

Commodity Comments



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On Money & Magic :

or how to fool most of the people all of the time.

Currency debasement in the Ancient World was a simple process: the weight & finesse of metallic coinage was slowly being chipped away by the sovereign's mint. Although tragic, it was a process apparent to even the most ignorant citizen of an unsophisticated society. The twentieth century, particularly the post-war period, has witnessed, on the other hand, an insidious, just as tragic, but little noticed debasement.

Economists speak of a 'full employment budgetary surplus'; financially speaking, however, its ink is no less red than the one generated by a budgetary deficit. Better yet, to hide this red ink & its effects, they speak of M1, M2 & even M3 money supplies, denominations particular only to the species generically lumped under the title of fiat paper currency. In ancient times a coin was a monetary unit: ten coins represented ten monetary units. Today one of our 'paper dollars' may or may not belong to M1, but could belong to M2 & as far as M3, well ...

Since money is at the root of inflation or deflation, it would be useful to know whether money is growing at 6%, as claimed, 10%, as is more probable, or even 20%, as we will suggest.

The Eurocurrency market is a huge creator of money. Very simply, a dollar created by a payments imbalance of, say, the U.S. that ends up as a deposit liability of Westminster Bank, London, is re-lent to a U.K. petrochemical concern who, in turn, uses it to pay a sheikh for oil (we will grant that Westminster keeps a fractional reserve in this otherwise unregulated market equal to 10% & therefore only 90¢ go to the U.K. concern). The Eurodollar market has just grown by 90¢ by a simple bookkeeping entry. The Sheikh may want to redeposit this 90¢ with, say, Banco di Roma, who in turn sees it profitable to re-lend 81¢ to Fiat. Once again, the Eurodollar market has grown, now by another 81¢. The process repeats itself endlessly, until a 'leakage' occurs.

Space does not permit us to delve more analytically into this very complex process. Suffice it to say that the Eurodollar market has grown to well over \$200 billion dollars with a 50 billion dollar increase in just the last 12 months. This expansion equals West Germany's entire money supply! None of our euridite monetarists, & less so the 'uninformed masses' realize that the small percentage changes in the U.S. money supply are domestic figures that do not include the Eurodollar monstrous creatures. In fact, however, these 50 billion dollars are dollars just the same as the ones we keep in our wallet & bid for international resources in much the same way as U.S. residents bid for gasoline, tires, or sugar.

By factoring in the Eurodollar (& Eurocurrency) monetary expansion into the total money supply equation, one gets a 20% - plus growth of money in the last 12 months, not the conservative & well meaning 5 - 6%. Little wonder that inflation continues unabated & little wonder that the price of money, i.e. short or long term interest rates, are well below market rates of inflation! There is a glut of money, not a shortage of it & the recent easing of short term rates, on the face of gigantic increases in the consumer price indices (the U.S., U.K. & other so-called industrialized nations) is prima facie evidence of too much of it, not too little.

What is then the so-called liquidity crunch? It is nothing more than a misallocation of funds among lenders, a credit selectivity which pushes the small (& sound) as well as the marginal & mismanaged lenders against the wall. Many a Eurocurrency bank has committed the capital sin of lending long while borrowing short (mostly Petrodollars) & finds itself unable to roll over. It is then in this sense that one can speak of a liquidity squeeze. Similarly, savings institutions in their artificial inability to pay going rates for funds are caught in a 'squeeze'. It is only too obvious that the 'squeeze' is due to artificial factors such as interest rate ceilings. Large N.Y. banks, one the other hand, have had no problems in raising huge amounts of funds in the CD Market.

Precious Metals

December '74 Silver	415.00
October '74 Platinum	174.00
October '74 Gold	148.00

Silver continued its downtrend but began levelling off in the past two weeks at 3.70 - 4.00 basis Spot.

In the weeks ahead silver prices may benefit from

- a) heavily bearish public sentiment;
- b) a reduction in carrying costs;
- c) a renewed psychological burst of inflation;
- d) a substantial reduction in physical supplies;
- e) lower than estimated industry stocks.

We would thus cover short positions & move to the long side looking for as much as 75¢ - \$1.00/oz. gain. Place downside stops at 3.75 basis Spot, Closing only.

Long gold positions should have been closed out when bullion broke \$149/oz. basis the second fixing. Our renewed concern over monetary expansion (as discussed above) leads us to believe that gold will participate in the ensuing bull move we foresee for other groups of commodities. To avoid whipsawing, we advise short selling only on a move below \$144. basis 2nd fixing while long position may be re-established on a move above 158.75.

Cover short platinum positions & move to the sidelines.

Soybean Complex

October '74 Soybean Oil	40.75
October '74 Soybean Meal	156.30
November '74 Soybeans	7.78

Short positions suggested last month on both Bean Oil & Beans yielded some very spectacular short term gains. The former dropped nearly 700 points, the latter 50¢/bu. These positions were advised closed in the interim.

We would now remain on the sidelines.

Sugar #11

October '74	35.56
March '75	28.96

Strong technical support in the vicinity of the 31¢ mark for October (after a rather sizable reaction from the 37.50 area) lends vitality to the forward 1975 positions, presently well below 31.00. Maintain long positions, risking 2600 basis March '75; be prepared to sell October above 40¢/lb.

Wood Complex

November '74 Plywood	97.30
November '74 Lumber	105.80

Along with copper, these two commodities represent above average value & an aggressive scale down purchase program should be initiated. Lower interest rates (at least in the short run) & mill closures (as a result of below cost quotes) will eventually turn this market around. Our guess is that a bottom is no more than 2 weeks away. & again no more than 10% lower than present levels.

Buy at market & at scale down, if given the chance.

Zinc

Tin

3 months	£379.00
Cash	£4030.00
3 months	£3410.00

The tin short position was stopped out with a £75 loss. Backwardation increased sharply, with cash trading at times £600 over 3 months.

The Zinc short sale, on the other hand, has proved quite rewarding.

We would now cover all short positions inkeeping with our previous remarks.

Light long positions may be taken in tin with a view to capture the wide backwardation.

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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.