Commodity Comments

COCOA

(Special Report)

April 7th, 1977

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London May '77 : 2458.00
July'77 : 2341.00
Sep.'77 : 2267.00
Dec.'77 : 2152.50

May '77 : 175.50
July '77 : 170.95
Sep. '77 : 166.20
Dec. '77 : 156.90

The occasion for this report is today's release of U.S. 1st quarter grinding figures. Trade experts first anticipated a decline of 25% and, more recently, 15%. Today's figures showed a 7.2% decrease.

These figures occasioned this report. They also occasioned an analysis of grindings per se. Our conclusion is that today's figures are even more spectacularly bullish than they appear. The enclosed table documents the % change (on an annual basis) of grindings & imports of both raw & semi-processed cocoa. Clearly the trend is toward a decrease in the former two categories and an increase in the latter. The secular decrease of grindings (1972/1976) is -25.3%, or 6.3% per year. Using this figure as a base we can conclude that today's figures violate the trend by only 0.9%.

Or do they violate it at all? The trend toward increased imports of semi-processed cocoa indicates that grindings are not the standard proxy for consumption they once were. What's happened is that importers find 1) they lose up to 2% in shrinkage of raw beans during transport - not so in shipping semi-processed, 2) processing of beans is cheaper in producing countries. Thinking in terms of consumption, the increase in imports of cocoa butter, unsweetened cocoa,and unsweetened chocolate have compensated for the decrease in grindings. The actual amount of compensation is impossible to ascertain accurately since unit values of beans and semi-processed cocoa differ, however; given that semi-processed cocoa imports total about 40% (and, again, this figure is increasing) of bean imports (which are ultimately ground), would it not be unwise to say that the degree of compensation is at least equal to the 0.9% actual decrease in grindings? Its possible that consumption is actually not decreasing at all, but is, in fact, rising.

Our last issue of Commodity Comments alluded to the critical August-September-November-January up-trend that was to contain this most spectacular bull market. We concluded " we believe that the eventual highs are yet to come, but would strongly respect a violation of the present up-trend, now somewhere between 1.60-1.64 basis May '77 ... Remain long; if up-trend is broken, look to sell into the next 1000-1500 point rally ".

May '77 closed at 157.50 on April 4th, apparently violating the up-trend. But did it really? A look at the July & September positions indicate that the break occurred only in the May position.

In addition, a) the market reversed immediately & by the close of the next day, even May was on sight; b) on the nearest contract charts, the market held just above the 157.00 low registered in mid-March, and, finally, c) the more important London market approached the previous mid-March lows of £2,085 basis May '77 on extremely low volume (typical of secondary bottoms) & held a full £80 above it before soaring to close higher than the previous day, completing a key reversal.

We conclude that the bull market is intact. The odds for attaining new highs have increased substantially in the past few days.

Remain long; place stops below recent lows.

		GRINDINGS	IMPORT			
			BEANS	BUTTER	UNSWEETENED CHOCOLATE	UNSWEETENED COCOA
1972	1	+20.7	+14.7			
	2	- 2.5	+16.3			
	3	- 5.5	-50.7			
	4	- 2.2	-21.1			
1973	1	- 0.3	- 1.5			
	2	+12.7	- 1.9			
	3	- 2.4	-17.5			
	4	-15.9	-29.9			
1974	1	-13.2	-18.5			
	2	-19.9	- 2.3	+7.0	+6.9	-9.1
	3	-10.2	-10.0			
	4	-27.1	- 8.6			
1975	1	-35.4	-27.2			
	2	-12.4	-26.6	-5.6	-16.1	0
	3	- 4.6	+66.1			
	4	+21.6	+92.9			
1976	1	+39.4	+32.9			
	2	+ 6.8	+17.2	+48.7	+103.9	+17.8
	3	+ 5.8	+22.2			
	4	- 7.6	-50.3			
1977	1	- 7.2				
	2	+ 3.5*		-10.5*	-18.0*	+3.7*

* January & February only.

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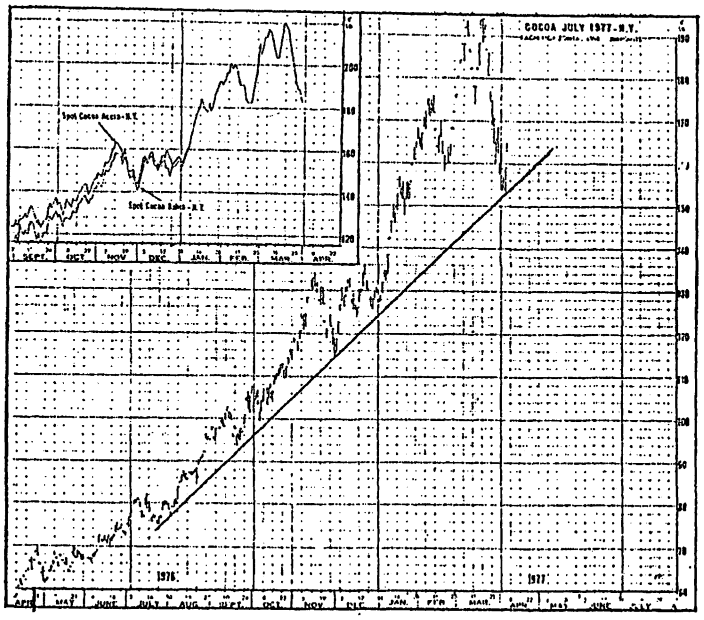
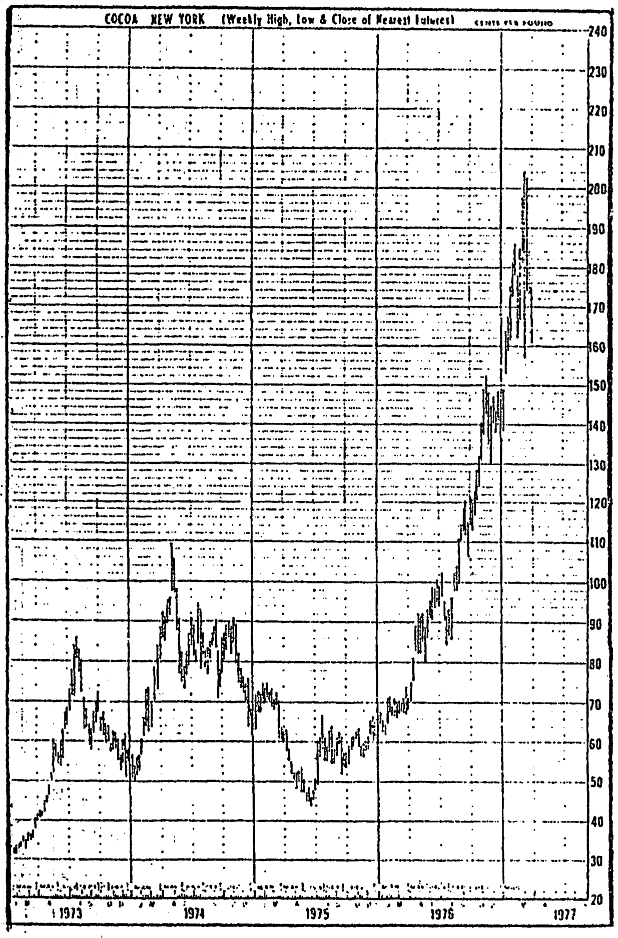
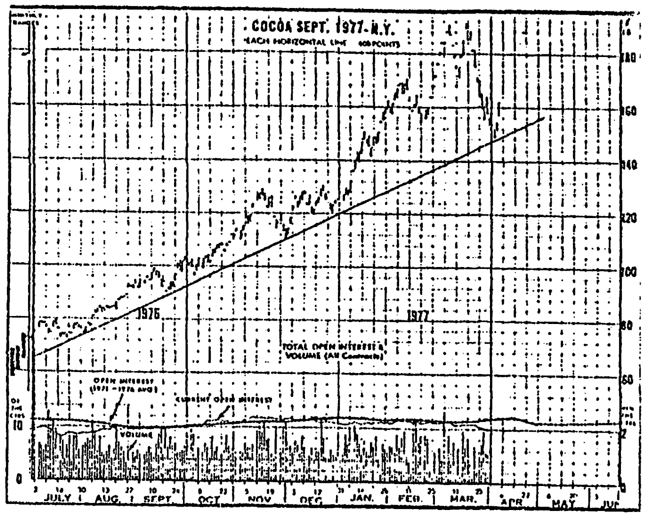
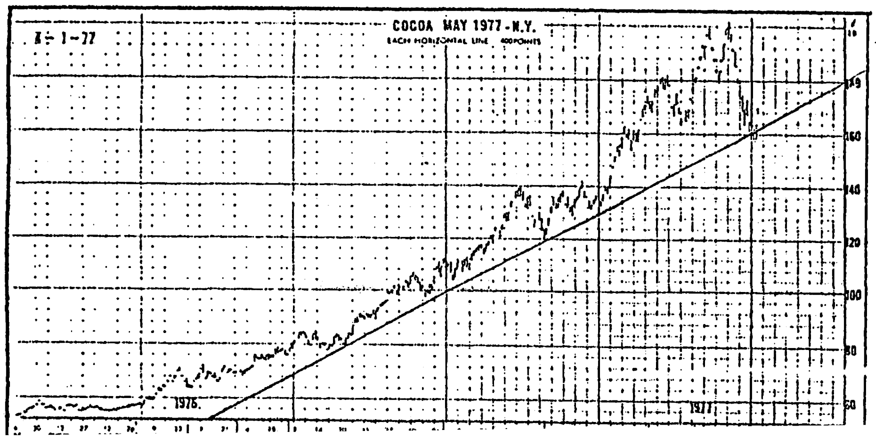

COCOA JULY 1977-N.Y.
Spot Cocoa Accra-N.Y.
Spot Cocoa Bahia-N.Y.
SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR.
1976
1977
APR. MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUNE JULY


COCOA NEW YORK (Weekly High, Low & Close of Nearest Futures)
240
230
220
210
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
1973
1974
1975
1976
1977


COCOA SEPT. 1977-N.Y.
1976
1977
TOTAL OPEN INTEREST & VOLUME (All Contracts)
OPEN INTEREST
CURRENT OPEN INTEREST
VOLUME
JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUN


COCOA MAY 1977-N.Y.
1976
1977

Commodity Comments

COTTON REPORT

(issued to the trade)

April 21st, 1977

Vol. 1, No. 5

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Oct. 76 : 72.84
Dec. 76 : 68.50
Mar. 78 : 69.10
July 78 : 69.50

The USDA released its most recent prospective plantings report April 14. The department now calls for a 17.2% increase in acreage over last year. This is approximately 5% more than was anticipated by the trade and was probably a shock even to the farmers. Our initial response was that cotton would be, at best, a 'traders' market, with prices finding an equilibrium level in the neighbourhood of 75¢, (basis October). Accordingly, when cotton fell to 70.25 we purchased assuming it was cheap. We then turned our attention to fundamentals to see if our initial response was justified. The following two forecasts of next year's supply & demand are the results.

SUPPLY

- *total (USDA projection) planted acreage: 13,689 thous.*
- *difference between acreage planted and acreage harvested, 1976 vs 1975 only: -7.0:*
- *therefore, total projected harvested acreage: 12,730 thous*

- *last year's average yield-per-acre: 465 lbs.*
- *assume no change*
- *therefore, total projected yield-per-acre: 465 lbs.*

total production: 5,919,450 mln. lbs. or 12,332 mln. bales

carry-out 1976/77 crop (USDA estimate): 2.9 mln. bales

total projected supply: 15,332 mln. bales

DEMAND

- *mill consumption this year (USDA estimate): 6.9 mln. bales*
- *assume no change*
- *therefore, domestic consumption: 6.9 mln. bales*

- *assume next year's exports increase by 5%*
- *this year's exports (USDA estimate): 4.5 mln. bales*
- *therefore, total projected exports: 4.7 mln. bales*

total projected demand: 11,850 mln. bales

total projected carry-out: 3.68 mln. bales

SUPPLY

- *total (USDA projection) planted acreage: 13,689 thous.*
- *previous seven year average of difference between acreage planted and acreage harvested: -9.6%*
- *therefore, total projected harvested acreage: 12,375 thous.*

- *last year's average yield-per-acre: 465 lbs.*
- *assume 5% decline due to poor moisture conditions. (5% being the decline in yield following a comparable period of drought in the mid-fifties)*
- *therefore, total projected yield-per-acre: 442 lbs.*

total production: 5,469,750 mln. lbs. or 11,395 mln. bales

carry-out 1976/77 crop (our estimate): 2.75 mln. bales

total projected supply: 14,145 mln. bales

DEMAND

- *mill consumption this year (our estimate): 7.0 mln. bales.*
- *assuming no increase or decrease in competitive pressure from MMF we expect consumption to increase according to indicated regression curve (see insert): 5.8%*
- *therefore domestic consumption: 7.4 mln. bales*

- *export guesstimate (arrived at by taking into consideration USDA information re. foreign plantings and sales of next years crop which are presently running 76.3% higher than sales of this year's crop at this time last year): +10%*
- *this year's exports (our estimate): 4.7 mln. bales*
- *therefore, total projected exports: 5.2 mln. bales*

total projected demand: 12,620 mln. bales

total projected carry-out: 1.5 mln. bales

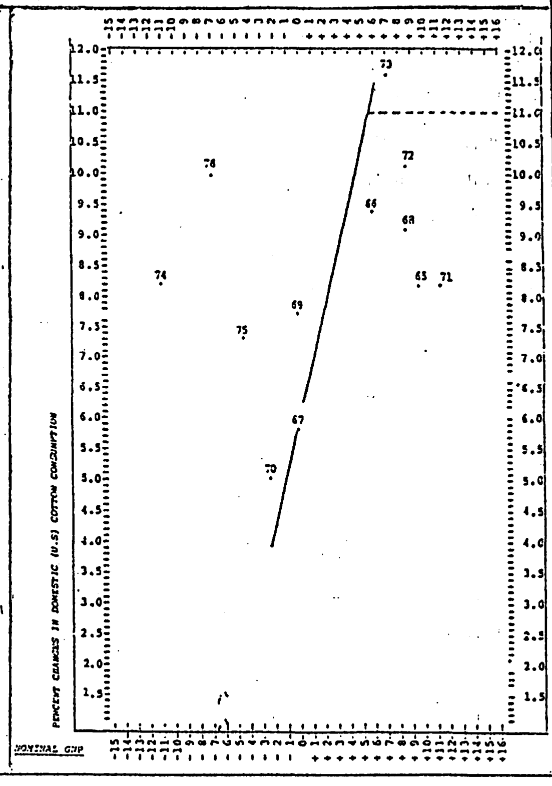
Futures markets respond, by definition, according to anticipation of future events. If there is a final figure which is ultimately being anticipated throughout the course of any given crop year it must be the carry-out figure. If this is so then the average price of the current year reflects anticipation of a final carry-out of 2.75-3.05 mln. bales.

Taking the average of our 'best' and 'worst' forecasts we arrive at a final carryout figure of 2.5 mln. bales. This is 12.7% less than last year. We therefore conclude that prices will average an appreciation of 12.7% plus 5% (the expected rate of inflation) or 17.7% during 1977/78. At this juncture then, and assuming no change in our basic assumptions, we predict the average price of cotton during 1977/78 will be 91.1¢.

CONCLUSION

Buy December at current levels.

In addition to the above forecast, a seasonal profit (see Chart, p.2) is implied between now and July.



COTTON ESTIMATES BY STATES
PLANTING INTENTIONS -- THOUS ACRES --

APRIL 22,1977

UPLAND COTTON

	PROJECTED 4/1/77-X	PROJECTED 1/1/77	PLANTED 1976	PCT-X
ALA	480.0	490.0	480.0	100
ARIZ	450.0	425.0	320.0	141
ARK	1,150.0	1,100.0	1,125.0	102
CALIF	1,400.0	1,400.0	1,130.0	124
FLA	9.0	8.0	7.4	122
GA	280.0	300.0	250.0	112
ILL	0.2	0.2	NIL	N.A
KY	1.5	1.7	1.7	88
LA	600.0	600.0	570.0	105
MISS	1,450.0	1,480.0	1,560.0	93
MO	290.0	290.0	305.0	95
NEV	1.3	1.3	1.0	130
N.MEX	125.0	100.0	68.0	184
N.C	90.0	90.0	75.0	120
OKLA	470.0	430.0	350.0	134
S.C	195.0	190.0	175.0	111
TENN	325.0	400.0	420.0	77
TEX	6,300.0	5,500.0	4,800.0	131
VA	1.0	1.0	0.7	143
U.S. UPLAND TOTAL	13,618.0	12,887.2	11,638.8	117.0

(X) -- 1977 AS PCT OF 1976

U.S COTTON STOCKS

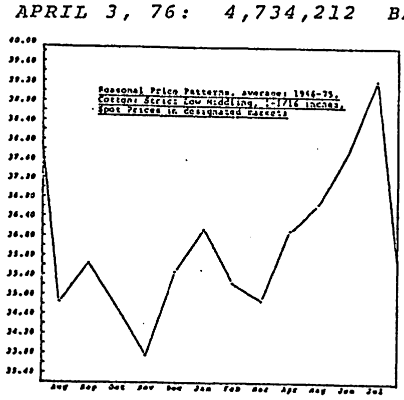
	CONSUMING ESTABLISHMENTS	PUBLIC STORAGE	TOTAL
APRIL 2, 77	1,145,561	4,658,398	5,803,959
FEB 26, 77	1,083,080	5,792,245	6,875,325
APRIL 3, 76	1,301,451	5,336,233	6,637,684

ACTIVE SPINDLES CONSUMING 100% COTTON

APRIL 2, 77 : 7,227,000
FEB 26, 77 : 7,266,000
APRIL 3, 77 : 7,854,000

	DAILY CONSUMPTION	TOTAL CONSUMPTION
Feb 26-April 2	25,580 BALES	646,263 BALES
Feb 1 -Feb 26	26,392 BALES	527,836 BALES
Feb 29-Apr.3 76	28,478 BALES	711,950 BALES

TOTAL CONSUMPTION UP TO APRIL 2, 77: 4,445,881 BALES
TOTAL CONSUMPTION UP TO APRIL 3, 76: 4,734,212 BALES



All statements herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.

David Rothberg
Director of Research