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F.C.O.J.

SPECIAL REPORT

JULY 1977

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INTRODUCTION

The current crop year which began December 1, 1976 opened with the promise of a continuing, downtrend in prices. Beginning inventory totalled 53.1 million gallons - a record - and initial USDA orange production estimates implied a pack of 200 million gallons - also a record. As we know, the freeze which struck the Florida Citrus crop in January changed the supply picture in dramatic fashion. Prices rose the daily limit on ten consecutive days. After levelling off in the neighborhood of 75¢, better than anticipated demand at the wholesale level propelled prices higher again to more than 150% their pre-freeze value.

At current values F.C.O.J. is the only commodity traded on the futures markets, with the exception of the now virtually geriatric cocoa, which is performing at its all-time high.

In our opinion, the market has still not reached its full potential. We anticipate a minimum upside target of \$1.24 basis September and, depending upon a variety of factors which we shall discuss, a range extending perhaps as high as \$2.00.

SUPPLY 1976/77

Production:

In its latest, and last, estimate of the current crop year, the USDA forecast orange production in Florida at 192.3 million boxes, including temples, (chart 1) and yield at 1.07 gallons per box (chart 2). Despite using an estimated record 80% of the crop for concentrate, (chart 3), the resultant pack of 1667 million gallons is the lowest since 1971, (table 1). This year's estimated total supply of 229.0 million gallons reverses a steady trend of increase that began in 1967/68.

Imports:

Imports are running marginally ahead of last year and are expected to total 2.6 million gallons from the domestic market (Texas, Arizona, and California) and 6.0 million gallons from foreign sources. There is little reason to suspect that imports will assuage the scarcity to any significant degree, during this year at least. Domestic production outside Florida is largely for the unprocessed market, and Brazil, the worlds largest exporter of concentrate, (Brazil exports 3 times as much concentrate as the U.S.) has suffered a decrease in production this year (table 2). Some relief is being provided by Mexico whose production has increased 37% from 835,000 metric tons to an estimated 1,142,000 metric tons.

DEMAND

Movement, the standard proxy for demand (both from domestic and foreign markets) was running 10% ahead of last year's pace as of July 22nd, 132.6 million gallons vs. 119.3 million gallons in 1976. Demand is obviously strong at the wholesale level as evidenced by the decline in cold storage stocks over the month of June from 977.8 million pounds to 923.6 million pounds. On June 6th, wholesale prices were increased from \$2.60 per dozen 6 oz. tins to \$2.80 per dozen 6 oz. tins. Given that wholesalers allow retailers a 30 day period to pay at the old price it is reasonable to assume that super markets did a certain amount of stockpiling. As such, and taking into consideration the seasonal tendency toward reduced consumption during the summer, we estimate movement to slow to an average 2.55 million gallons per week over the remaining 18 weeks, giving a final movement figure of 193 million gallons versus 191 million gallons last year, (chart 2), and leaving a carry-out, December 1st, of 36.0 million gallons, the lowest in 6 years (table 1) and the lowest in 6 years as a percentage of total movement (table 3).

SUPPLY 1977/78

For what should be obvious reasons, any discussion of next year's crop must be considered highly tentative and largely imprecise in nature. As such we offer two alternatives.

Our largest swing factor is in orange production. By and large Florida has a number of trees which yield increasing numbers of boxes of oranges each year as the trees mature. This being the case we assume that, barring another natural disaster, next year's crop will recover and total 197.5 million boxes (chart 1). On the other hand, a natural disaster may have already struck. The drought in south east Florida has been severe. There is no doubt that damage has already been done and that it will not be relieved by rains between now and harvest. Whether that damage will translate into lower box production, as has been rumoured by various non official sources, or whether the damage will manifest itself in late blooming only is, at best, a guess at this point. Nevertheless we take the former into account as a possibility and, accordingly, project production at 190 million boxes (chart 3). Percentage of usage and yield projections should return to more normal levels of 77% and 1.24 gallons per box respectively. The resultant pack should total between 182.6 and 189.8 million gallons.

Next year's imports should increase, but only slightly. We assume the Brazilian crop will rebound from this year's dirth. However, and at the same time, we note the Florida Citrus lobby is a powerful one. Their \$2.35/lb tariff, rebatable if an equal amount of concentrate is exported within a three year period, virtually insures against too large a swing in the import/export ratio - currently running at 1:2 - and suggests that they are capable of raising their armour against foreign competition even higher. Our projection calls for imports of 9.0 million gallons. This is another number which must be closely monitored.

DEMAND 1977/78

- Taking into account 1) The trend toward inelasticity of consumer demand.
 2) The lack of competitive substitutes. (note the price of apple juice has risen 11% over the past year at the wholesale level. Note also that at current prices FCOJ, on a per ounce basis, is roughly 50% the price of a soft drink).

There will be little consumer resistance to higher prices. As such we expect movement to be inhibited only by lower exports and total 195 million gallons (chart 4).

CONCLUSION

1. Short Term:

Using the average price of the nearest futures contract during 1967 and 1968 as a base, and applying to it the rise in personal incomes we arrive at a 'fair' price of \$1.15/lb. This assumes no tightness in supply. To discover what a fair price is given current fundamentals we look to 1970/71 and apply to the high of that bull market the rise in personal incomes and arrive at \$1.24/lb.

2. Long Term:

The market is facing next year's crop in an extremely vulnerable position. Given that there are already indications of crop damage due to the aforementioned drought, processors will have to pay premiums to insure against first, the

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autumn hurricane season and second, the frost season. This should be sufficient to push prices into the neighborhood of \$1.40/lb.

The indicators of supply must be monitored closely. The first USDA estimate of next year's crop is due October 12th. Should next year's crop actually turn out worse than expected by more than 20% of our "worst" scenario the onus will shift to the consumer to derail what should be a bull market the rival of coffee or cocoa. To that possibility we offer, in very broad terms, the following: consumer resistance will not set in until 55¢ per single 6 oz. tin. Taking into account the lag between cash prices and retail prices, and assuming a shrinking of profit margins at all levels we presume that could translate into a futures equivalent of over \$2.00/lb.

RECOMMENDATION

Short Term:

The market has advanced, almost without interruption during the past month, more rapidly than we have been able to write. Our initial target of \$1.24 has almost been achieved already.* A shakeout is inevitable. Our technical indicators suggest it will be of a minor magnitude and we expect the momentum of the market to push prices beyond \$1.24 (basis September) to as high as \$1.35.

Long Term:

Given that the key determinant is the supply situation and given that there will be no authoritative estimates of next year's crop before the USDA's October report, we expect prices to trend gradually higher within a fairly narrow range between now and the fall as processors will be forced to maintain long positions as, previously mentioned, insurance hedges against bad weather.

We favor purchase of the September contract on dips and the January contract at current levels. We respect the present uptrend line (chart 5) and recommend liquidating long positions should it be violated.

SPECIFICATIONS:

Frozen concentrated Orange Juice futures are traded on the New York Cotton Exchange. The contract calls for delivery of 15,000 lbs of Orange solids 3% more or less, U.S. grade "A", having a brix value (percentage by weight of natural soluble fruit solids in the concentrate of not less than 51⁰, in exchange licensed warehouses in Florida.

Delivery months are January, March, May, July, September, and November. Prices are quoted in .05¢/lb., (the minimum price fluctuation), or \$1.50 per contract; and the daily limit is 3¢ or \$450.00 per contract. Trading hours are between 10:15 a.m. and 2:45 p.m.

Margins, (U.S.):	\$ 1,750.00
Commissions (U.S.):	\$ 50.00 round turn

Charts 1, 2, 3, and 4 are intended to be no more precise than the general statements of the text.

Charts 5 and 6 are reprinted, courtesy of Commodity Research Bureau.

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

* In our July issue of Commodity Comments, we recommended purchase of the September contract, then trading at 96¢.

TABLE 1

<u>Crop Year</u> <u>ending Nov. 30</u>	<u>Carry-In</u>	<u>Pack</u>	<u>Imports</u>		<u>Total</u> <u>Supply</u>	<u>Movement</u>	<u>Carry-Out</u>
			<u>Domestic</u>	<u>Foreign</u>			
1970/71	26.6	125.2	3.8	4.0	159.6	137.7	22.6
1971/72	22.6	134.2	4.3	6.6	167.7	140.7	27.8
1972/73	28.0	176.1	2.1	1.2	207.4	160.6	47.4
1973/74	47.7	171.8	0.5	3.5	223.5	175.0	48.9
1974/75	48.5	197.0	0.1	5.8	233.4	187.2	51.2
1975/76	51.2	187.0	0.1	6.6	244.2	191.0	53.1
1976/77	53.7	166.7*	2.6*	6.0*	229.0*	193.0*	36.0*
1977/78	36.0*	182.6-189.8**	1.8**	7.2**	227.6-234.8**	155.0**	32.6-39.8**

* ESTIMATE

** PROJECTION

TABLE 2

Brazilian Production (in thousands of metric tons)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Growing</u>	2477	2546	3346	3550	4064	3970
<u>Processed</u>	1428	1428	1999	2162	2652	2652
<u>Exported</u>	67	41	40	73	51	31

TABLE 3Carry-Out expressed as ratio of Consumption

<u>60/61</u>	<u>61/62</u>	<u>62/63</u>	<u>63/64</u>	<u>64/65</u>	<u>65/66</u>	<u>66/67</u>	<u>67/68</u>	<u>68/69</u>	<u>69/70</u>	<u>70/71</u>	<u>71/72</u>	<u>72/73</u>	<u>73/74</u>
16.3	34.0	21.4	16.3	28.2	13.9	23.1	12.7	16.5	22.2	16.6	19.9	29.2	28.0
<u>74/75</u>	<u>75/76</u>	<u>76/77</u>	<u>77/78</u>										
27.2	27.6	18.7	16.7 - 20.4										

CHART I FLORIDA ORANGE PRODUCTION

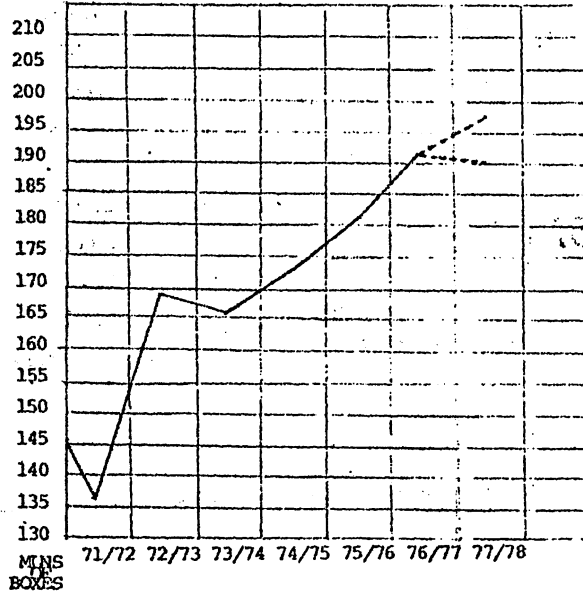


CHART II YIELD

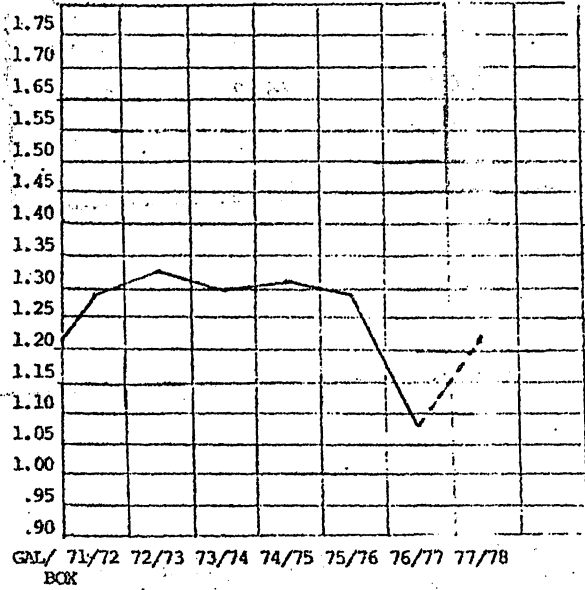


CHART III % CROP USE FOR FOOD

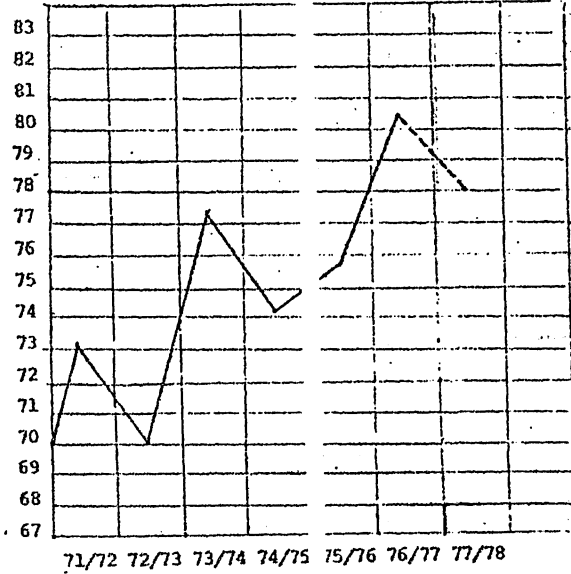
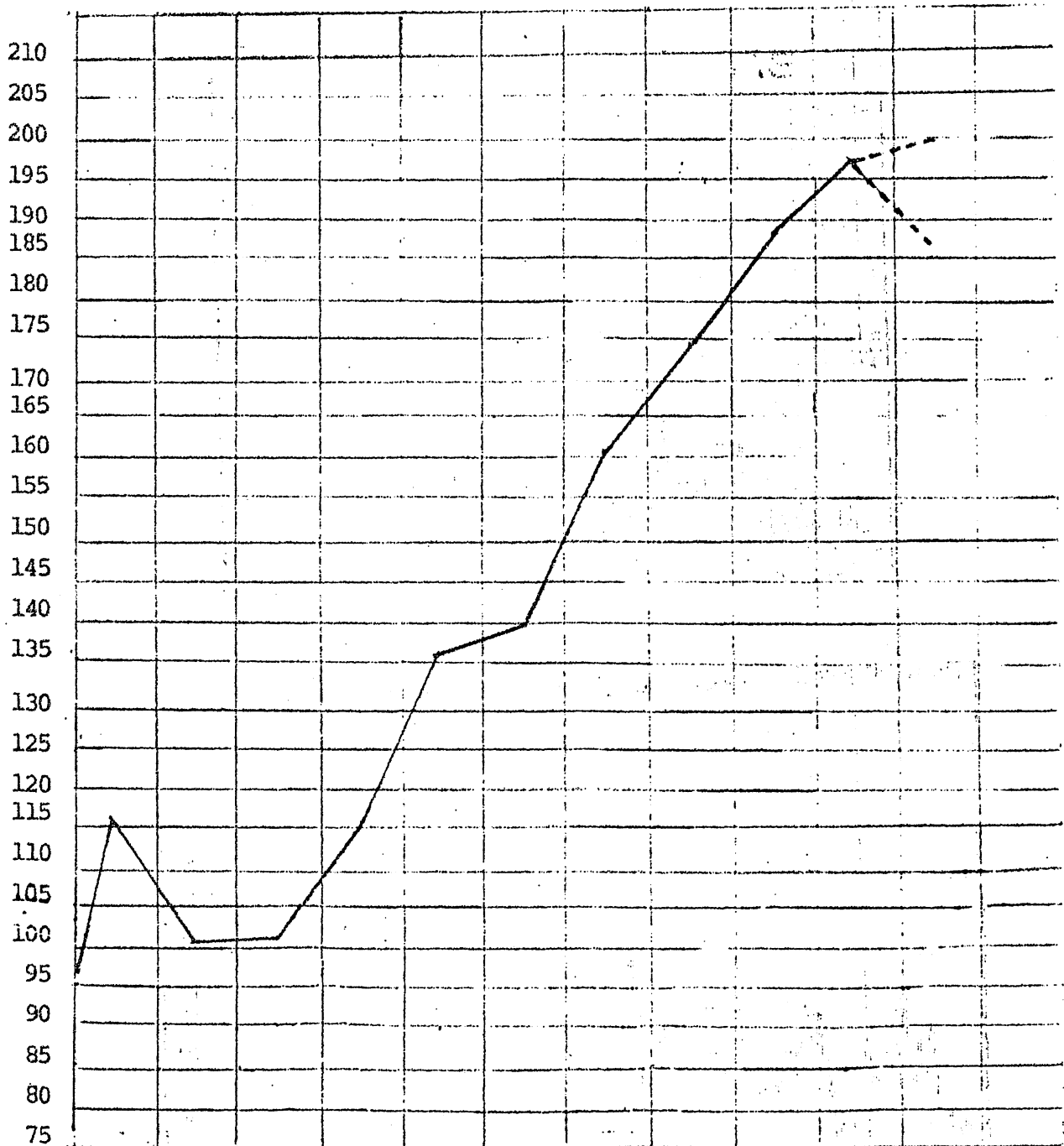


CHART IV

MOVEMENT



MINS OF GALS: 66/67 67/68 68/69 69/70 70/71 71/72 72/73 73/74 74/75 75/76 76/77 77/78

CHART V

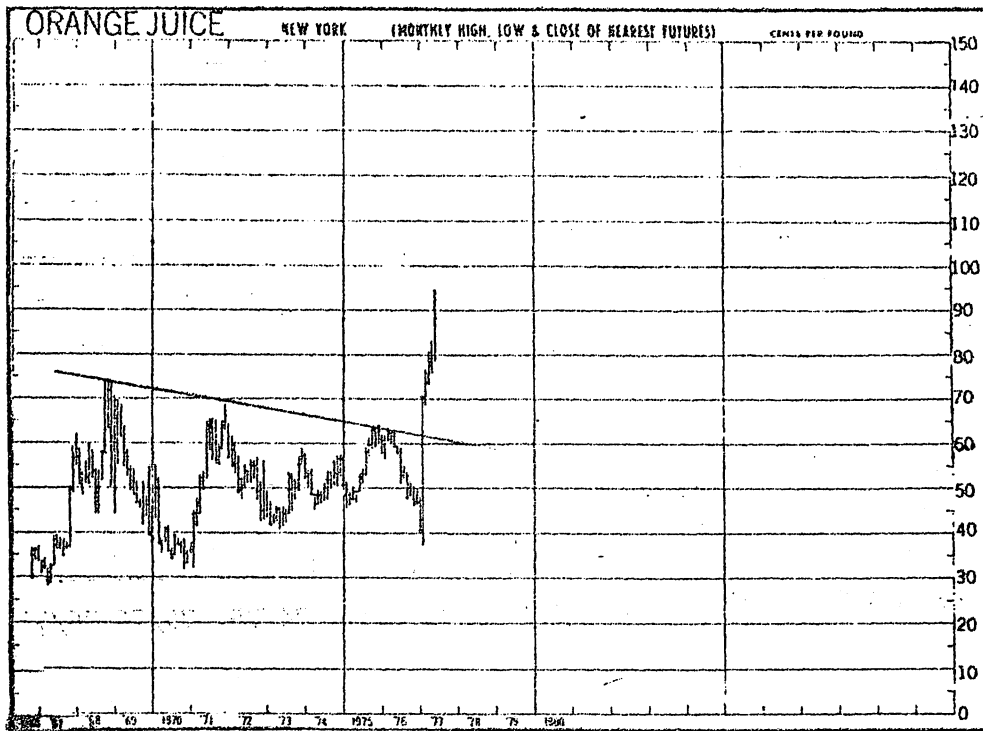
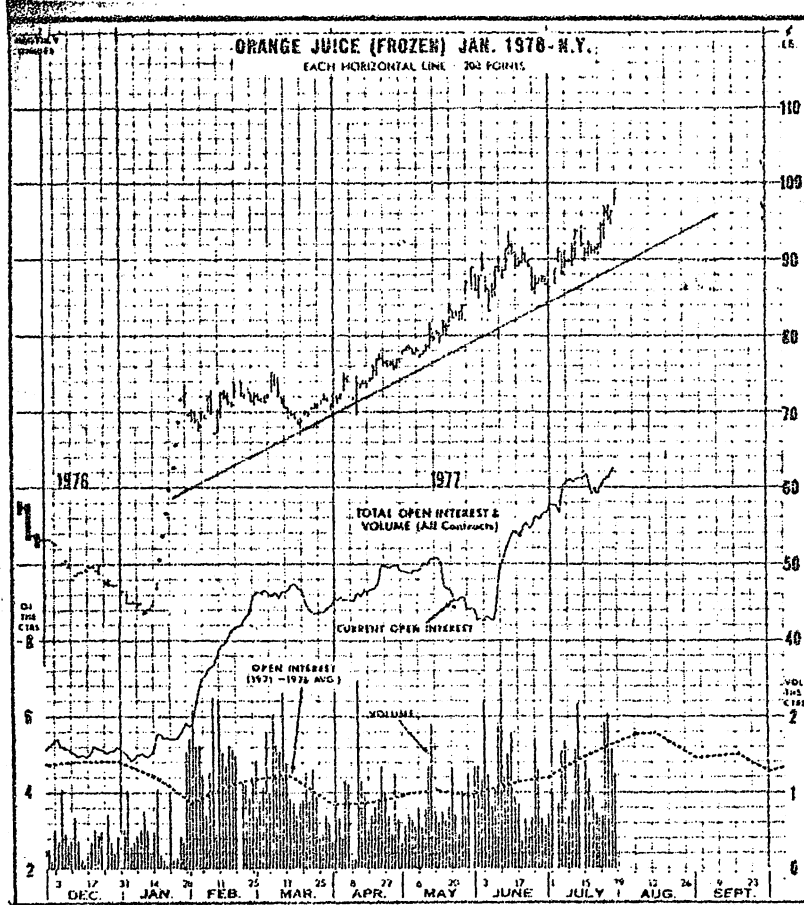


CHART VI