1972-1973 & the lightest crop since 1970-1971. This forecast by the Commonwealth Secretariat's Tropical Products Quarterly falls short of the 66.9 million bags forecast by the USDA last July. With exportable production down to around 45 million bags & import demand calculated at 54 million bags, a sharp drawdown in world stocks is in the cards.

One couples this very improved supply/demand picture with the determination on the part of producing nations to restrict output oligopolistically, and a dynamic price behavior is a necessity.

Technically, prices in the New York "C" contract (37,500 lbs, $2,500 margin) have broken out of an extended & quiet downtrend initiated in late February at over 84 cents per lb. Open interest, at just over 4500 contracts is well down from its 11,000 plus reached at the height earlier this year, & indicates that a tremendous amount of liquidation has taken place.

London (Robustas) too, have broken out on the upside rather decisively with January '74 registering a new all time high in the last few days at Ь 480.00/ton. The uptrend is rather slow & is being accompanied by very subdued speculative participation. Contract calls for 5 tons & margin required is $500. Call options are available in London for the January '74, March '74 & May '74 position at attractive prices.

Buy March '74 New York coffee and/or London January '74 at market. Conservative investors may prefer call options in London. Commercial hedgers should move in aggresively, in the December '73 or January '74 positions.

World Sugar #11

	March '74	8.78
	September '74	8.20
London	March '74	Ь91.85

Slowly & agonizingly, sugar prices are recovering their sharp August decline which took prices as much as 175 pts below season's highs. A slow reappraisal of the supply & demand picture is beginning to emerge but, in our opinion, has not hit the market yet with full force. When it does, prices should soar.

An initial production forecast by E & F Mann, a leading London sugar house, of 83.4 million tons was brought down by no less than F. O. Licht to 81.7 million tons. Since that time, some holes are beginning to appear in that estimate. For one thing, the west European beet crop is not going as well as expected; France & Germany may bring down initial estimates by well over 500,000 tons. For another, Argentina looks 100,000 tons short of Licht's estimate by her own reckoning.

Finally, Venezuela, unexpectly, has come into the world market as a buyer of 50,000 tons of raws in spite of it being a traditional exporter. The "holes in the Structure" may be small but the supply & demand equilibrium is much more delicate than many would concede. Indeed, our estimate for 1973-1974 consumption lies in the 81.5-82.4 million tons area. If borne out, 1973-74 will be the tourth year of deficit production & will take carryover stocks below 20% of current consumption - an explosively bullish situation.

Technically, the action remains superb as open interest, at 11700 dipped to the lowest level since September 1971, indicating that a very thorough liquidation took place. Volume dries up on consolidations and declines & commission house pessimism remains unabated.

We look for prices to consolidate recent gains, with an 8.50-9.15 range for March '74 for the next week. A successful chalenge of the 9.60 highs should take place in late October, and the bull market will have started. Our first major upside target is 11.25, while we foresee an eventual move to 15¢ sometime in 1974.

Add to long positions in the March & May '74 positions & ignore protective stops. Call options are available in the London market @ around $1250 for May & August '74 & look very attractive.

Frozen Concentrate Orange Juice	November '73	50.30
	March '74	51.05

Here is a commodity that did not participate in the great 1972-73 bull market & for which fundamentals remain so poor that only an improvement can come.

Although recent concentrate movement has been rather large, most observers feel that outside factors are mostly responsible. Present processor inventories are extremely burdensome as they stand 20 million gallons higher than a year ago.

What makes us bullish is the overwhelming bearish consensus; commodities, especially crop commodities, have a tendency to move from surplus to shortage & viceversa in a very short period. The advent of the hurricane season in Florida could provide the igniting fire. Certainly, 50 cents orange juice does allow for too many errors in the "surplus theory".

Wait until October 12th, when the first U.S. crop estimate appears & then (a) buy if market is down; (b) wait if market rises (do not buy on stength after the report) & move in on the dip.

Cocoa	December '73	65.80
	September '74	53.10

The upside reaction we forecast in our last issue took place under the two pronged influence of Brazil's bean & butter export suspension for October-December delivery & a forecast for a much reduced Ghana crop of 330-350,000 tons from last year's 410,000 tons.

The bear market retraced from 1/3 to 7/8 of the drop & quickly turned down amid the bullish cries of U.S. Commission Houses. Barring any unforeseen developments, cocoa prices should now move lower & perhaps test the mid-September lows of 55 cents basis December.

Our bear spread has moved sharply against us in spite of the extra long September '74 position. Sell the extra long September '74 position & remain evenly spread short December '73 - long September '74. It should definitely narrow from the present abnormal 1270 points.

New bear spreads may be taken now by selling March '74 against the purchase of September '74 @ better than 500 points March '74 premium.

TECHNICAL TRENDS

Copper

December '73	*79.65*
March '74	*75.60*

A wide trading range has developed in the copper market marred occasionally by political events such as Chile's new military government.

Chile's new command plus the stock disposal of 285,000 tons for House approval should keep this market under pressure for the foreseeable future. Our bear spreads, short December '73 - long July '74 @680 points and short March '74 - long September '74 are showing only nominal changes but should work to our favor over the ensuing weeks.

Add to the short March '74 - long September '74 positions at better than 400 points - premium on the March.

Cotton

December '73	*81.80*
March '74	*79.02*

An incredibly treacherous market rigged by such technical considerations as deliverable stocks in Exchange approved warehouses, created a panic condition in the nearby month which rose to a post-war high of 99 cents.

In reprospect it will be shown that:

(a) there was no shortage of cotton,
(b) any price in excess of 60 cents/lb represented a mockery of sane people's judgements &
(c) Japanese trading companies will find themselves facing the ageless question: sell? to whom?

The bull market is definitely over; if you find yourself still committed to our spread short December '73 - long October '74, lift the long side of the spread & remain flatly short.

If you have a steely stomach & strong financial backing, sell March'74 cotton at market & keep selling it on any rallies.

It will give way.

Plywood

November '73	*87.50*
July '74	*89.00*

After a savage bear market that took the nearest contract from a high of $220 (September '72) to a present low of $85-87, plywood prices are beginning to level off.

This base-building action will be completed very shortly. With capital spending geared at a high level along with declining interest rates (which will revive a declining housing starts trend), a major bull market is in the cards.

Accumulate aggrassively deferred 1974 deliveries.

New York Silver *December '73 276.30*

The continued withdrawal of Comex silver, now down to 47,500,000 ounces,helped to buoy a strong rally that took prices to the 290.00 area basis December '73. This move was accomplished by first moving under 260 (taking out stops). The false move was negated when December '73 climbed back from 253.50 to 261.50 & short term long position were advised.

A significant reversal has taken place in the last few days & we now recommend selling any long positions & moving to the sidelines.

Sell December '73 at market & protect with a stop buy @283.00

Canadian Silver Coins

	Toronto	March '74	1450 - 1550
		September'74	1515 - 1615
	Chicago Mercantile Exchange	March '74	1688
		September '74	1770

An anomalous market situation has developed:

U.S. investors are placing a 4.86% premium over bullion to our silver coins while the localized Canadian market is still trading at a 4.5% discount from bullion.

A phenomenon that we have alluded to countless times has taken place:

Coins trade at a premium over their underlying metal value if , and only if, they can be freely disposed of (that includes melting). Since in Canada they can be neither exported nor melted they sell at a discount. In so many words, a free man is worth far more than a supressed one.

Be that as it may, we foresee an eventual coming together of these two markets that will narrow, if not make disappear, the present large spread. The silver coins contract in Chicago stipulates $5,000 face value, pre-1966 quarters & dimes. Initial margins are set at $1,000 per contract.

If you want to try this semi-arbitrage, buy 5 September '74 Canadian Silver Coins, Toronto, and sell 1 contract September '74 Canadian silver coins Chicago, at $150 or better premium the Chicago market.

We prefer outright scaled down purchases of the discount Toronto market.

 October 1st, 1973

Rubber

October/December '73	36.50	(Expired)
July / September '74	29.60	

As recommended in our previous issue, long positions were closed out on 2-3 p. rallies. In fact, O/D '73 traded as high as 38.50, exactly 3 p. higher than on August 28th, 1973.

Call options on deferred 1974 & 1975 positions are recommended now that they are trading just below. 30 p.

INTERNATIONAL MONETARY MARKET

Gold

London Second Fixing	96.75
Ocotber '73 (Winnipeg)	97.60

We still feel that it is too premature to buy back long positions. However, declining interest rates in the U.S. may turn this market around sooner than expected.

A test of the $90 level and perhaps a move to $85/oz. may not be improbable but would consider it as a good long term buy at those levels.

Traders should rather buy at 104.00 stop basis London Second Fixing.

Deutsche Marks	December	'73	41810
Swiss Francs	March	'74	33.635

We accepted partial profits on our short positions (as per last commodity Comments) at 40920 & 33700 respectively but would now once again trade them from the short side.

Cover currency short positions if the spot DM moves over 42.25.

Albert D. Friedberg
Vice-President
Commodity Futures.

****