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Commodity Comments

May 22, 1975

UPTRENDS: the road to riches?

With the passing of weeks and months, the aging commodity bear begins to lose his grip over the commodity spectrum and slowly hands over the mantle of leadership to the baby bull. The latter's command is reflected in the growing number of futures prices struggling up from sharply depressed levels with some of them forming delightful looking patterns, what technicians are fond of calling uptrends. The road to riches is simple: ride out the vicissitudes of the long lasting uptrends—those rising waves of 1-3 years. Before you embark on such a trip, however, be sure, be confident, be patient...

The uptrend, in spite of its many difficulties, provides the better of the two rides for, as it is all too obvious, downtrends fight the inflationary bias inherent in all paper currency systems. The commodity uptrend has a difficult but inevitable birth and it has a long but doubt-ridden life. It destroys the early pessimist, satisfies (but no more) the nimble trader, rewards enormously the rider and, finally (and ironically), it destroys the late optimist. It respects common sense and foresight but despises "systems" and intricate economic models; it respects courage but despises both fear and/or recklessness.

Those who understand them fully will acquire the Midas touch.

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On the economic front it can now be safely stated that April 1975 marked the end of the worst post-war recession in the U.S. A survey by the National Association of Purchasing Management Inc., a trade group whose views in the past has proved remarkably well attuned to economic realities reveals: a) 27% said new orders were up in May vs. 23% in April, and 14% in March; b) 26% cited production increases vs. 20% in April, which had been the first positive turn since last July; c) Companies telling of inventory cuts totalled 49% this month down from 54% in April while those adding to stocks rose to 13% from 9%, a month earlier.

Trends

Copper July '75 56.70
3 mos London Wirebars B570

The first advance from the abysmal lows registered in early January was turned back by a heavy barrage of adverse economic statistics. World refined copper stocks (industry and non-industry) on March 31 stood at 775,137 short tons more than double the year-earlier level of 324,221 tons. Adding an estimated 225,000 on hand in Japan (not covered by the American Bureau of Metal Statistics' survey) total refined copper stocks in the non-communist world are currently indicated at over 1,000,000 short tons in addition to large stocks of unrefined copper (ore, blister and scrap). A substantial part of this overhang, however, is already 'sold' (hedged) on the New York and London futures markets as both provide a profitable contango. Indeed, the contraseasonally large open interest is, no doubt, an indication of this huge hedge position. It follows that the weight of these surpluses is not as onerous as it may seem.

On the positive side: a) the Bureau of the Mint is continuing its copper buying program and will very shortly tender for roughly 19,000 short tons (these fellows can sure recognize a bargain); b) U.S. Copper fabricators' refined stocks fell about 10,000 short tons during March since they consumed more than the amount delivered to them by producers; c) new orders booked at 96,400 short tons easily exceeded February's 80,000 ton level; d) a dramatic increase of 9.8% in new orders for durable goods, a five months' high, may well indicate the beginning of the long awaited economic recovery (see our above comments).

May 22, 1975

Investors should continue to accumulate copper futures at these levels. The long uptrend has begun; it will be slow, at first, but certain.

Cocoa July '75 49.50

Spot and futures prices fell to two-year lows this month, less than half the year-ago quotations of \$1.10-1.20/lb. The dramatic decline of the last two months is largely attributed to the sharp drop of 17.2% in grindings during the first quarter of 1975 in the five leading Western consuming nations.

A good case can be made that Cocoa prices have hit the bottom of this bear market. First of all, sugar prices have returned to levels more compatible with profitable chocolate manufacturing. Secondly, the unusual 35% year-to-year drop in U.S. consumption for January-March '75 is not likely to be repeated. Thirdly, Netherlands, Germany and the Eastern Block have succeeded in raising their level of consumption in spite of relatively high prices prevailing during 1974 and early 1975 and can be expected to increase offtake, for the course of 1975, substantially above year earlier levels. Gill and Duffus has projected a October 1, 1975 world carryover of 390,000 tons. This carryover represents slightly less than a 3 months' inventory in a 'normal' consumption year. 1976 may be just more than 'normal'

Recent rumors that Ghana had sold out its entire crop seemed to gain credence today when a Chinese delegation visited London in search for supplies and found none. In the meantime, cocoa producers meeting in Abidjan are considering the creation of a 50,000 stockpile to support prices.

Falling open interest and a steeply rising momentum line accompanied the breakout of all deliveries out of their 3-week trading range and a worthwhile advance is indicated.

Buy July and September Cocoa for a 500-800 point initial advance. Place protective stops at 45.00 basis September '75.

Cotton July '75 45.62

The slow and steady advance found resistance at the 46.80-47.00 area basis July '75 as the market assessed field crop reports. An extremely wet spring is holding up plantings to levels far below 1974 and 1973. Latest reports indicate that planting in the 11 major southern states was 49% finished by May compared with 64% last year and the 'normal' 61%. Farmers' intentions to plant 30% less than last year may be reinforced by natural forces and a significant switchover to Soybeans is now expected. Manufacturers' stocks are considered the lowest on record and signs of inventory replenishment are beginning to surface.

We expect Cotton prices to break out on the upside no later than the first week of June for an extended 500-800 point move.

Remain long and add on more above 4700 basis July '75.

Coffee Sept '75 56.14
London (Robustas) Sept '75 £427

A full fledged bull market has begun, starting from an extremely low level of public participation. The backwardation that has developed in Robustas is no casual accident-it's an indication of nearby tightness. The possibility of crop damage in the Parana region during July should add further impetus to the present advance.

Buy Sept '75 New York and London Coffee futures. We have, as of yet, an undetermined target but believe the advance could be substantial. Spreaders may wish to buy Sept '75 and sell Dec '75 at 100-110 points Dec. premium for a low risk-high reward straddle.

Orange Juice July '75 52.20

This market, too, is on the throes of a major uptrend that should eventually carry it well past 80¢.

Continue to hold long positions and raise stops to 49.50 basis July '75.

Iced Broilers August '75 41.20

Broiler futures have broken out of an extended 8 week base at 40¢ basis August '75. The present backwardation makes it attractive to hold deferred contracts.

Buy August '75 Broilers at the market placing initial stops at 38.50

May 22, 1975

Rubber Jan/March '76 30.55 p. per kilo

Rubber prices continued to mark time during the past 4 weeks trading rather listlessly in the 29-30.50 area basis first 1976 deliveries.

For all of 1974, the Rubber manufacturers association reported that natural rubber usage increased 22,286 tons to 707,722 tons taking 23.1% of the total rubber market compared with 22.4% last year. The synthetic edge is gone and should stay that way so long as the oil cartel is successful in keeping up prices above \$9/barrel.

Remain long.

Wood Complex July '75 129.20

A spectacular run up to \$150 basis July '75 Plywood, came to an abrupt end as a result of a) bond market worries and their effect on mortgage rates; b) the realization that the \$2000 credit given to American purchasers of 'old stock' houses (built before March 26, 1975) will put new builders at a competitive disadvantage, thus possibly slowing new immediate construction; c) an unusual amount of public participation as the long side which saw the open interest rise from just under 8000 contracts to over 10,000 contracts. Most of these adverse factors are no longer operative: open interest has declined to 7500 contracts indicating that a real wash out had been accomplished while long term interest rates aided by a flush banking system have begun to decline. The \$2000 credit will, at any rate, help to clear up present overhang of unsold houses and is a bullish long term factor. Partly as a result of this credit, March sales of new homes increased to a 450,000 seasonally adjusted annual rate, up 13% from the average over the previous 3 months. Survey data from the National Association of Realtors (NAR) indicate that sales of existing homes was up 15% from the January low and equal to the average sales rate for all of 1972, an excellent year.

With housing starts due to improve steadily and the possibility of a major strike at Wood Mills this summer, we expect prices to reach over \$175 target for late Summer '75.

Remain firmly long.

Potpourri

Remain long zinc positions... Same with Yen... We were stopped out of short Silver positions at a maximum of 465 basis July '75 and we prefer the sidelines... July '75 Gold short positions as well as Swiss Franc should now be covered...

Albert D. Friedberg
Vice - President
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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.