

Commodity Comments



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Commodity Comments

July 11, 1974

The most notable feature of last month's commodity markets has been the narrowing of the price--differential that existed between the so-called domestic and international markets. Touching 6-9 markets' lows are such prominent sacred cows as gold, silver, copper, zinc, lead, tin, rubber and coffee. As a result, the Reuteur's index of 17 primary commodities has registered daily 1974 lows and now, at 1210.3, stands just 14% above the year-ago level. On the other side of the boxscore, meat and grain prices have had substantial rallies and stand somewhat mid-way between their old highs and their recent bear market lows.

Money supply worldwide is contracting in real terms making it increasingly difficult to finance inflated inventories. The drying up of long term funds, a result of the saver/investor showing a strong liquidity preference, threatens the capital sector of the economies of the Western World. Both of these conditions point to a reduced demand for commodities.

Technical Trends

<u>Cocoa</u>	July '74	81.65
	September '74	73.45

A much publicized expectation of a 25% drop in U.S. grindings for the second quarter of 1974 was not fully realized as the actual figures showed a 19.6% reduction. Thirty five deliveries later, the July-September switch is still going at an astronomical 815 points premium the spot month, a testimony to real tightness or poker-like qualities on the part of the long holders.

Be that as it may, the recent steadiness of the London market does not 'feel' like a prelude to a sinking motion and at these stratospheric heights 'no bear' must be translated into 'more bull' (no pun intended).

Cover short positions and go long September '74 at these levels placing a protective stop at 70.00. Look for a test of the old 97¢ high.

<u>Coffee</u>	July '74	70.95
	London Robustas July '74	497.25

A cartel-like operation on the part of the other-milds group and financed by affluent Brazil has not succeeded in propping up the world coffee market which seems to be suffering from an old economic disease called oversupply. Indeed, New York finds itself with more than 2 million bags of coffee in excess stock bought for speculative purposes and as a hedge against a longshoremen's strike which was averted. Also, the usually reliable frost that envelopes the Brazilian Parana region during June and July has still to make an appearance. Perhaps the Gods are short the market.

A last desperate measure has been taken: Mexico and Angola have suspended shipments until prices 'recover'. Since these countries cannot well afford the foreign exchange loss and considering that the coffee is still being produced and stockpiled, they are only postponing the day of reckoning.

Add to previously established short positions; the wide contango is ideal for short sellers.

July 11, 1974

<u>Livestock Complex</u>	August '74 Cattle	45.87	February '75 Bellies	48.52
	August '74 Hogs	35.85	September '74 Broilers	36.00

We said last month that we foresaw a fair rally in the Livestock Complex and would be looking to be a buyer on dips hoping to turn 200-500 point gains. The 'rally' went farther than we expected and its vigor caught us somewhat by surprise.

Rising feed costs, aside from a deeply oversold conditions and better consumer demand, helped the meat complex soar 30-50% in price in a short period of 3 weeks.

The high level of frozen meat stocks (including the EEC's 130,000 ton mountain) and the possibility of a 10-20% cut in costs in feed cattle raising by allowing it to enter the feedlots at a much more advanced stage, indicate that the present rally will encounter increasing resistance.

A short selling opportunity may develop if prices continue to churn at present levels for yet another 2 weeks. In the meantime, sell August and/or October '74 Cattle and purchase April '74 cattle at 50 points or better premium nearby. We are looking for April to widen over nearby by at least 200 points.

<u>Precious Metals</u>	July '74 Silver	400.00
	July '74 Platinum	175.00
	July '74 Gold	136.75

The silver market has continued to erode due, principally, to a lack of buyers. This indicates that the bottom is yet to come as the final stage of a bear market, heavy liquidation and aggressive public short selling has not taken place. Our long established 2.80-3.00 target by year end is beginning to look increasingly plausible.

The platinum market is slowly returning to its former \$145-\$165/oz. range under the influence of burdensome spot supplies. Being too close to our target, we advise covering short sales on or around first notice day for July Platinum, hoping to see a better-than-average rally and then sell into it again.

In keeping with our previous comments (May 21) we abstain from indicating a bottom level for gold, except to say that stop-buys on short positions (or for new long position) should be lowered to \$147.00 basis the London Fixing.

<u>Soybean Complex</u>	July '74 Soybean Oil	35.13
	July '74 Soybean Meal	117.50

Our short position in July Bean Oil at 28.32 was stopped out with a 250 point loss, as previously suggested.

Soybean Meal prices have begun to firm up after absorbing heavy Italian and Brazilian cash selling. For the first time since we have kept records, meal is cheaper than corn on a per ton basis and, although it is mostly used as a feed supplement, it is, as corn, a good source of energy. Prospects for short Soybean and Corn crops plus its relative cheapness make it an excellent candidate for a bull move.

We recommend long position in August and September Meal at present levels, risking 500 points and looking for a fair sized move.

<u>Sugar #11</u>	September	22.70
	March '75	19.05

After having advised to dispose March '75 position at 18.40, we have had a sudden change of heart. Primarily, our keen interest has been awakened by a) a powerful technical consolidation of more than 2 months' duration which at these levels must have attracted a great deal of short-selling and b) a bearish posture adopted by importing countries in regards to their immediate needs of raw and white sugar. The queing line for nearby shipment is lengthening, no new supplies will be in for quite a while yet and the European beet crop does not look all that great. In addition, consumption does not give signs of being that highly elastic to present prices.

All the makings of a major squeeze are present and we strongly advocate the purchase of September, October and March '75 futures at market. Our minimum upside target is 28¢ for September.

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

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