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Commodity Comments

August 19, 1974

On Proven Concepts

Much to the chagrin of theoretical economists and mathematicians, common sense is a part of Economics. As investors we would rather be donned with this simple gift than with the esoteric art of devising econometric models.

Last Tuesday, on the heels of the USDA'S dramatic downward revision of the Corn crop, every commodity market was bid at the limit up. It was said that a new inflationary fever had gripped markets the world over. But such a presumption is non-sense and the very next day a full-fledged correction set in, almost across the board. In a declining economy, with real incomes being reduced, a rise in one commodity sector cannot lift the entire commodity spectrum--there just isn't enough money to go around. In fact a rise in one sector creates a fall in demand elsewhere (this can be statistically corroborated, as done by Citicorp analysts, by studying individual price deflators since 1953--above all, it is plain and simple common sense). Declining real incomes can be ascertained by the fact that world money supply is growing a minimum of 8 percentage points below price inflation.

Conclusion: a rise in food prices of the magnitude indicated by recent crop reports can only spell bearishness for industrial commodities.

Concern has been voiced about support schemes by those believing in structural price inflation. But one need only look at Coffee prices to see the non-sense of this presumption. It is obvious that artificial restraints, such as cartels, cannot for long distort the true equilibrium state dictated by the free interplay of supply and demand. This bit of common sense was responsible for a 260% profit in coffee futures over a 5-week period.

A presumption of economic foreknowledge on the part of a majority turns out to be wrong, especially when it is openly obvious. Importing countries refused to pay going rates for Sugar, at the time 20-23¢/lb, in the belief that they will turn lower. They are paying now 28-31¢/lb and more before it is over. With prices on a high plateau and the majority of seers bearish, what would happen when this majority began to worry and defected to the bullish camp? Ask Common Sense, or better yet, ask the poor souls short Sugar and Cocoa for the past 4 weeks.

The pecuniary advantages of having common sense are rather obvious. But can it tell us where to get it?

Technical Trends

<u>Cocoa</u>	Sept '74	82.60
	Dec. '74	76.60

On target and higher. Indications are that the Bahia mid-crop will only reach 2.6 million bags vs last season's 3.4 million bags--a significant reduction. Also, the Ghana main crop does not look terribly large and will most probably be late, benefitting especially the December position.

Add to previously established long positions and look to a minimum target of 90¢ basis December '74.

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<u>Coffee</u>	Sept. '74	58.20
	London Robustas Sept '74	£405.00

The floor caved in for this particular commodity as back-stabbing on the part of several members of the 'Cartel' was followed by the announcement of the inability of Cafe Mondial to pay for contracted long positions, part and parcel of a suicidal attempt to hold prices.

Cover 50% of short positions and place stop on remaining balance at 63.50 basis September '74 and £435 basis spot Robustas.

<u>Livestock Complex</u>	October '74 Cattle	45.95
	October '74 Hogs	36.75
	February '75 Bellies	54.70

The short squeeze is over and fundamentals are beginning to reassert themselves. Fairly heavy runs have as yet not damaged enough the prices structure because of the anticipated reduction in animal numbers for this Fall. This widely heralded reduction will be negated by the increasing proportion of grass-fed animals, a sort of invisible supply. Also drought conditions in the West may accelerate the liquidation of herds.

Establish short positions in cattle, hogs and pork bellies, risking recent recovery highs. Spreaders should consider the sale of nearby versus the purchase of deferred live cattle and the purchase of deferred cattle versus the sale of deferred hogs.

<u>Precious Metals</u>	September '74 Silver	448.00
	October '74 Platinum	194.50
	October '74 Gold	158.75

The decline of refiners' silver stocks, which amounted to 6.5 million ounces for the first part of 1974, may have come to an end in July. According to the latest statistics released by the Silver Institute, these stocks rose some 633,000 ounces in July. This surplus arose in spite of the sharply curtailed refined silver production from coins amounting to just 1,118,000 ounces versus 4,685,000 ounces in June. For those enjoying statistics, this may be reassuring. For the rest of us, suffice it to say that the main trend remains down, that the spot London downtrend successfully contained the latest burst of enthusiasm at slightly over 210 and that a real climactic bottom has as yet not been seen.

Platinum behaved according to form and hit an intermediate low of 169.00 basis spot July '74 on the day prior to first notice, exactly as anticipated in this Comments. A good short selling opportunity arose on the rally above 210 basis October and additions to short positions can be undertaken at the 200 level.

Pushed by intense speculative buying (not seen during the peak at \$180/oz) gold prices pierced through their 5 months' old downtrend at 147 and reached \$160/oz. The move lacked follow-through and prices are acting strangely in the low to middle 150's. We would retain recently acquired long positions but would raise our protective stop to \$149 basis London Second Fixing. We can hardly believe that a new high is in the making; rather we stick to our long held view (expounded in May of this year) that a 1 to 1½ year bear market in gold is at hand, at least to the extent that it does not produce a new high.

<u>Soybean Complex</u>	October Bean Oil	39.53
	October Meal	147.30
	November Beans	750.¼

Our long recommendations in Meal proved extraordinarily rewarding as prices went from 117.00/ton to over \$200/ton. All long positions were advised closed above \$183.00 mark basis August.

At long last, the Beans and the Oil have given every sign of having topped out. Sell Beans at market with 50¢/bu stops and sell Bean Oil at market with 4¢ stops.

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Sugar #11

Another outstanding recommendation, this market looks like it wants to go still higher having trapped a very large contingent of bears. Two major 3½cent stakeouts give this bull market a longer life than anticipated.

Those long should keep in close contact as our first minimum objective has already been reached and a sudden reversal cannot be discounted (in all probability nearby sugar will see mid - 30's before it is over).

Zinc 3 Mos £ 459/ton
Tin 3 Mos £ 3640/ton

Technical and fundamental considerations make these 2 markets excellent shorts. Sell 3 Mos London positions with overhead stops of £75. A Tin contract call for 5 Tons and margin required is \$5,000.00. A Zinc contract calls for 25 Tons and margin required is \$4,000.00.

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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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