

Commodity Comments



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Commodity Prices & 1975: a guide to profits.

The new year brings little fresh news: the great Bear Market in commodity prices started in late February began to accelerate on the downside by the last week in October and has been on the skids ever since. The last casualty of the bust, Sugar, fell prey to the bears on November 21st. It marked the end of the 1972-1974 boom, a heretofore rare event that took prices up by about 250% on the average and by as much as 1300% in individual cases.

The orderliness of the decline (evidenced by group rotation) and the persistence of yet relatively high prices in the midst of the world's greatest industrial slump since the 1930's raises the possibility of the world having entered the first stage of runaway inflation. Prices, on the average, will not return to their starting point. Sometime during 1975, the groundwork will be laid for a new explosive advance, perhaps to start in mid 1976. The above should serve as a warning to reckless bearish thinking. Not everything will continue to fall and not all the declines will proceed in straight line fashion.

Cocoa March '75 .64.80

The precipitous liquidation of the December position in London, falling from a high of £845 to an expiry level of £725 lent fuel to the bears who insist there's no near term shortage. Subsequently the March positions in both London and New York lost ground relative to their distant cousins which have been showing some significant resilience.

On the positive side, carryover stocks are not expected to be increased substantially (thus continuing a relatively tight situation) during the 1974-1975 season, deferred contracts are selling close to a substantial base formed in 1973, around 45-50¢/lb., and spiralling sugar prices, a major cause for diminished consumption, have begun to recede. Also, seasonal considerations are bullish at this time of the year. On the negative side, open interest remains stubbornly high, the backwardation is disappearing and major uptrend lines have been broken.

With intervening good sized rallies, the negatives will prevail, at least for the next 3 to 4 weeks. Remain on the sidelines.

Currencies

March '75 Deutsche Mark	42.480
March '75 Swiss Francs	39.750
March '75 Dutch Guilders	40.800

At year end, Euro-Swiss Franc and Euro-Deutsche Mark deposit rates for 3 and 6 months remained at around 9% and 8% respectively, not much below the 10% rate prevailing for U.S. dollars. As we have said in the past, this differential is too narrow to induce short term capital to flow into the U.S. dollar.

Rising Deutsche Mark rate will tend to diminish, over time, their huge trade surplus but will have the perverse effect of dampening local inflation, thus making it an even more attractive monetary haven. Also, the initial trade effect will be to enlarge this surplus as imports drop in value and exports rise in value faster than volume elasticities (the 'J' or 'Hump' effect). The current account surplus could grow yet larger for the next 2 or 3 months.

January 6, 1975

Finally, the West German administration, faced with an inevitable reflation program welcomes the rise of the Deutsche Mark as the only anti-inflation offset. The competitiveness of German industry plus the vested interest on their part (and for that matter, the rest of the EEC) to see a higher Deutsche Mark rate argues well for our long positions, first established at the 38¢ level.

The Swiss Franc should also continue to rise but the Deutsche Mark is becoming a better vehicle because (a) the Swiss National Bank is interested in restraining the upside float (as evidenced by artificial measures and fairly large intervention), (b) Swiss industry is not nearly as competitive as its German counterpart and (c) the lack of Swiss investment vehicles available to foreign money.

Remain long Swiss Francs and Guilders; add to West German Deutsche Marks.

<u>Grains & Oilseeds</u>	May '75 Wheat	4.37 3/4
	May '75 Corn	3.52 3/4
	May '75 Soybean	7.36 1/2
	May '75 Soymeal	152
	May '75 Soybean Oil	35.75

Seasonal considerations, large farmer holdings and decreased animal feedings are being increasingly felt in the grain markets. If one couples these reasons with the export rationing system, recessionary forces and bumper crop expectations for next season, all the ingredients are present for substantially lower prices. Soybean Oil has begun to feel the effects from competitive oils such as palm oil (priced variously 3-6 cents under Soyoil) and reduced demand.

Massive head and shoulder tops have developed in Corn, Wheat and Soybeans and downside targets for the May '75 contracts should read \$2.75, \$3.60 and \$5.50 respectively. As for Soyoil, May '75 should reach the low 20's.

Sell these markets short on any one of two day rallies with generous protective stops.

<u>Livestock Complex</u>	April '75 Cattle	40.25
	April '75 Hogs	41.82
	May '75 Pork Bellies	64.82

A suspicious looking support level has developed at just over the 39¢ mark basis April '75 cattle while Hogs are unable to break through their former highs around 47¢/lb.

Long positions in Cattle, Hogs and Pork Bellies should now be abandoned. On rallies, we would now establish short positions in April '75 cattle and April '75 Hogs looking for 400-800 points on the downside.

<u>Precious Metals</u>	April '75 Gold (Winnipeg)	176.90
	May '75 Silver	436.60
	April '75 Platinum	166

Anticipatory demand for gold lacked follow through in the American markets and a sharp reversal from the \$200/oz. level ensued. Important intermediate uptrend lives in London were broken when bullion slumped through 183 and later \$175/oz, thus breaking the upside momentum.

Today's 2 million ounce auction failed to reveal good buying interest. Following is a partial list of bidders, prices indicated and amounts wanted.

<u>Firm Bidding</u>	<u>Bid Price Range</u> <u>(in ascending price order)</u>	<u>Total Ounces</u>
Herff Jones Co. (div. of Carnation Co.)	1. \$165.00-\$185.00	8,000
Mocatta Metals Inc., New York	2. \$172.03-\$173.03	7,200
Federal Coin & Currency In., New York	3. \$168.78-\$171.03	11,600
Swiss Credit Bank, Zurich	4. \$160.00-\$173.50	57,000
Miscellaneous	5. \$142.00-\$188.00	191,000

January 6, 1975

<u>Firm Bidding</u>	<u>Bid Price Range</u> <u>(in ascending price Order)</u>	<u>Total Ounces</u>
Dresdner Bank AG of New York	6. \$155.00-\$174.00	402,800
Sharps Pixley Inc., New York	7. \$157.11-\$167.50	21,600
Bache & Co. Inc., New York	8. \$150.01-\$167.51	5,200
Republic National Bank of New York	9. \$140.25-\$168.00	212,000
New York Metal Trading Companies	10. \$136.00-\$164.00	10,000
Shouki Nauhous, Quebec	11. \$136.00-\$151.00	30,400
Total Bids: 209	Total Ounces:	956,000

Obviously, a large overhang now remains in the hands of the U.S. Treasury, possibly as much as 1,300,000 ounces if not all bids are accepted as is most likely.

Particularly disappointing is the lack of demand even at the \$165-175/oz. area which may indicate quite a bit lower prices yet to come. Except for brief and intervening rallies, gold has become a sale rather than a hold and would suggest moving to the sidelines.

Heavy professional short selling aborted a good sized silver rally that saw prices move from under \$4.20/oz to almost \$4.90/oz. The path of least resistance is downward and we feel that prices will first test the \$3.80 level basis spot and eventually break down to as low as \$3.00/oz. Sell on rallies.

Platinum prices broke their long standing support at \$165 basis Spot initiating a new downward leg in the 11 month bear market. Given that (a) prices are both relatively (to gold) and absolutely cheap; (b) little or no Russian sales are taking place at these levels and (c) January will soon expire, at which time selling pressure should subside, we advocate waiting for prices above \$170 basis April '75 before any selling is done. The downtrend should be rather slow and orderly and give both bull and bear traders a chance to 'trade out'. We prefer selling first, but only on minimum \$10 rallies from any lows.

<u>Sugar #11</u>		
	March '75	43.60
	September '75	34.95
	May '76	25.30

Following up our short sale recommendation of last month (then 57¢) continue to feel that Sugar prices have considerable downside potential, and as such, represent an extremely attractive profit opportunity.

Trade sources are indicating a 10-20% drop in sugar consumption in the U.S. A similar, although not as steep, drop is being experienced in developing nations while the EEC has resorted to higher internal prices and rationing to keep consumption from growing. The panic buying of the last 3 months has subsided considerably as evidenced by the lack of recent world tenders and the 100,000 tons buying tender cancellation on the part of the supposedly Sugar-starved European Community. Also, Lebanon has been postponing its buying intentions for now well over 3 weeks. Rumours persist that the FDA will lift the cyclamate ban in the U.S. early in 1975, a potentially devastating happening. Corn fructose is rapidly gaining an even larger share of the 'sweet' market, cakes, ice cream and soft drinks-it is priced 15¢/lb under present Sugar quotes.

Our preliminary forecast for 1974-1975 calls for production to be close to 80 million tons while consumption to be down a minimum of 5%, to 77,500,000 tons leaving a net increase in stocks for the end of the 1974-1975 season of 2,500,000 tons, the first such increase since October 1972.

Technically, the market found support at the most important June-September uptrend but rallies were feeble in that volume was lacking. Open interest movements through the 38.60-47.60 rally basis March '75 indicated that most of the buying was from a shortcovering nature.

With the upside blow off in prices behind us, we are now looking for a steady erosion in Sugar values, with a first minimum target of 30¢ basis March '75 and eventually 15¢ basis September '75. Bear spreads should now be concentrated in the September '75 May '76 positions now trading approximately 1000 points in favor

of September '75.

<u>Wood Complex</u>	May '75 Lumber	126.00
	May '75 Plywood	112.70

Perhaps the only markets with good upside potential. Liquidity is being rebuilt slowly in the savings Banks and Savings and Loan institutions which should spill into new mortgages commitments starting this Spring. Firmer cash markets of late have been only a result of substantial production cutbacks, which should further improve the 1975 supply/demand equation.

Our econometric studies point to \$135 & 145 average prices for plywood and lumber for the Spring of 1975 and \$155 & \$165 for late Summer of 1975. Consequently, accumulation of deferred contracts at present levels carry with them a minor downside risk and substantial upside appreciation.

Technically, bullish break outs will occur at 116.50 & 126.00 basis March '75 Plywood and Lumber respectively.

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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.