

# 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 31st, 1973

### Inflation, Recession & Commodity Profits

The above title is merely intended to draw attention to an otherwise axiomatic truth: large commodity profits are possible only if one understands (a) where he finds himself vis a vis the economic cycle & (b) what impact this cycle may have on various specific commodities. Over the last few years, however, economic cycles have been overshadowed by a persistent & violent inflationary trend caused mostly by highly expansive monetary policies. These inflationary pressures have obscured the real impact that historically high & low prices are thought to have on production & consumption. These distortions have arisen in domestic & international markets; in the latter case a further complication has been created by disparities in interest rates & inflationary rates that have affected exchange parities.

Thus, the attempt to gauge equilibrium levels that are supposed to prevail in commodity markets as a result of economic expansions & contractions is being frustrated by what we may call the distinction between "nominal" & "real" prices.

Having understood this concept, it is no longer enough to ask whether a certain commodity is too high or too low (viewed in respect of historical graphs) but rather the question boils down to one of relativity: relative to present costs & present costs of substitution, is it too high or too low? Or relative to the present post-devalued dollar, is it too high or too low?

And so, the oft assumed relationship between plywood & lumber prices to contractionary & expansionary cycles in the housing market derived from historical data, becomes almost meaningless. To the amazement of most savvy observers of the futures market, our Oct. 1st, Commodity Comments suggested that a major bull market was in the cards for the wood complex & that aggressive 1974 long positions were in order. This was written (& done) in spite of the fact that housing starts were in a clear downtrend from its 2.4 million peak to perhaps as low as 1.5 million (first National City Bank's estimate). Again the same relativity principle applied to sugar (then @ 8 3/4 ¢/lb.) & Orange Juice (50¢/lb.).

Summing it up, while the economic cycle (in it we include the agricultural cycle, too) is a prime determinant of equilibrium levels in commodity prices, more attention should be paid to secular inflationary trends -- their bullish impact on costs of production & rates of consumption. Our usually fearless forecast is calling for a Recession that began in August of this year & that might bottom out in the 3rd or 4th quarter of 1974. In severity it might be a cross between the 1966-67 & the 1969-70 experience. Inflation, throughout this recession will remain stubbornly high @ 7-8% per annum & will rise to possibly 9-13% per annum by 1975. We remain as firmly convinced as ever that the average man's best inflation hedge is a carefully & intelligently selected "portfolio" of commodities.

## TECHNICAL TRENDS

### Cocoa

December '73	59.60
September '73	50.55

Our bear spreads finally worked out: the short DEcember '73 - long September '74 spread narrowed from 1270 points to 905 today plus having picked up some profit on the extra long September '74 sold @53.10. Also, short March '74 - long September '74 @500 points narrowed to 305 points. Both of these spreads should now be closed out.

We are now expecting a very substantial rally in cocoa prices from these levels & recommend outright long positions.

October 31st, 1973

Coffee

March '74 (New York) 67.10  
London Robustas January '74 £462.00

Subsequent to our bullish suggestion of last month, both of these contracts entered into a quiet downtrend that saw New York test an important support zone @64.50 basis March '74 & London @£455. basis January '74. Having weathered the storm successfully, both contracts are poised for a spectacular advance that should initially carry New York to 75¢ & London to £510.00.

Continue to buy aggressively.

Copper

December '73 92.50  
March '74 85.10

The very tight December position in New York earned it a new high today in spite of the refusal of deferred contracts to move along & LME's recent softness.

Although we feel that copper's bull market is in its terminal stages, the tight technical position of December '73 (with an open interest in excess of 5500 contracts against less than 250 deliverable contracts on Comex) can give the staunchest bear a real ulcer.

Well financed accounts who are committed to the short December '73 - long July '74 & short March '74 - long September '74 bear spreads should hold positions for the showdown to occur in the last days of November. By then we feel that enough copper will come out to close the gap substantially; certainly, after the December squeeze, the March bulls will have no leg to stand on.

Cotton

December '73 69.62  
March '74 67.95

A beautiful trade - those that sold March '74 last month as per our suggestion made as much as 1500 points (\$7500 per contract). The same applies to those that sold the long October '74 leg in the short December '73 - long October '74 bear spread.

Since bears are getting on the bandwagon, it is time for us to step down.

Cover all short positions & wait for a big bear market rally before initiating new short positions again.

Grains

(Winnipeg) December '73 Wheat 4.30½  
December '73 Flaxseed 9.42  
January '74 Soybeans 5.40½

After some very sharp declines, these particular grains offer an excellent trading opportunity on the long side.

Buy wheat, flaxseed &/or soybeans at the market.

Iced Broilers

May '74 37.85

The best value in the "Meat Counter".

Accumulate aggressively May '74 & forward positions for a 15-20 cents upside move over the next 2-3 months.

Orange Juice

March '74 56.45

A real winner. Should get to 64-65 cents fairly soon.

Hold long positions & add an 100 point reactions from these levels.

Precious Metals

London Gold 97.25  
January Gold (Winnipeg) 100.25  
December '73 Silver 288.10  
March '74 Canadian Silver Coins (Toront) 1440-1540  
January '74 Platinum 163.50

Without a doubt, the best buy in this group is platinum. Heavy liquidation took the open interest down to levels not seen in at least a year & represents a

October 31st, 1973

sure sign of an oversold market. Buy January & April '74 platinum for a more to \$200/oz.

On gold we continue to feel that a timely & safe purchase can be made once London gold closes over 104.00. Until such time we would remain on the sidelines.

We would also remain on the sidelines in silver but continue to advise investment purchases of deferred Canadian Silver Coins contracts.

Rubber April/June '74 34.60 - 34.80

Having absorbed fairly heavy liquidations, rubber futures firmed up & broke through well defined downtrend lines.

A move above 35.20 basis April/June '74 would signal the start of another major upmove that should take prices up to a test of contract highs at 41 p. We will have started the third & most profitable leg of the Rubber Bull Market.

Sugar March '74 9.86

Sugar prices & fundamentals are now in gear; higher than anticipated consumption, lower than anticipated production has already prompted the EEC to lower its export sights to 400,000 tons from 800,000 tons.

China & Spain are rumoured to be interested in raws & whites & the beginning of a buying panic is in sight.

You might mortgage your house & add to March & May '74 long positions. Initial target should be 11.15; eventually 16-18¢/lb. is possible.

Wood Complex January '74 Lumber 133.60  
March '74 Plywood 118.50

An incipient bull market that should last at least 18 months & carry prices well over the \$200 mark.

Add on previously established long positions on 500 points setbacks from any highs.

INTERNATIONAL MONETARY MARKET

Deutsche Marks December '73 40900

Swiss Francs March '74 32620

We are short once again as per our last Comments @41810 & 33635 respectively for DM & SF. Once again, accept profits & move to the sidelines.

British Pounds Spot 2.4385  
March '74 2.3995

With a discount of nearly 400 points to spot, March '74 represents an excellent buy. Interest rates differentials are now strongly in favor of the U.K. & should strengthen spot quotations for Sterling over the next 6-8 weeks.

Buy March '74 at market.

Albert D. Friedberg  
Vice - President  
Commodity Futures

\*\*\*\*\*

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