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Commodity Comments

February 23, 1976

Copper  
Cotton  
Orange Juice  
Sugar

Are the above flashing BUY ... SIGNALS?

Last month we painted a slightly deflationary scenario. Economic statistics issued during the last 4 weeks support the view that the recovery is, at best, extremely slow. Retail sales have been relatively flat ever since the Christmas surge, some unwanted inventory accumulation has taken place in the non-durable goods sector, machine tool orders slid 9.6%, New York city is about to face a new crisis (and this time bankruptcy is highly probable) the OPEC cartel seems to be crumbling and so on. Despite this 'growth flattening', we doubt that the recovery will be thrown in reverse. Rather, a powerful lid will be kept on overall prices for some time yet as the liquidity rebuilding process continues. This lid may or may not be an insurmountable obstacle in the months and years ahead. As a result, indiscriminate buying in the commodity futures markets may no longer yield the excellent results obtained in the 1972-1974 Boom.

We will continue to adopt a numerical rating system which will be placed alongside the specific commodity heading.

6 (\*\*\*\*\*) Very Bullish  
5 (\*\*\*\*) Bullish  
4 (\*\*\*\*) Neutral-Bullish  
3 (\*\*\*) Neutral-Bearish  
2 (\*\*\*) Bearish  
1 (\*) Very Bearish

A split rating will indicate our opinion for each particular month as to its expiring value.

<u>Cocoa</u>	****	March '76	69.20
	*****	December '76	58.70
	*****	London March '77	677.00

Despite well publicized rumours of an imminent bull squeeze on the still large open March position, the market has settled into a trading range of roughly 300 points. No deliveries have as yet been effected against the New York position and the open commitment has been winding down daily. In London, however, the March open position has risen somewhat in front of the coming Monday, first notice day. Bullish quarters there were apprehensive over the possibility of heavy deliveries...

Near term considerations aside (they are mostly of a technical nature), the market seems well supported on dips. Ghana Cocoa purchase figures, at 3,756 tons, continue to trail off and the final size of the crop seems now well in line with the anticipated 380,000 tons. Imports of Cocoa and chocolate products into the U.S. during December continued to evidence accelerating demand. This gives rise to the possibility of a draw down of carryover stocks for the 1975/76 season.

Long positions reinstated as of our January 29 Postscript can be maintained despite near term uncertainties. Stops should be raised to 63.20 on close basis the May position.

<u>Copper</u>	****	March '76	58.50
	*****	December '76	62.40

From the late January lows, copper prices have advanced over 400 points. Perhaps quite significantly, prices have bettered the previous recovering high established in early January and raise the possibility that the long awaited bull move has already begun.

We think so. Copper prices historically, have tended to bottom out just at the time when visible stocks reach their peak. By the time warehouse stocks begin a sustained decline, Copper prices are already selling substantially above their lows. This is so

because: a) copper trading has a strong speculative following and therefore reacts in an anticipatory fashion and b) the terminal market's open position and the contango structure of the market accomodates practically all the so-called (and well publicized) 'surplus' tonnage that is likely to exist at any one time. Since, the 'longs' have stubbornly carried the 'surplus' since early May 1975 (witness the continued rise in the open position) and have, on balance, not given any signs of liquidating, little or no excess physical copper can be deemed to be overhanging the market. Naturally, at some point rising quotes will disgorge these hoards. Historically, however, this 'disgorgement' is accomplished in a fairly orderly fashion.

It should also be noted that fabricators have completed their inventory liquidation and their stocks, at the present time, are extremely low. A pickup in final demand should be reflected rather quickly in increased fabricator orders.

Finally, the unsettled situation in Angola and the concomitant problems to neighbouring Zambia and Zaire, two of the world's largest producers, is likely to shift speculative and trade sentiment to the bull side, especially in a rising market.

An aggressive long position is now warranted. Buy July '76 and forward at market. Place protective stops at 58.00 close only basis July '76.

<u>Cotton</u>	*****	March '76	61.08
	*****	December '76	59.07

The sluggish recovery in Cotton prices was halted around the turn of the year with nearby March trading at 63¢/lb. The swift 450 points correction that ensued witnessed a sharp drop in the open commitment, presumably a reflection of the trade liquidating short hedges. While the reason for this aggressive professional short covering eluded us just 4 weeks ago, we recommended re-entry to the long side in the belief that the trade was privy to information not yet available to the general public.

The latest export figures for the five weeks ended February 8th, at 600,000 bales, provide sufficient evidence to believe that the initial USDA export target of 3,500,000 bales will be realized. When coupled with accelerating domestic consumption - now projected at 8.0 million bales - and a disastrous 1975/76 crop of barely 8.0 million bales, carryover stocks at August 1976 should not exceed 3.0 million bales. At the same time, planting intentions for the 76' - 77' season promise to fall short of trade requirements.

Once again, a fundamentally bright picture has developed.

Long positions in December '76 cotton should be maintained. We prefer now to add by purchasing July '76, the last month of the old crop.

<u>Frozen Concentrated Orange Juice</u>	*****	March '76	62.75
	*****	September '76	67.65

A very sluggish advance continues aided by a drop in the 1975/76 crop yield (to 1.31 from 1.35), good retail movement and the possibility of further damage to the crop from black fly infestation. While the frost season is nearly over, present supplies are beginning to look less burdensome.

On the weekly continuation charts, the breakout from the 8 year downtrend remains in force and presages sharply higher prices for the next 18 months.

Remain heavily long.

<u>Grains</u>	***	December '76 Corn	2.74
	***	September '76 Wheat	3.99

The sharp selloff that occurred in late January stopped out prematurely our long positions, albeit at a small profit.

Concern over the Mid-West drought helped to send wheat prices to a 15 weeks high. The weather scare, in our view, has been overdone and prices have now become vulnerable to further setbacks.

Remain on the sidelines.

<u>Interest Rates Futures</u>	*****	March '76 Ginnie Mae	96.15
	*****	September '76 Ginnie Mae	95.10
	*****	December '76 T.B.	93.36

After drifting down to 95.08 basis March '76, Ginnie Maes staged a good comeback and are now threatening to break out into new high ground. The action was in line with our observation last month that the market may move (down) to the high 94-low 95 area and then turn.

If all the current calendar arrives (a little over \$1.43 billion from such key issues as Exxon Pipelines, Bethlehem Steel, Union Pacific), the February total of \$2.41 billion from 25 issues would still be less than January's \$2.67 billion from 32 issues

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and nearly 1/3 less than last year's February \$3.77 billion from 43 issues. Considering that: a) capital spending still remains quite sluggish; b) corporate cash flow continues on the mend, c) equity issues, in the present strong stock market, may now become possible, and there alleviate the bond calendar, and d) real costs to the borrower are on the rise (nominal yield minus the current 'low' rate of inflation), we expect little unsettlement in the long end of the market.

The market's backwardation, a result of much lower short term interest rates, provides an excellent opportunity for capital appreciation. We favor December '76 now yielding 24 basis points above spot and continue to look for a target of 8%. If fulfilled, a capital gain of \$4,000 can be made on the \$2,500 investment.

<u>Livestock Complex</u>	*****	April '76 Cattle (new)	38.10
	*****	October '76 Cattle (new)	43.10
	*****	April '76 Hogs	44.35
	*****	December '76 Hogs	42.35

A changeover to a new and more liberal cattle contract has disturbed somewhat the market. Nonetheless, the present trading range should be broken on the upside in the near future. Critical breakout points remain at 40.75 for the old April '76 and 44.00 for the old June '76 contract.

Cash hog prices have formed a huge 4-months rounding bottom. February '76 expired on a strong note at 50.50 and we believe that April and June are selling at ridiculously wide discounts to cash.

Remain firmly long the livestock complex, one of the few remaining bargains in the commodity spectrum.

<u>Potatoes</u>	*****	May '76	12.80
		November '76	5.91

This wide swinging market has excited our attention once again - and still from the long side.

Price ceiling on retail potatoes across Europe guarantee an exacerbation of present shortages. Export business, both from the U.S. and Canada remains brisk. Technically, the market retraced approximately 50% from the previous recovery move. Public participation remains subdued.

We feel that the long side is still the better deal.

Buy May '76 Potatoes at market and place protective stops at 11.00 basis May '76.

<u>Precious Metals</u>	**	March '76 IMM Gold	131.50
	**	December '76 IMM Gold	135.80
	**	March '76 Silver	421.00
	**	December '76 Silver	447.10
	****	April '76 Platinum	138.70
	****	January '77 Platinum	146.30

Sporadic but intense downward pressure on the U.S. dollar vis a vis the Deutsche Mark, Swiss Franc, Guilder and Yen as a result of the currency upheavals generated by the Peseta and Lira's devaluation, did not generate much enthusiasm in the Gold and Platinum pits. Silver, on the other hand, managed to recover once again from the 'depths of the abyss' and reached a 6 weeks high at 421.00 basis March '76. Silver continues to trade on little or no fundamentals and reacts, on an intraday basis, to grain and gold fluctuations. Technically, the silver bulls have encountered formidable resistance in the form of a downtrend line that extends to September 1974. We doubt this downtrend can be broken very easily and prefer to remain short, risking a close above 445.00 basis March '76. Long term short positions in gold should be retained risking 150 basis nearby.

Long positions in April '76 Platinum should be stopped out at 135.00, close only.

<u>Sugar</u>	*****	March '76	13.66
	*****	October '76	13.76

The market has shown a remarkable resilience to continued bearish news. As an example, the USDA reported that the Philippines held 1.25 million tons of Sugar at the end of January and could cut another 1.8 million tons before the first of June. Furthermore, export sales have averaged less than 80,000 tons monthly! On another front, the USDA first lowered Soviet production to 7.5 million tons and then raised it again to 8.0 million tons. While the market rose on the first report, it did not give back all its gains on second thought. The EEC and Peru continue to sell more Sugar than expected but, again, the market does not react negatively.

The charts are beginning to take on a bullish look despite bearish fundamentals. Our open interest studies detect a quiet but fairly persistent accumulation taking

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place in the 1330-1370 area basis March/May '76. As it has always been in the past, technical considerations carry more weight than fundamental analysis. We are willing to admit that we do not know what is 'really' happening. Therefore we are reversing, at least for the short term, our long standing bearish posture.

Cover all short positions in Sugar. The strong of heart may go long May and July positions risking the 1300 area.

<u>Wood complex</u>	**	March '76 Plywood	157.40
	*****	September '76 Plywood	165.00
	**	March '76 Lumber	161.80
	*****	September '76 Lumber	178.50

Housing starts figures continued to paint a hesitant and abortive recovery. Starts in January dropped to a 1.22 million seasonally adjusted annual rate, 5% below December's downward revised 1.29 million. While 2-4 family and multifamily starts were the main culprits, dropping to 59,000 and 204,000 respectively, single family starts, the heretofore strong element in the housing picture, also fell, to a 960,000 rate.

On further analysis, one finds some ameliorating circumstances. While seasonal adjustments reflect weak wintertime construction, it should be noted that the Southeast has not been providing its share of the December/May activity as it suffers from a particularly acute case of oversupply. It will have to wait till the Spring before one can discern a clear resumption of the upward trend, if indeed it is to take place.

Background for new construction remains favorable. Sales of existing homes in December climbed to a record 131% of the 1972 average and sales of new homes were running at a strong annual rate of 650,000 in November and December.

Last month, we observed that 'prices are expected to find support at close to their major uptrends, somewhere between 200 and 400 points lower... should the technical picture improve somewhat... we would consider re-entering the market from the long side...' Both plywood and lumber found good support at the anticipated levels and a sharp upside move ensued.

At this time, technical considerations are near term bearish. For fear of missing the next upward leg, we are suggesting the purchase of September '76 Plywood at 155-160 and July '76 Lumber at 165-170. These targets may be reached in the next few weeks.

<u>Currencies</u>	*****	Spot Canadian Dollar	1.0109
	*****	December '76 Canadian Dollar	99.00

Our buy recommendation of the December '76 Canadian Dollar at 97.32 has proved quite timely and the position is now showing a \$1700 profit on a \$2500 margin.

We still do not foresee a significant narrowing of the short term interest rate gap between the U.S. and Canada. Chartered bank loans remain brisk and do not portend a voluntary drop in their prime rate. Nor is the Central Bank, committed to a slightly restrictive anti-inflationary stance, likely to ease off substantially in the weeks ahead.

Remain long.

Albert D. Friedberg  
Vice-President  
Commodity Futures

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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.