— Friedberg & Co. Ltd. —

347 Bay Street
Toronto, Ontario, Canada M5H 2R7
(416) 864-1195
Cable: Friedco Toronto
Telex: 06-23446

Commodity Comments
July 21, 1975

Will you miss the next
COMMODITY BULL MARKET?

As far back as March 10th with a Commodity Comments issue entitled NO Depression: a Commodity Trader's Prognosis, we have warned our clients and readers that an industrial recovery was imminent and that serious money could only be made on the long side. This early warning was followed by Industrial Commodities: in the bargain basement (April 8th), Uptrends: the Road to Riches (May 22) and our last issue covering principally Sterling and the U.S. Dollar's weakness but which too emphasized the long side of relatively 'cheap' commodities.

A great many commodities are already showing us handsome profits; a few others have as yet to realize their much higher target levels. Those acquainted with our operating techniques know fully well that, in spite of clear cut and apparent fundamental and conceptual reasons, markets do not always follow the script. It is for this reason that we place such a great emphasis on technical analysis. As such we urge you to follow our technical comments closely and to adhere quite rigidly to stop loss suggestions.

Present monetary trends are worrying us a bit, the Federal Reserve seems intent on seeing a 5-7½% growth in money supply figures for this year and, in our view, this growth in money stock, is insufficient to finance much higher levels of economic activity. The money stock, consisting of private demand deposits and currency in the hands of the public (M_1), has increased at a 10.7% rate in the last 3 months, exceeding the Fed's upper range by slightly over 3 percentage points. Since mid-June, the Fed has aggressively moved to tighten reserves available to the banking system by operating through the 'Fed Funds' market! Weekly average Federal Funds rates since week ended June 11 have moved up from 5.15% to 5.31%, 5.72%, 6.31% and let up slightly to 6.06% for week ended July 9th as money growth was being successfully reined in. And here is the danger: Nominal rates of growth of 5-7½% (the Federal Reserve target) when deflated by current inflation rates (4.5-7%) result in no growth at all for real money supply, a significant constraint. Furthermore, money velocity, (a complement to money stock when financing economic activity) is actually still declining as evidenced by demand deposit turnover figures. There is a real danger that economic recovery will be aborted or choked off within a few months. This suicidal course programmed by the monetarist faction of the Federal Reserve will definitely have to be reversed no later than October of this year if President Ford still desires to be re-elected.

Technical Trends

Cocoa	*July '75*	*67.00*
	September '75	*58.30*
	December '75	*54.70*

Last month we commented that while our initial long positions were closed at 45.00 basis September '75 'the downside potential is much too limited to warrant short sales, even for trading turns, and therefore look to re-enter market from the long side in the very near future...keep posted'.

Our fundamentally bullish posture got us back on the long side when September '75 broke through the previous rally top at 48.75.

Ever since that breakout in early-July the market has been fuelled upwards at an accelerating clip by extremely constructive grinding figures. U.S.A. figures, first expected to be down nearly 25%, came out to be only 12.3% lower; German grindings were up 7.8% instead of being down 15% and Dutch grindings were up an astounding 19.8%. The U.K. figures, down 30%, were about in line which original expectations and proved once more that: (a) a strong currency is a pre-condition for a rising standard of living and (b) backwardation structures in commodity prices can hardly be ignored as they represent some sort of shortage.

As we stated in our May 22 Comments, a world carryover of 390,000 tons representing less than 3 months' inventories at 'normal' consumption rates can hardly be classified as a large or, even comfortable, surplus. It may well be that, in time, 1976 deliveries will see new all-time highs, possibly above $1.10/lb.

For the moment, maintain longs with a view towards taking partial profits in the 65.00-70.00 basis September '75.

Coffee	September '75	61.00
	London (Robustas) September 1975	£ 850

This has clearly been one of the most sensational price explosions in commodity history. Our initial long positions, established on May 22 at £ 427, has now doubled in price representing a $5,000 profit on a $800 margin.

On May 22nd we stated: '... 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...' Post Mortem: a devasting frost occured Thursday night, July 17th, literally wiping out 90% of the 1976-1977 crop. Parana normally produces about 40% of Brazil's coffee. This frost is the 3rd one in seven years (1969, 1972, 1975) but, is, by far, the most damaging of all. The damage to trees in the Parana region (which may affect output for 3-5 years) and political upheaval in Africa (particularly Angola) will raise coffee prices to a new high-price plateau for years to come. The cheap 50¢ coffee of early 1974 is unlikely to return for a long time to come.

Half of the long positions should now be disposed and the other half kept for possible eventual move to £ 1000-1200 (and slightly over $1.00/lb in N.Y.). The floor has informed us that the September-December coffee bull spread that we recommended a while back at 100 pts December premium is now bid at 100 points premium September. Maintain spreads and look now for a widening of an additional 300-400 points in favor of the nearby.

Copper	July '75	57.10
	December '75	57.80
	3 mos London wirebars	£581½

The industrial recovery has begun to nibble away at fabricators' stocks. Refined copper stocks of U.S. fabricators fell about 21,000 short tons during May, according to the latest figures released by the American Bureau of Metal Statistics. This followed a drop of 8,000 short tons during April.

Fabricators' stocks at end of May '75 were only 10,000 short tons higher than last May, a time of shortages and higher prices.

We suspect that most copper surplus stocks are in the end of producers, not users, and therefore, prices are likely to reflect aggressive short covering from time to time.

The present up-move should soon test the 60¢/lb producer level. We prefer to remain long trailing positions with 150 point stop losses. Present stop loss should be placed at 58.00 basis December '75.

Cotton	October '75	49.00
	December '75	49.39

The steady undertone of this market reflects firming demand and the realization that the all-important U.S. crop will be significantly lower than last year. Average daily consumption for the 5 weeks ended May 31 worked out to 22,812 bales or at a rate exceeding 8,300,000 bales yearly, far ahead of the USDA's 6.2-6.7 million bales forecast. It should be noted that domestic consumption for the past 10 years averages out to roughly 8 million bales.

As per our last Commodity Comments, additional long positions were put on when October '75 broke through the 47.50-48.25 range. Continue to accumulate long positions at these bargain-basement levels. Our initial target 55¢ is now being raised to 60¢ for late Summer '75 and an average price of 75¢/lb for year end.

Currencies	September '75 Deutsche Mark	40.03
	September '75 Swiss Franc	37.88
	September '75 British Pound	216.00

Our sale recommendation of the U.S. dollar proved strongly ill-timed. We frankly admit that the sharp rise in Eurodollar deposit rates (and domestic interest rates) took us by surprise. From mid-June to last week, 3 months Eurodeposit rate in London moved up from 5 3/4 to 7 5/8% thus widening very sharply the differential in favor of U.S. deposits vis a vis Swiss Frank and Deutsche Mark deposits. The last two remained in a range of 3 3/4 to 4 1/2$. The 3 percentage point differential was large enough to move short term funds into the U.S. dollar which staged a spectacular rally. September '75 Deutsche Mark fell from 43.00 to 40.00 while the Swiss Frank fell from 40.75 to 37.90. Fortunately, our technical orientation saved the day as stops losses were triggered at 42.60 and 39.90 respectively.

This latest development confirms our view that the main determinants of exchange movements are interest rates and, not, trade considerations. If and when, as we commented earlier, the Fed reverses its present tightening posture, funds will begin flowing back into Deutsche Mark and Swiss Frank. For the present time, we advocate the sidelines.

Short British Pound positions may now be covered as they have dropped as much as 1000 points. Britain's balance of trade should improve sharply over the months ahead being that it is presently out of phase vis a vis the nascent industrial recovery the world over. Also rising unemployment may give the present wage ceilings a chance to succeed.

Grains	September '75 Corn	2.73 1/4
	September '75 Soymeal	133.50

Here again, as in Coffee, purchases were recommended on the basis of good technical action, long before 'news' flashed on the ticker tape of impending Russian purchases. We normally suffer from an aversion of too much c ompany alongside our positions; we now feel that the long side is a bit too crowded and prefer to step out by selling out all long positions.

On examining Russian Grain purchasers (as reported in the last few days) we tent to concur with USDA Asst. Secretary Richard Bell who stated that the U.S. could sell 12-14 million tons of grain to the Soviets without endangering U.S. supplies.

In previous projections, the USDA allowed a large export figure for both Corn and Wheat, large enough to accomodate approximately 10 million tons of grain. Even assuming Corn exports of 1.3 billion bushels and a 'modest' 6.0 billion bushels crop, carryover would rise to 842 million bushels up from 360.0 million bushels this fall. Also, at the higher end of the wheat projection (a range that encompasses as much as 4 million tons), carryover would rise to 500 million bushels from this Summer's 285 million bushels. Furthermore, field reports indicate that a 6.2-6.3 billion bushels Corn crop is entirely possible (barring unforeseen weather problems in July and August).

Our feeling at the moment (and given present buying intentions on the part of the USSR) is that the market has moved up ahead of itself for the time being and that a test of the recent lows by harvest time is a strong possibility.

Sell long positions and move to the sidelines.

Livestock	August '75 Broilers	45.00
	October '75 Cattle	41.85
	October '75 Hogs	49.05

We were stopped out of the Broilers with a 500-point gain. The meat complex still looks higher and we would now go long October '75 cattle and October '75 hogs with 300 point protective stops. The terminal phase of the Hog bull market may provide us with a spectacular run-up in prices-approaching or even surpassing the mid '60's.

Orange Juice	September '75	58.60
	January '76	62.35

The bull market continues despite all the bearish fundamentals. In fact, long term continuation charts indicate that we are now breaking through a long term 7-year triangle extending back to 1968. As suggested in our last Comments, this formation should carry prices at least 100% higher over the next 12 months.

Add to long positions initially established at 49¢ basis Spot.

Precious Metals	September '75 Silver	474.5
	October '75 Platinum	165.5
	October '75 Gold	167.70

Our last comments suggested the purchase of September '75 silver, then at 456.00, with a view towards selling part of the position between 490.00 and 520.00

We must confess that the market has been moving up partly for the wrong reasons. Our recommendation based on currency unsettlement (see Currencies) was ill-timed but nonetheless this technically strong market grasped at rising grain prices as its excuse for moving higher. We would now prefer to move up our stops to 460.00 basis September '75 (on close only) to avoid being dragged down by anticipated weakness in the grain pits.

The platinum market remained relatively steady throughout the July '75 liquidation leading us to believe that this precious metal has moved into fairly strong hands.

Buy October '75 Platinum at these levels risking 155.00

We continue to remain neutral on gold.

Rubber	*October-December '75*	*38.70*
	January-March '76	*38.40*

Stocks of natural rubber in both Singapore and Kuala Lumpur continue to decline from previous months. Latest figures indicate a drop of 14,000 tons.

Rising car and truck production in the U.S. augurs well for future consumption.

Since first recommended at 29.60 basis October/December '75 (April 8), Rubber prices have climbed well over 10 pence/kilo. Our initial target of 40-42 for late Summer '75 has been realized and the market has now entered a corrective phase.

Take partial profits at these levels.

Sugar	*September '75*	*16.89*
	May '76	*16.28*

This market finds itself in the midst of a technical short squeeze being fuelled by rumors of a large Russian purchase believed to amount to 600,000 tons. It is difficult to project what this market will do over the next few weeks as U.S. refineries vie for diminishing leftovers but keep an eye on a potentially huge European beet crop.

We would now close out our short September '75-long May '76 spread at a 60-70 point premium the nearby, thus realizing a 1000-point gain on the spread ($11,200 profit on the original $3,000 margin).

Remain on the sidelines.

Wood Complex	*November '75 Lumber*	*150.20*
	November '75 Plywood	*137.30*

Recent market action has all the earmarks of important accumulation. Both the nearby lumber and plywood are about to complete massive high-level consolidations dropping in their wake all unwanted company. This is particularly true of plywood where open interest has receded to levels unseen since the start of the bull market, last October. A proof of strength has been the markets' subdued reaction to the latest 56,000-units fall in housing starts last month.

A great deal of concern has been expressed by housing economists regarding the head-on collision of sharply rising home costs vs sluggish gains in after-tax disposable income. Recent statistics provided by the National Association of Realtors belie this concern as they show that unit sales rate for existing homes are running 4% above the record 1973 pace. Also further inroads have been made during May into the large stock of unsold single-family new homes. They now stand between 7 and 8 months' supply. It is our firm belief that within a few months, a housing shortage will develop forcing builders to catch up. This catch up, when compressed in just 2 or 3 quarters, will represent a torrential rate of housing starts. Should this demand take place within the context of a major wood mills strike (as is developing in B.C.) or after a major strike has been settled and dealer inventories are low, lumber and plywood prices will easily challenge all time highs, i.e. the vicinity of $200 per one thousand board feet.

The rapid rise in short term interest rates, if continued, will cool off economic activity enough to dispel the ghost of a new round of disintermediation. At the present time, savings inflows into S & L institutions are averaging about $3.6 billion/month, 30% higher than any 3 months period. Due to rising construction costs, these figures still translate into the wherewithal to finance a 15% higher rate of starts than last year's 1.5-1.7 million units.

Long positions in the Wood Complex are a must for investors and hedgers alike. The rewards to the patient will be well worth the wait.

Zinc	*Cash*	*£ 322*
	3 mos	*£ 325*

Strong producer support at the £ 330 basis cash whenever the market looks soggy has thoroughly discouraged bears from selling the 3 months at a discount to cash and has given producers a respite on their support operation. This is being reflected in the move up to £ 325 (from a £ 285 low last month) and at a slight contango to cash.

Remain firmly long.

Albert D. Friedberg
Vice - President
Commodity Futures

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