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COMMODITY COMMENTS

November 29th, 1973

GOLD: demonetized or remonetized?

Last Tuesday the world was treated to another monetary mirage: Dr. Arthur Burns, Chairman of the Federal Reserve, announced that the Governments of Belgium, Germany, Netherlands, Italy, Switzerland, The United Kingdom & The United States had agreed to end the two-tier gold market in existence since 1968. In the U.S. view, this action represented a further step towards de-emphasizing the role of gold in international monetary matters, a step towards demonetization. Contrary to American wishes, the joint communique failed to refer to Article 4 of the IMF charter, which stipulates that members shall not buy gold at a price beyond the parity declared by the IMF nor sell it at a lower price. In effect, this might have implied that Central Banks can sell but not buy gold beyond the official figure. France, which was not a party to the earlier 1968 agreement either, felt that enough gold traffic provisions of the IMF have been rendered inoperative to remove all seriousness from present negotiations.

In our opinion, the end of the two-tier gold market marks the beginning of gold's remonetization. Here is why. The EEC members, having adopted the now famous "snake in the tunnel" policy of intervention found themselves unable to settle debts among each other in the agreed fashion of a proportion of gold & foreign currencies. This was so because gold, their largest single reserve asset, was in effect frozen in their coffers at the official price of \$42.20/oz., no one willing to part with it at half price. Curiously enough, this new agreement forestalls the possibility of European Central Banks selling gold on the free market to de-frost a reserve asset; they are now able to transact among each other at the prevailingly free market price. It also carries some extraordinary (by modern standards) implications:

- a) it recognizes the free market price as the sole arbiter of values, despite official pronouncement that the free market is small, thin & insignificant;
- b) returns gold to its former role of a settlement asset, if only for the EEC;
- c) forces upon the EEC a deflationary economic policy vis a vis the rest of the world; this is so as a payments imbalance of one member must be settled with some gold, an asset that under the present rules (as viewed by the U.S.) cannot be reacquired in another way except by running a payments surplus.
- d) forces the U.S. to follow partial convertibility lest it runs the risk of seeing its greenbacks delegated to secondary money.

A corollary to (a) & (b) is an eventual recognition by market participants that convertibility & international settlement is still the real force behind a rise in price - and, of course, full convertibility cannot be achieved even at \$150/oz. A corollary to (c) is the necessity to establish channels for official purchases of gold for the purpose of adding to real world liquidity & thus avoid competitive deflation - this virtually guarantees that gold will be supported on any significant price dips, if a worldwide or just European, recession developed.

In short, the recent agreement to end the 1968 two-tier market of gold was a major step forward in remonetizing gold. Since this process requires a much higher price for the yellow metal, one is forced to conclude that a new & significant rise is in the making.

TECHNICAL CONSIDERATIONS

Ever since the first week of July, bullion prices have been in a steady downdrift. The first climactic wave of selling ended in mid-August when intraday prices reacted to the \$90/oz. mark, recovering to 94/oz. at the close. A fairly sharp rebound to \$110 was followed by a new, & far more orderly, phase of decline, representative of stale bull liquidation. A break below \$97.00 accompanied by news of the abolition of the two tier market triggered some heavy stop loss selling with prices touching at one point \$85/oz. & recovering to close @ 90/oz. The move to \$85/oz. represented a normal 50% retracement of the entire bull market, the close above \$90/oz. indicated that a successful test of the April/May levels had been made

By moving above \$100, a four-months downtrend has been penetrated, indicating the beginning of a new & important bull move.

CONCLUSION

Buy January, April or July '74 (Winnipeg) gold at the market for an initial test of the \$120/127 area basis London. Contract consists of 400 oz.; margin required is \$8,000.00.

TRENDS

A prefatory remark: bullish positions are advised here despite the present oil situation. In our view: (a) the United Arab front will slowly break up as oil reaches the extraordinarily tempting \$15-\$16/barrel (witness Nigeria's recent sale) & (b) the Bundesbank move to ease credit in the face of a possible oil-induced recession is indication that the structural (i.e. monopolistic) cost inflation of energy will be financed & underwritten by Central Banks everywhere. In short, the net effect is far more bullish than bearish on commodity prices - at least in the short run.

<u>Cocoa</u>	December '73	56.45
	March '74	50.55

Ghana's outturn continues rather poor & looks like we might not even make 350,000 tons. Grindings are running close to last year's levels, as indicated by the Dutch figures. At the present only Brazil can save the world from cocoa starvation, but even then it looks mighty tight.

A downside penetration of recent October/November lows lacked follow-through; the decline appears to suffer from exhaustion while the public remains out & sentiment is ever more bearish. The ideal ingredients for a powerful bull-market.

Buy March '74 cocoa at the market; ignore stops & look for a first objective of 62 - 64 cents.

<u>Coffee</u>	March '74	65.75
	London Robustas January '74	£485./ton

Robustas continue to outperform their sluggish New York sister; today all London contracts registered new highs.

This bull market is still in its infant stage. Add to previously established long positions.

<u>Copper</u>	December '73	101.00
	March '74	88.00

Not only we missed this market but we suffered some heavy losses in bear-spreading spot December '73 & March '74 positions.

Little change in total world refined stocks was shown to October. In the U.S. total stock were 55,310 tons compared to 63,088 tons in September & 160,972 last October; outside the U.S.A. refined stocks end of October were 255,813 tons, which compared to 249,392 & 420,083 for September '73 & October '72 respectively.

We prefer to take our losses & run.

<u>Cotton</u>	December '73	81.97
	March '74	75.47

The big bear market rally we expected last month has finally taken place with prices up as much as 1200 points.

The rally still has a way to go before we initiate new short positions.

<u>Grains</u>	Wheat	December '73	4.99½
	Flaxseed	December '73	10.76
	Soybeans	January '74	6.08 3/4

We are long these markets @4.30½, 9.42, & 5.40½ respectively. They are still going much higher. Hold long positions.

<u>Iced Broilers</u>	May '74	41.00
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Going higher. Remain long.

<u>Orange Juice</u>	March '74	57.90
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While susceptible to a large correction, the main trend remains upward. Would stop long positions @56.00 basis March '74. If stopped, would re-enter @ 51.50 - 52.00 or @ 60.00 on stop.

<u>Platinum</u>	January '74	155.20
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Still the cheapest relative value in the precious metals complex, it is afflicted by the current concern over fuel saving & its impact on the catalytic converter.

Disregard all such fears; @155/oz. we have discounted the end of all platinum industrial usage - a rather naive presumption.

Add aggressively to previously established long position.

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April / June '74 40.00 p. per kilo

Rubber

The current impact of oil cutbacks on synthetic rubber & the March termination of the GSA's 10,000 tons/month disposal have added considerable strenght to this market.

Last month we posited that a move above 35.20 basis Apr./June '74 would signal the start of a move to 41.00 p., its old high. This has taken place & while some profittaking is in order, we expect the 41.p. highs to be bettered over the next few weeks.

Remain long with stop @ 37.50.

Silver December '73 292.90
March '74 298.20

Silver price broke out rather spectacularly from a well-defined October/November downtrend accompanied by heavy volume & a limit lock-up.

Factors behind today's surge are:

- 1) a revival in gold interest (see first page);
- 2) a suggestion that stockpile disposal plans would be shelved indefinitely &
- 3) news that industry stocks of silver continued to decline in the 3rd quarter, 1973 & were down to 39.1 million ounces on September 30th. The lower end of September stocks compared with holding on June 30th of 41.5 million ounces. The Bureau of Mines also reported that consumption of silver in the third quarter totalled 45.2 million ounces compared with 52.1 million ounces in the second quarter & 32.8 million ounces in July/September '72. On this basis, total usage for 1973 is estimated @190 million ounces, or about 40 million ounces more than in 1972.

We expect prices to move sharply higher over the next 4 weeks, with a minimum upside objective of 3.35 for March '74.

Buy at market.

Sugar March '74 9.76

Since our last letter, sugar prices have hit a season's high of 10.84 basis March '74 &, subsequently, have fallen off to as low as 9.23 before recovering to 9.76 - 9.80 on today's close.

Reversal formations in both New York & London charts accompanied by a large increase in the open interest over the past 2 weeks tipped us of an impending shakeout. We therefore advised our clients in easing out of long positions in the 9.95-10.25 area. Yesterday's sharp drop on a heavy 5709 contracts following on the heel of a limit down move, had all the earmarks of a substantial liquidation (the two-day decline in open interest is substantiating this point) & all long position have been reinstated.

In the background, a leading trade house expects a surplus of 197,000 tons this year, already a much reduced figure. We continue to look for a deficit year & an explosive situation.

Add to previously established long positions.

INTERNATIONAL MONETARY MARKET

British Pound March '74 22950

In the midst of a promising long position of March '74 BP @ 23995 we were hit by an oil embargo & not even 13% was able to bail us out.

If you are still long, sell March '74 BP @ 2.28 on stop.

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.