Commodity Comments

SPECIAL BULLETIN — *October 17, 1977*

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

FCOJ ****** *January: 114.20*
****** *March: 110.90*

Begin Stocks	Orange Production (Including Temples)	Yield	Usage for F.C.O.J.	Pack	Imports Domestic	Imports Foreign	Total Supply	Movement	End Stocks
76/77 53.7 Mln.gals	192.3 Mln.boxes	1.07 gals per box	79%	162.6 Mln.gals	2.6	6.0	229.0	197.0	32.0
77/78 32.0 Mln.gals	169.2 Mln.boxes	1.28 gals per box	78%	168.9 Mln.gals	1.8 (1)	7.2 (1)	214.3 (1)	171.8 (2)	42.5

(1) Estimate
(2) Projection

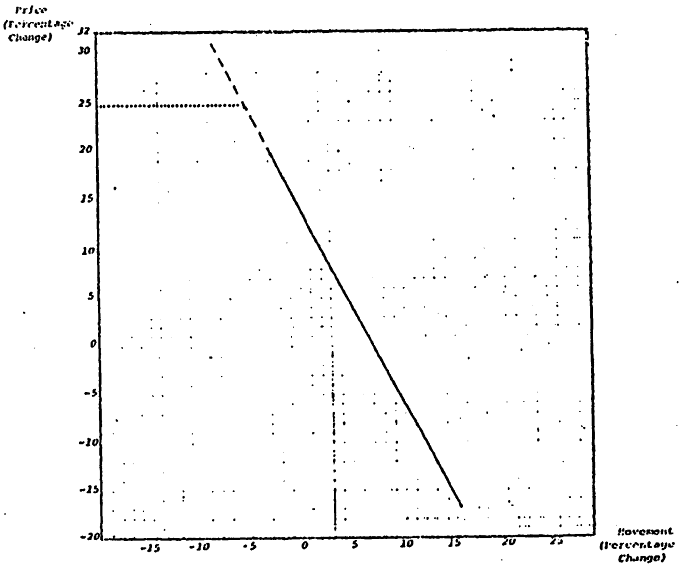
The USDA's first report of the 1977/78 crop which begins December 1st is summarized in the table above.

Production of mids. navels, and valencias is expected to total 164 mln. boxes, down 13.9% from last year. Temple production is estimated at 5.2 mln. boxes vs. 3.8 mln. last year. Yield is estimated at a somewhat surprisingly high 1.28 gals. per box vs. the general concensus of 1.25 gals. to lower and last year's frost reduced low of 1.07 gals.

The market's response to the USDA's report has been decidedly negative thus far. In our opinion the current shakeout is simply that; ie. nervous weak longs surrendering their positions to equally weak shorts. We see no signs of distribution.

All told, we view the USDA's report as being definitively positive. The crop is small to the extent that the onus now shifts to the demand side of the equation to derail this major bull market.

We assume the following:
a) Processors will attempt to ration demand so that they will have a "comfortable" inventory position at the end of Nov. '78. Obviously this year's ending stocks of 32.0 mln. gallons are "uncomfortably" low while last year's ending stocks of 53.7 mln were "uncomfortably" high. We define "comfortable then as being the mid range; 42.5 mln. gallons.
b) Although total consumption is a combination of movement of FCOJ into institutional (hospitals, restaurants, etc.), bulk (chilled juice etc.) and retail channels we are using retail movement, or the movement of 6 oz. tins into supermarkets as the proxy for consumption. While this might be slightly simplistic, it is also conservative insofar as there already exists a trend toward increasing use of chilled juice as retail movement slackens.



In order for next year's carryout to total 42.5 mln. gals., movement can only total 171.8 mln. gals. or 15% less than this year. In order for movement to be contained to that degree price must perform a rationing function. The accompanying chart plots the elasticity of movement since 1972/73. All prices, prior to being plotted in terms of percentage changes, have already been adjusted by the wholesale price index in order to reflect constant values.

We conclude that in order for next year's carry-out to total a "comfortable" 42.5 mln. gals., the wholesale price for a dozen 6 oz. tins, presently standing at $3.05, will have to <u>average</u> $3.22 which, when adjusted for an expected 8% rate of inflation, equals $3.48.

In order to translate 348¢ into a futures equivalent we make one final assumption: that profit margins will shrink as cash prices for concentrate advance. The ratio of the wholesale price to the price of the nearest futures contract at the time that the wholesale price was changed indicates this trend is already established. Last January's pre-freeze wholesale price was 400% the value of the January contract while, by August, the wholesale price was just 250% the value of the September contract. We feel the ratio can shrink to a very conservative 225%.

Our conclusion then is that futures can <u>average</u> 155, and have the potential to achieve a dizzying high of 185. And this, of course, discounts the possibility of a freeze in January or a drought in the spring.

We favour purchase of the deferred contracts - March and May. Place stops at 105.00 basis January.

MEMBER BANK RESERVE CHANGES

Changes in weekly averages of member bank reserves and related items during the week and year ended October 12, 1977 were as follows (in millions of dollars)

	Oct. 12 1977	Chg fm wk end Oct. 5 1977	Chg fm wk end Oct. 13 1976
Reserve bank credit:			
U.S. Gov't securities:			
Bought outright	95,883	−3,860	+ 5,441
Held under repurch agreemt	434	−2,319	− 681
Federal agency issues:			
Bought outright	7,229	....	+ 572
Held under repurch agreemt	45	− 226	− 16
Acceptances—bought outright	4	....	− 203
Held under repurch agreemt	55	− 307	− 24
Member bank borrowings	939	+ 173	+ 924
Seasonal bank borrowings	112	− 5	+ 80
Float	2,827	+ 544	+ 1,231
Other Federal Reserve Assets	2,310	− 436	− 1,400
Total Reserve Bank credit	110,937	−7,866	+ 5,923
Gold stock	11,595	....	− 3
SDR certificates	1,200	....	....
Treasury currency outstanding	11,267	+ 19	+ 485
Total	135,000	−7,846	+ 6,406
Currency in circulation	99,030	+ 908	+ 8,397
Treasury cash holdings	450	....	− 50
Treasury dpts with F.R. Bnks	5,520	−7,102	− 2,291
Foreign deposits with F.R. Bnks	267	− 60	+ 30
Other deposits with F.R. Banks	871	+ 141	− 149
Other F.R. liabilities & capital	3,309	− 267	+ 97
Total	109,448	−6,378	+ 6,035
Member bank reserves			
With F.R. Banks	25,551	−1,468	+ 371
Cash allowed as res.	9,203	+ 211	+ 737
Total reserves held	34,901	−1,336	+ 1,101
Required reserves	34,650	−1,167	+ 1,062
Excess reserves	251	− 169	+ 39
Free reserves	−688	− 342	[illegible]

INTEREST RATE FUTURES

***** Dec. '77 GNMA: 97.06
*** June '78 T Bill: 92.96

The very large drop in Federal Reserve Bank credit of almost $8 bln. for the week ended Oct. 12, '77 indicates that the Fed may have finally hit on the proper funds level. If these figures are not immediately reversed this coming week, money supply growth should come back into target.

Cover June '78 TB's, (sold at 93.35-40), and purchase <u>lightly</u> December '77 GNMA's at present levels, placing stops at 96.15.

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

David B. Rothberg
Albert D. Friedberg