

# 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

The Ides of March

March 12, 1974

Economic Recovery and Commodity Prices

Last October we posited the view that a mild recession had in fact begun in the late summer of 1973 and that it would probably end in the third or fourth quarter of 1974. We were wrong...partially.

While the evidence is clear that the business slowdown occurred towards August of last year--witness the sharp drop in both short term interest rates and commodity prices--the mildest of post war recessions is bottoming out right here & now. Curiously enough, the energy "crisis" helped to shorten the downturn; very simply, the low level of consumer confidence dropped consumers buying plans faster than what their diminished real money balances would have dictated, building latent buying force. In economic jargon, liquidity balances have been increased beyond desired levels and its restoration will cause a revival of consumer spending. Proof for our unconventional position abounds:

a) Car Sales have levelled out at minus 25-30% from last year levels while overall retail sales have held up fairly well; b) unemployment has remained at 5.2% for February in spite of the further drop in industrial production--a sign that productivity is on the rise and that we are witnessing merely a shift in resource allocation rather than an overall slump; c) short term interest rates have stopped going lower: the key 6-months Eurodollar rate is now holding stable at 8 5/8-8 3/4 %; d) long term interest rates are once again poking the 1970 highs, redressing albeit belatedly, the incredible paradox of negative interest rates; e) inventory/sales ratios continue to remain extremely moderate with little sign of build up of unwanted stocks; f) business confidence remains buoyant as evidenced by the continued high level of capital spending plans; finally g) key industrial materials such as scrap steel and copper have managed to move to new highs, hardly a recessionary sign.

What does all this add up to? Commodity prices as a whole, will probably move into new high ground before the end of April. Given this conclusion we submit that the severe two-week shakeout that engulfed the commodity markets is about to end and therefore presents some outstanding buying opportunities.

## Technical Trends

### Cocoa

March '74 74.30

May '74 67.50

The upward climb continues unabated despite sporadic bear raids by nervous speculators. West African crop figures no longer influence this market while internal Brazilian prices consistently exceed New York and London terminal values in spite of a sizable outturn. We are left with the stark realization that 1974 will see another deficit, 47,000 tons by Gillis Duffus' reckoning (under recessionary conditions). Consumers face a meager 2 1/2 months' supply, the lowest in 15 years.

Remain firmly long as a test of the 85¢ highs is in the making.

### Coffee

May '74 72.08

March '74 (Robustas) 5 527.00

Last February 7, with May '74 standing at 77.85 we said "the widening contango, with its implication of a soggy spot market, and the high level of public bullishness may be signifying an impending downward correction of some magnitude...sell and move to the sidelines."

March 12, 1974

A downward correction of 15% nearly wiped out the entire previous bull move.

We like to remain on the sidelines.

<u>Grains</u>	March '74 Wheat	5.51	March '74 Meal	152.50
	May '74 Flax	11.19	March '74 Beanoil	28.35
	March '74 Beans	6.33	May '74 Corn	3.03 3/4

In our last Comments we foresaw a large rise ahead; it came as March '74 Wheat went over 6.40 (from 5.58), May '74 Flax to 12.30 (from 11.16), March '74 Corn to 3.48 (from 299 3/4).

Although the last two weeks have seen a very severe shakeout in many of the above, we feel quite strongly that no irreparable damage has been inflicted to the grain bull market. Hold all long positions.

The outstanding buy in this group, without a doubt, is Soybean Meal. Technically, we are completing now a five-month base which is giving signs of resisting further erosion, in spite of significant weakness elsewhere. Sharply rising open interest at these low levels indicates that something big is "brewing": if we had to theorize we would say that the market is absorbing a huge amount of Professional, "fundamentalist" oriented, short selling. This type of open interest behavior was seen more than a year ago when Soybean Oil sold at 10¢/lb; it subsequently exploded on the upside and reached the mid-30's.

We recommend heavy accumulation at these levels, favoring the July '74 and onwards positions and looking for a first target of \$230/ton.

<u>Livestock Complex</u>	August '74 Cattle	50.20
	August '74 Hogs	42.60
	February '75 Bellies	58.27
	May '74 Broilers	37.92

Last February 7 we suggested "begin accumulating late summer positions and be patient..." We began accumulating 3-5¢ too soon. No matter. Livestock prices are feeling the effect of heavy dumping of live animals. A well informed source, quoted by Reuters, claimed that the cattle feeding industry had lost over one billion dollars since September as a result of sharply increasing feeding costs.

A short term anomaly is taking place: livestock for deferred delivery (August-February '75) is selling substantially below present breakeven levels: in an inflationary climate, this situation can only last for a period of a few weeks.

Add aggressively to previously established long positions and continue to be patient.

<u>Orange Juice</u>	March '74	54.00
---------------------	-----------	-------

Stopped out at 51.00 basis March '74. Bought again at 50.50 basis May '74 but stopped out at 49.50.

Would prefer to look elsewhere even though these levels are incredibly low.

<u>Precious Metals</u>	April '74 Gold	164.80
	March '74 Silver	545.00
	April '74 Platinum	218.50
	Canadian Silver Coins	March '74 2400-2500

Long term positions remain long and should raise stops to \$155/oz basis London Gold, \$4.75/oz basis March '74 Silver and \$200/oz basis April '74 Platinum. We can only repeat what we said in our last Comment: "these stop suggestions are intended to keep you riding the main uptrend...traders are urged to keep in very close touch".

Canadian Silver Coins have proven quite resilient to the recent shakeout; they provide an excellent opportunity for trading Silver in a smaller-than-5000-ounces way. Quotes have narrowed substantially and liquidity is greatly improved.

Rubber

October/December 45.00 - 45.25

Deferred Rubber deliveries continue to gain on nearby positions and are now all straddling the 45 p. mark. Open commitment has dropped steadily, from over 64,000 tons to under 50,000. The extreme quietness of the last 6 weeks is preparing the ground for a move to 70-75 p./kilo. Continue to accumulate...

Potpourri

Plywood still an excellent hold (it has gone up from \$85, when first recommended, to a present \$140 level)...

Sugar should make new highs in coming weeks but is too risky to hold...

Go long Canadian Dollars (103,000) and short Swiss Francs (32.40) and Deutsche Marks (37.80)...

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.