

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

August 1980

South of the Rio Grande

Almost unnoticed, the spot Mexican Peso has been eroding for well over one year, dropping a total of 6/10 of 1% over the period (see chart). What makes this mini-devaluation rather fascinating is the Bank of Mexico's earlier stand regarding the MP/US dollar rate: it was a floating rate, but, a "remarkably" steady rate. In fact, for more than three years the MP did not depart so much as one centavo from the 22.85 - 22.87 buy/sell quote. Admittedly, the Governor of the Bank expressed rather openly in public interviews his feeling that the present exchange rate may have become a bit overvalued in view of Mexico's high 20-28% recent inflation and that 'small adjustments' may be in order. Given Mexico's long history of fixed exchange rates (only interrupted by two one-shot drastic devaluations in the past 30 years), it is highly unlikely that a creeping devaluation may be accomplished without setting off a massive flight of capital. It is well worth remembering that the 1976 episode was accompanied by a flight of nearly \$4 billion; given the extraordinary growth of money supply since, it would not be unexpected to see a run of several times that amount, dwarfing any current inflows presently anticipated.

As we have already discussed Mexico's growing financial crisis in our March 26th issue, we will limit ourselves to revising some earlier estimates and draw new conclusions. In the first place, Mexico's current account deficit in 1979 was \$4.2 billion, \$400 million higher than we earlier projected last March and \$1.1 billion higher than 1978. The 1979 current account deficit is slightly higher than the one recorded in 1975, the year prior to the devaluation and took place in spite of the large \$3.5 billion increase in oil and gas exports. The recent softness in the world oil market makes it unlikely that Mexico will earn more than \$10 billion in energy exports, a \$6 billion increase over 1979. Against this windfall, Mexico's collapsing agricultural sector will fall far short of its productive capacity, necessitating the importation of at least 10 million tons of cereals versus 3.7 million tons in 1979. At average FOB prices of \$190/ton (corn, wheat, soybean), this shortfall alone represents \$1.2 billion. Furthermore, other imports, such as sugar, machinery and equipment and interest on the public debt alone may easily add \$4.5 billion to last year's bill. Finally, the worldwide slump in trade will surely cut down Mexico's non-oil exports vis a vis last year.

In this issue

The Mexican Peso: The nights may be long, but we're short.

The Canadian dollar: Standing on the side lines.

Pound Sterling: We're remaining long.

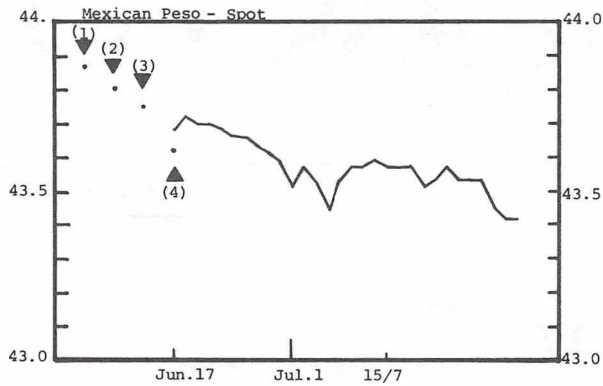
Also: Interest rate futures, the DM, SF and Yen, precious metals and the Soybean complex.

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GROUP

Friedberg's Commodity & Currency Comments is published monthly by Coneducor Limited, 716 Gordon Baker Rd., Willowdale, Ont. M2H 3M8
All editorial and subscription enquiries should be directed to Coneducor.

Content for Friedberg's Commodity & Currency Comments is supplied by the Friedberg Mercantile Group, commodity and currency brokers.

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- (1) Termination Price for Sep. 79 Contract.
- (2) Termination Price for Dec. 79 Contract.
- (3) Termination Price for Mar. 80 Contract.
- (4) Termination Price for Jun. 80 Contract.

Forward Discounts (Annualized)		Sep.80	Dec.80	Mar.81	Jun.81	Sep.81
Spot		17.28	19.15	17.27	17.65	17.58
Sep.80			19.64	16.90	17.33	17.24
Dec.80				13.47	15.42	15.67
Mar.81					16.80	16.22
Jun.81						15.0

Mexico's financial condition is critical. Private perceptions of the Mexican reality will surface in the ensuing weeks and months. Cooler heads will draw the inescapable conclusion that the MP is overvalued by at least 30-40% vis a vis US dollar (equal to the cumulative inflation differential since 1976 and allowing for the relative undervaluation that prevailed in late 1976 and 1977). Long before the 'gradual adjustment' process has a chance to restore equilibrium, a speculative run will ensue and force the Bank of Mexico into taking heavy and unnecessary foreign exchange losses. A quick (and minimum) 15-25% devaluation may be the only way to postpone indefinitely a monumental default.

STRATEGY: Selling the MP short has always been a difficult trade primarily because the forward prices have traded at deep discounts. These discounts are a function of the interest rate differentials between U.S. and Mexican money market instruments. Since Mexico's inflation rate is relatively high, free market interest rates (short term bank deposits and financial paper) have been consistently higher than rates obtained in the U.S. Annualized discounts indicate an interest rate differential in favor of Mexico — slightly higher than the prevailing quotes but not sufficiently higher — in view of exchange and solvency risk to make the covered arbitrage a profitable operation.

As a result of these discounts, forward rates tend to appreciate as they near maturity provided the spot rate remains unchanged, or, at the very least does not depreciate as much as the discount. Fortunately, for this same reason and by virtue of the fact that a revaluation is not a serious probability, the upside risk

is fairly well determined. As an example, selling September 1980 MP at present levels would represent a potential risk of approximately \$950 per contract. (.00095¢ per 1,000,000 Pesos contract) should the spot rate remain at present levels (i.e. .04345) through the middle of September, selling the December '80 contract would mean a potential loss of \$2,950 etc.. Since, in our view, a one-time 15-25% devaluation is more likely than a continuing downward readjustment, we should prefer selling the highest-priced contract (in this case, September 1980) so as to maximize profits. On the other hand, in view of our potential target of somewhere between .0370 and .03250, a sale of December '80 at .04050 would still allow for a substantial profit. Furthermore, a panic sell-off (just prior to a formal devaluation or accompanying a fast moving downward adjustment) should raise dramatically the cost of short term money thus widening the forward discount and giving us an added profit (before expiration). Taking all factors in consideration, we advise selling Sept. '80 MP at market; risk \$950, potential reward between \$5,500 and \$10,000 per contract.

DISCLOSURE: Our firm, on behalf of directors, partners, and clients may already hold substantial short positions in this market.

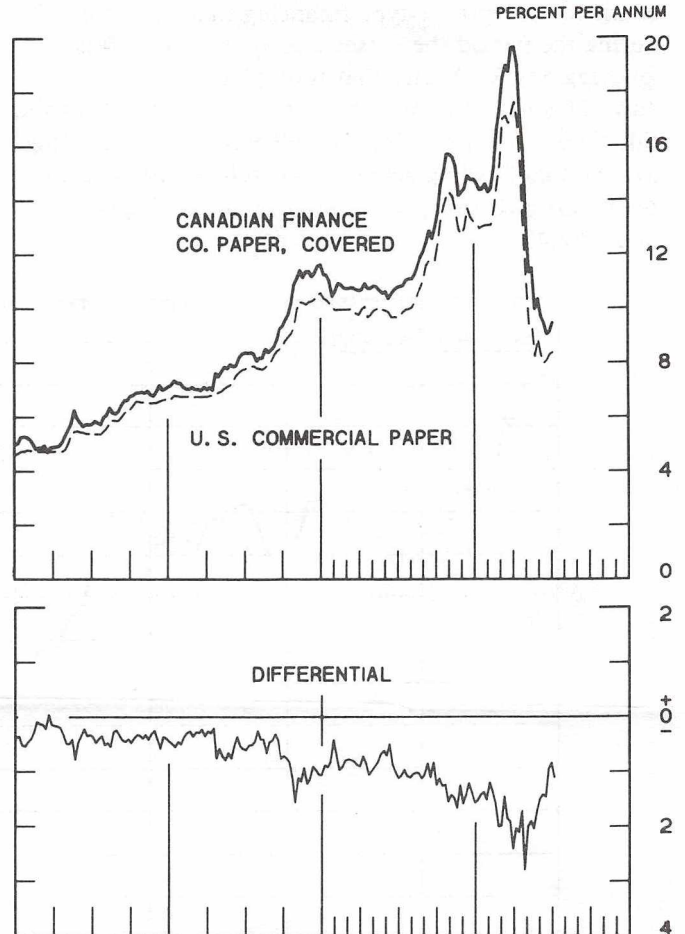
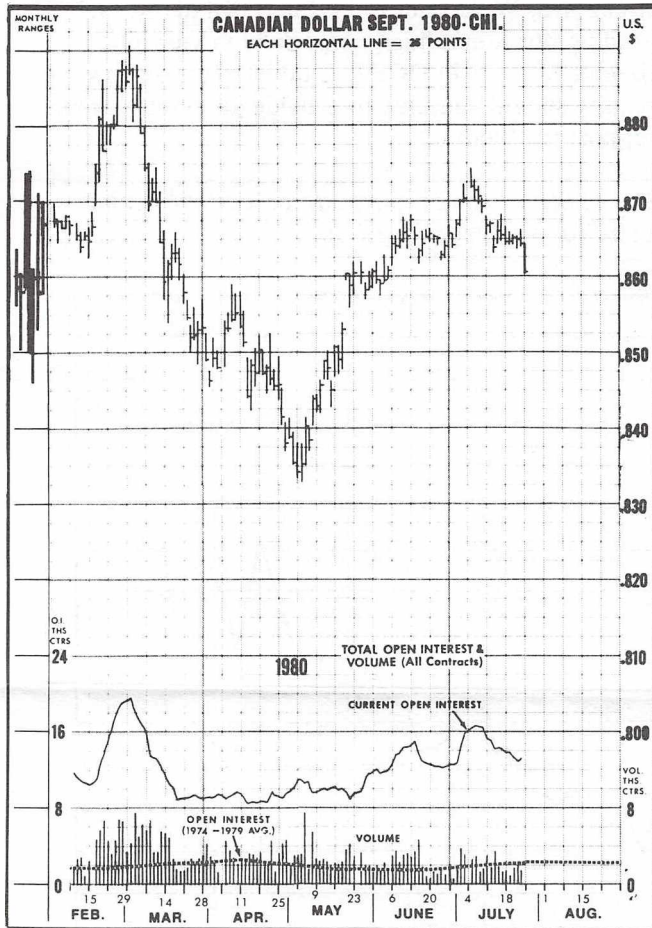
Canadian Dollar

There has been a significant easing of monetary conditions in Canada masked by below average growth rates of M₁ and M₂ (see table). The most visible sign of easing is the 40% annualized growth of Bank of Canada credit over the past three months. The result has been a sharp narrowing of short term rates differentials vis a vis the U.S. and a condition of excess liquidity in Canada, which, in turn, has begun to affect negatively the foreign exchange rate. It is worthwhile noting that the covered arbitrage, albeit still positive in favor of Canada, has begun to narrow rather ominously (see chart) thus removing one more prop from under the market. The Bank of Canada's action at this time is unwarranted in view of the unabated demand for credit which can be seen to have grown at a 22% annual rate of growth as late as last month.

Of further concern is the growing rift developing between Alberta and the Federal Government regarding energy pricing. This as yet unresolved dispute may cause a substantial flight of drilling rigs and capital from Canada and into the U.S. weakening the capital account, the only favorable sector of the balance of payments. The Federal Government's position is absolutely assinine and will, undoubtedly, crimp Canada's growth prospects for the 80's. As it is, falling

productivity in the oil and gas sector (see recent Dept. of Finance study on Productivity) may be due to a falling capital/labor ratio, a sign that oil and gas companies are more willing to 'use' readily disposable labor than burden themselves with high cost and long term pay off capital.

STRATEGY: The Sept. '80 CD\$ peaked at 87.17 in early July and has since declined rather sharply to reach 85.50. Our long positions were stopped out at 86.40 as per last month's suggestion. Remain sidelined.



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CAN\$	Jun. 80	May 80	Apr. 80	Mar. 80
General Loans **	22.19	20.54	20.71	21.91
M1 **	1.28	3.91	5.92	8.78
M1B **	-0.31	1.65	3.69	6.37
M2 **	17.76	18.86	20.27	20.58
M3 **	15.06	15.61	17.24	20.81
Int'l Reserves	4.31	4.221	3.971	3.669
Total Money **	16.61	16.61	15.72	15.23
CPI **	10.13	9.44	9.21	9.32
Food Price Index **	12.26	8.09	7.71	8.39
Unemployment Rate	7.8	7.8	7.5	7.4

	1980		1979		
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Balance of Payments (mln \$)					
Current Account	-1,302	-1,318	+ 29	-1,668	-2,141
Capital Account	462	2,795	1,305	2,059	4,962
GNP		271,780	265,080	255,964	243,308
Open Interest (July 28/80)		11,431		Volume (July 28/80)	5,888

Euro	July 25	July 18	July 11	July 3	June 27
Deposits					
1 mo.	n/a	11 1/4	11 3/8	12 5/8	12 3/4
3 mo.		11 1/8	11 1/4	11 5/8	11 7/8
6 mo.		11	10 7/8	11	11 3/8
12 mo.		10 7/8	10 7/8	10 7/8	10 5/8

QUOTES	Sep.80	Dec.80	Mar. 81	Jun.81
	:85.68	: 85.50	: 85.48	: 85.06

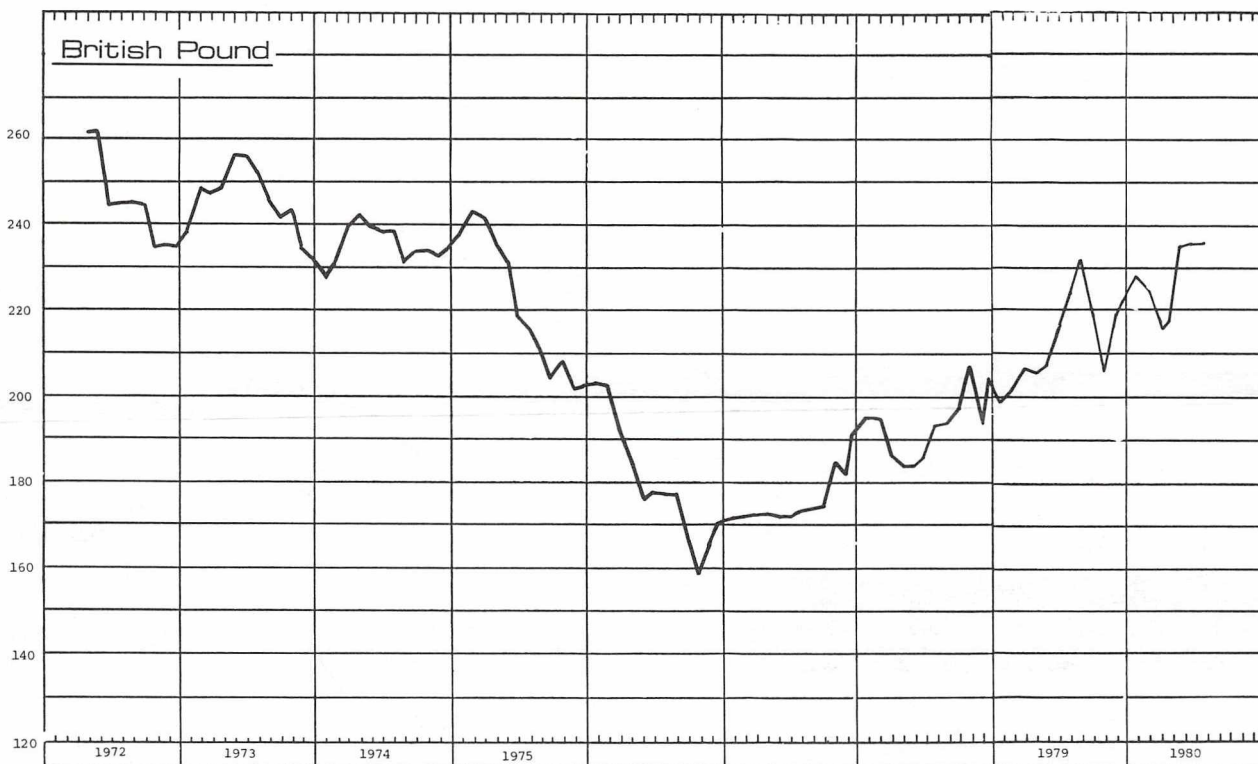
** Year-over-year % change

Sterling

The debate as to whether M_3 has overshoot its target of 7-11% per annum or not as a result of the lifting of the corset rages on. Bank of England officials are inclined to allow for a 2-4% extra growth M_3 to account for acceptance-type financing that occurred during the period the corset was in existence, thus ignoring any M_3 bulges that took place in June and July. This would permit them to lower the MLR again, this time to 14% or 15%. Nonetheless, it is interesting to note that Sterling acted rather well on the first much feared drop to 16%, recording new 5-year highs at just under \$2.40.

In the past few days, Sterling has receded somewhat from its highs touching 2.3580 at one time during today's trading range. Nonetheless, its trade-weighted average, as well as the BP/DM rate, has continued to strengthen. We do not think that UK interest rates are heading down in a hurry, especially in view of the sizeable increase in DCE (see table). This downward rigidity should continue to provide good underlying support for Sterling.

STRATEGY: Remain long; add on current weakness. Look for a target above 2.50.



U.K. Economic Indicators

	Visible Balance	Current Balance	Oil Balance	DCE	Reserves	M1	M3	MLR	RPI	FT Comdty.	Foods
	(£m)				(bln US\$)	%	%	%			
1979											
1st Qtr.	-1,588	-1,215	-235	+1,296	16.78	7.2	8.4	13	208.9	268.88	218.8
2nd Qtr.	- 486	- 357	-229	2,628	21.69	5.2	15.6	14	216.5	293.55	225.2
3rd Qtr.	- 493	- 83	-158	3,642	23.18	12.0	11.2	14	231.1	301.66	231.9
4th Qtr.	- 745	- 711	-157	2,977	22.54	14.4	15.6	14	237.6	295.13	237.2
Dec.	- 252	- 229	+ 88	250	22.72	5.1	12.6	17	239.4	295.13	239.9
1980											
1st Qtr.	- 723	- 417	-126	1,673	24.87	-4.0	7.2	17	248.8	284.47	247.5
2nd Qtr.								17			244.8
Jan.	- 315	- 213	- 76	737	23.71	-6.9	8.1	17	245.3	308.69	246.7
Feb.	- 232	- 130	- 45	271	23.93	-6.7	6.1	17	248.8	304.27	251.1
Mar.	- 176	- 74	- 5	711	26.96	-2.3	7.5	17	252.2	284.47	254.1
Apr.	- 264	- 214	+ 44	695	28.01	-4.0	4.8	17	260.8	275.67	255.7
May	- 18	+ 32	- 10	1,144	28.28	4.0	11.4	17	263.2	268.23	257.9
June	- 17	+ 33	- 15	1,352	28.17	-4.0	12.0	17	265.7		

Source: Financial Times

DM, SF, Yen

We are relatively neutral on the SF, long on DM with stops raised to 56.50 basis Sept. '80 close and near term bearish on the Yen.

Advise selling Sept. '80 Yen at market with stops at 45.25 basis close. Look for a move down to the 40-41 area.

SFR

	June 80	May 80	Apr. 80	Mar. 80
Balance of Trade (Bln SFR)	-745.8	-669	-1,260	-1,230
CPI **	3.33	4.34	4.06	3.88
WPI **	4.23	-0.19	6.27	6.46
Unemployment Rate	0.2	0.2	0.2	0.2
Current Account (Bln SFR)	1979 3.9	1978 7.9	1977 8.27	

Open Interest (July 28/80): 14,412 Volume (July 28/80): 6,594

Euro Deposits	July 25	July 18	July 11	July 3	June 27
1 mo.	5	5 1/4	5 3/16	5 9/16	5 11/16
3 mo.	5 3/16	5 3/8	5 3/8	5 9/16	5 3/4
6 mo.	5 1/4	5 1/2	5 7/16	5 5/16	5 7/8
12 mo.	5	5 1/16	5	5 1/8	5 5/16

QUOTES Sep.80 : 61.64 Dec.80 : 62.36 Mar.80 : 63.00 Jun.80 : 63.80

** Year-over-year % change

DM

	Jun. 80	May 80	Apr. 80	Mar. 80
Balance of Trade (Bln of DM)	+0.279	+0.297	+1.1	
Balance of Payments				
Overall Account	n/a	n/a	-6.26	-3.89
Current Account	-3.2	-1.46	-2.0	-1.26
Cost of Living **	5.96	6.09		5.76
WPI **	8.11	9.03	8.7	9.35
Prod. Price Index **	7.63	8.20	8.17	
Unemployment Rate	3.4	3.3	3.6	3.8
Monetary Reserves (Bln. DM)	79.0 (15/7)	77.7 (7/7)	77.4 (30/6)	76.5 (23/6)

Open Interest (July 28/80) : 9,626 Volume (July 28/80) : 6,417

Euro Deposits	July 25	July 18	July 11	July 3	June 27
1 mo.	9 1/4	9 3/16	9 9/16	9 9/16	9 11/16
3 mo.	8 15/16	9 1/16	9 3/8	9 3/8	9 9/16
6 mo.	8 1/2	8 3/4	9	8 7/8	8 15/16
12 mo.	8 1/8	8 3/16	8 3/8	8 5/16	8 5/16

QUOTES Sep.80 : 56.72 Dec.80 : 56.98 Mar.81 : 57.29 Jun.81 : 57.55

** Year-over-year % change.

Yen

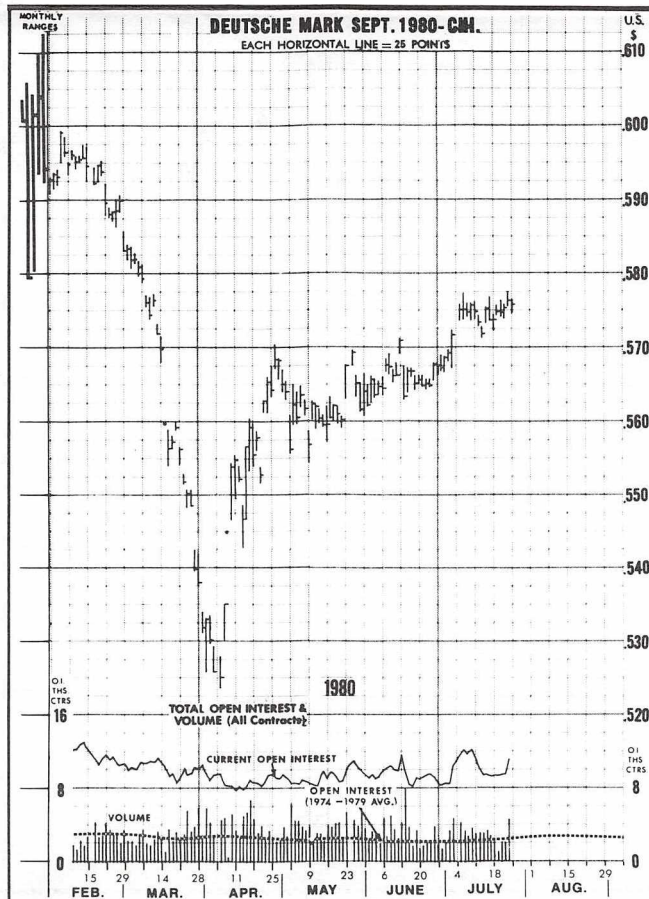
	June 80	May 80	Apr. 80	Mar. 80
Balance of Trade (Bln US\$)	+0.130	-0.664	-0.831	-0.043
Balance of Payments				
Overall account	Bal.	-0.247	-5.38	-2.54
Current account	-0.940	-1.77	-1.92	-1.22
M1 **		1.95	5.74	6.61
WPI **	20.25	21.89	24.0	22.80
Unemployment Rate	1.89	1.98	2.05	1.9

Open Interest (July 28/80) : 11,178 Volume (July 28/80) : 3,215

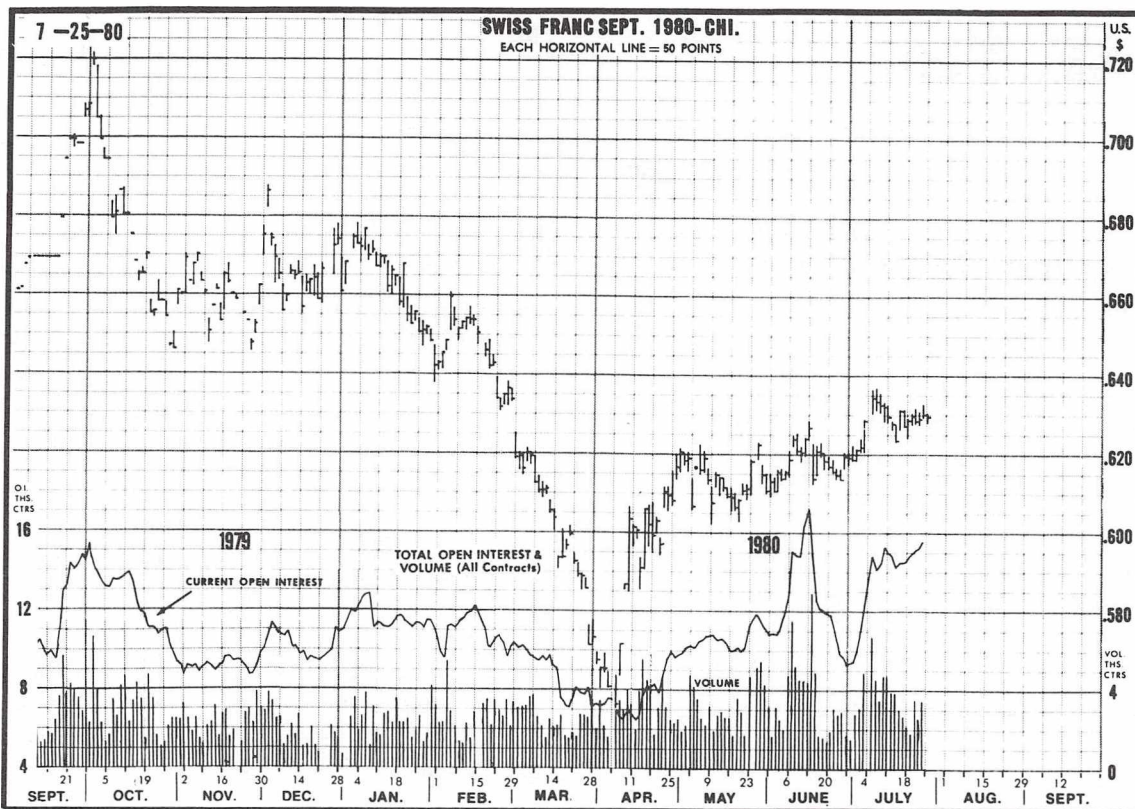
Euro Deposits	July 25	July 18	July 11	July 3	June 27
1 mo.	12 3/4	12 9/16	12 3/4	13	13 7/8
3 mo.	12 1/2	12 1/2	12 3/8	12 3/16	12 1/8
6 mo.	11 3/8	11 1/4	11 1/8	11 1/4	10 7/8
12 mo.	12 3/16	9 5/8	9 3/8	9 5/16	9 1/4

QUOTES Sep.80 : 43.81 Dec.80 : 43.70 Mar.81 : 43.72

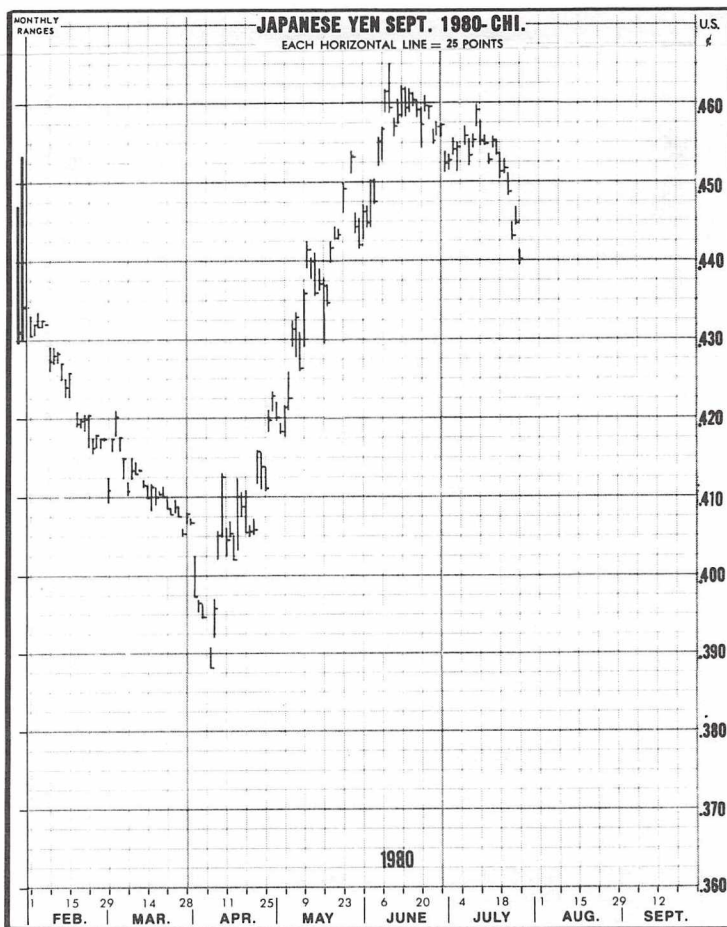
** Year-over-year % change.



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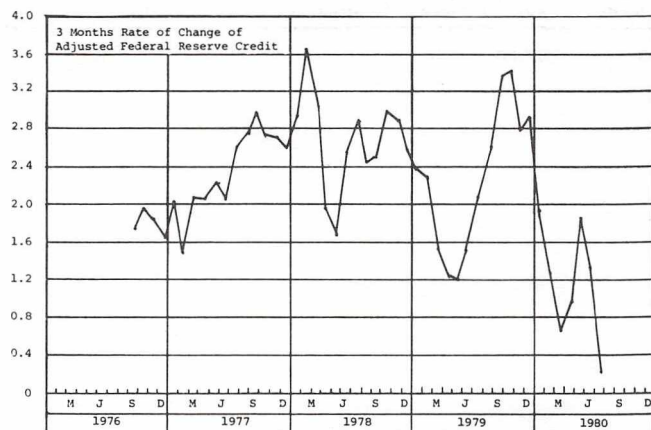
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Interest Rates Futures

With the economy giving off signs of nearing its steep slide, market interest rates firmed across the maturity spectrum. The overall increases over the past few weeks, however, have been of the order of only 1/4 — 3/8%, by itself a creditable performance in view of the enormous supply of new securities coming to market. This 'digestive' period should be followed by a renewed easing of rates when perceptions become more generalized as to the probability of a long and drawn out period of economic stagnation (see last month's issue).

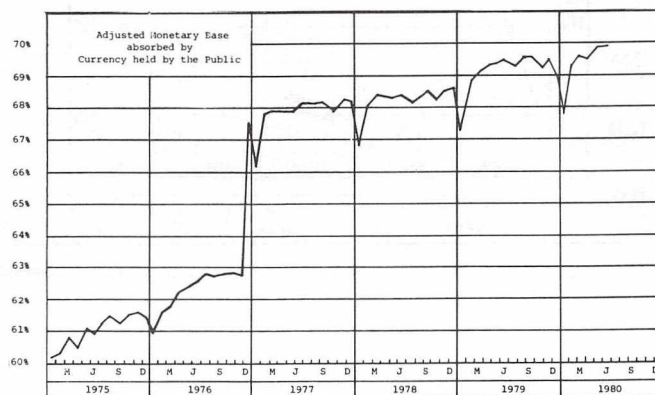
Most recovery forecasts are based on the fact that consumers and corporations, but particularly the former, are in a 'reliquification' period soon to be followed by more normal spending patterns. No economist worth his salt could possibly be certain of this. Since liquidity is still absurdly low in absolute terms it is venturesome, to say the least, to assume that a slight restoration of balance sheet health is sufficient to renew confidence. Experience in other inflation-ridden countries at various times in history indicates that a deterioration of real disposable incomes and/or liquidity levels was no impediment to a new phase of cyclical expansion. History, however, shows that the preconditions for such recoveries were huge doses of money and credit creation and latently potent inflationary expectations which worked against restraint and savings. Furthermore, this secular deterioration of the savings/investment function made impossible the attainment of real per capita growth in spite of recurrent cyclical expansions. In fact, these expansions can be characterized as inflationary boomlets with little or no substance.

As we stated last month, we doubt that this pre-condition, i.e. a sudden and unexpected priming of the monetary pump, is in store. The accompanying chart



	GNMA 8%		T. Bonds	
	Settlement Price	Yield	Settlement Price	Yield
Sep.80	74 29/32	12.101	77 28/32	10.704
Dec.80	74 27/32	12.114	77 26/32	10.714
Mar.81	74 27/32	12.114	77 24/32	10.723
Jun.81	74 24/32	12.133	77 22/32	10.732
Sep.81	74 19/32	12.165	77 19/32	10.746
Dec.81	74 13/32	12.203	77 16/32	10.760
Mar.82	74 07/32	12.241	77 13/32	10.775
Jun.82	74 02/32	12.274	77 11/32	10.784
Sep.82	73 29/32	12.306	77 09/32	10.793
Dec.82	73 24/32	12.338	77 08/32	10.798
Mar.83	73 20/32	12.364	77 07/32	10.803

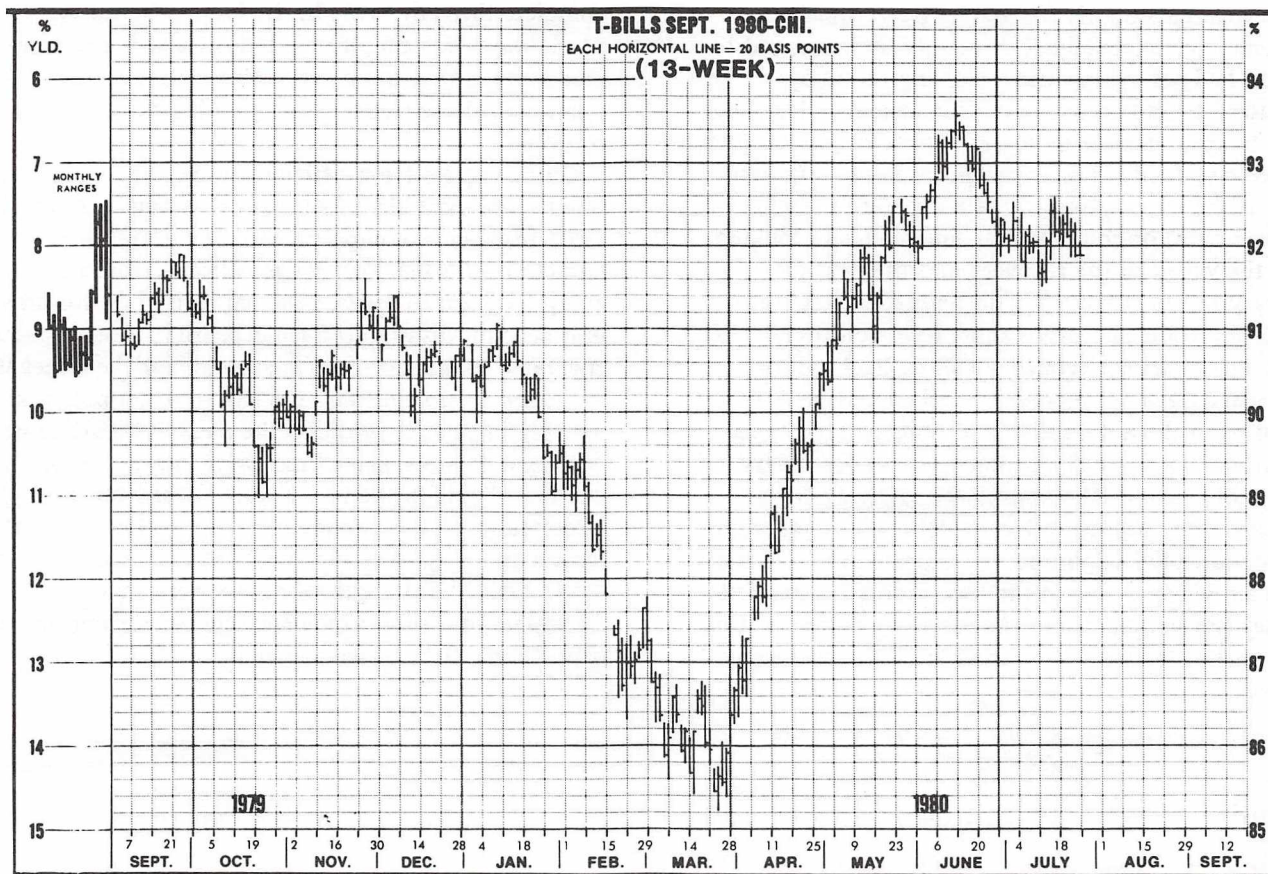
shows month by month the quarterly rate of growth of Adjusted Federal Reserve Credit, those variables that the Federal Reserve can control in its credit-providing function. A quick glance will show a fairly stable rate of increase for most of the years under observation with the exception of the first half of 1980 where growth tapers off to a quarterly rate of as low as .22%. Were the Fed to continue at this modest rate or, even revert to its 1976/79 behavior, monetary growth would be insufficient to create the conditions of an unexpected credit and inflation explosion. It should also be pointed out that most of the growth in Federal Reserve Credit has gone to satisfy the unusually strong demand for currency outside the banking sector, giving the latter very little room on which to expand deposits (see chart). In classical fashion ('elastic money supply')



the Fed has responded to this need although, frankly the reasons for this currency preference elude us. Should this trend persist, and should the Fed continue to satisfy just this demand, monetary policy will have become progressively more restrictive. At some point, a quick drop of the Fund target (back to the pre-October 1979 days?) to 5% or 6% will become necessary.



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STRATEGY: Buy Dec. '80 T-Bills at 91 or better if given the opportunity, placing subsequently 50 points stops. Retain spread long 7 Sep '80 T-Bills versus short 2 Sep' T-Bonds; we look for the differential to widen from the present 2.2% to at least 3.25% long rates over short rates i.e. a steepening of the yield curve.

Precious Metals

Anyone familiar with these *Comments* over the previous three months will recognize that the best that can be said of us in reference to precious metals markets is that we are reluctant 'short coverers.' The persistent strength of these markets in general, and of gold in particular, confounds us. Why does the market continue to describe an (intermediate) uptrend? When we ask those of our customers who are long they reply either in vague terms that world conditions seem to ordain a rising gold market or, more cynically that the U.S. will reflate itself out of the current recession so that the next round of price inflation, which according to these speculative savants is just around the corner, will be much worse than the last and another step

closer to the inevitable economic apocalypse. Can such view be rewarded? In other words is this one of the rare instances in market history in which the public is right? Or does the present price of gold reflect a market aberration which should be regarded as an opportunity by the short-seller?

We have discussed the supply/demand factors of gold in our previous two comments at greater length than we need to here. To summarize briefly: gold buying originates from three essential sources: jewelry fabricators, inflation hedgers, and insurance hedgers i.e. those who seek shelter from international political turmoil in hard, yet liquid assets. The economic background today is recessionary. An economic

slowdown augurs poorly for jewelry usage which represents approximately 50% of total demand and for inflation-hedge buying since a slowing economy predicates, if not deceleration, then at least a levelling off in the rate of price increases. Those buyers of gold who perceive themselves as hedging against inflation now must be either blind to the barrage of current economic data, or complacently and cynically looking across the valley to the recovery and the next inflationary round. As we've said before, we are not subscribers to the sharp-but-short recession theory. We do not agree that the economy will be back on the inflationary track by year-end. We believe the downturns in the automotive and housing sectors have gone too far to arrest the problems other secondary markets will suffer. The consumer, suffering from unemployment, overextension of debt, and a plethora of goods already bought, can be expected to continue to restrain his spending in the foreseeable future. The best that can be said about the economy is that if it has landed, it has landed with a thud and little bounce is expected.

TABLE 1. - Platinum-group metals ^{1/} recovered by refiners in the United States (Troy ounces)

Period	Platinum	Palladium	Iridium	Osmium	Rhodium	Ruthenium	Total
1979:							
First quarter---	16,570	48,957	552	---	3,536	2,918	72,533
Second quarter---	16,668	55,370	214	---	812	112	73,176
Third quarter---	19,906	49,113	332	---	2,439	465	72,255
Fourth quarter---	14,741	34,296	427	---	938	364	50,766
Total 2/-----	77,018	227,051	1,647	---	7,964	3,734	317,414
1980:							
First quarter---	25,658	48,935	335	---	1,400	76	76,404

1/ Practically all of this is secondary material; toll-refined material excluded.
 2/ Includes companies reporting annually; quarterly figures not adjusted.

TABLE 2. - Stocks of platinum-group metals held by refiners, importers, and dealers in the United States ^{1/} (Troy ounces)

Period	Platinum	Palladium	Iridium	Osmium	Rhodium	Ruthenium	Total
1979:							
March 31-----	300,761	369,077	14,464	525	50,486	48,287	783,600
June 30-----	281,436	342,155	19,435	395	50,211	46,394	740,026
Sept. 30-----	287,880	368,746	19,460	410	56,952	50,123	783,571
Dec. 31-----	291,195	308,178	17,652	1,473	47,188	60,105	725,791
Yearend 2/-	305,605	323,865	18,303	1,487	49,678	62,344	761,282
1980:							
March 31-----	318,607	342,495	14,872	1,279	47,987	72,410	797,650

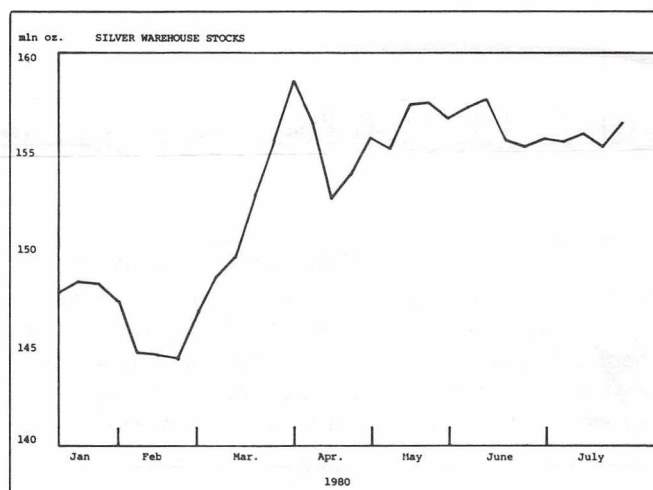
1/ Includes metal in depositories of the New York Mercantile Exchange; on March 28, 1980, this comprised 124,750 ounces of platinum and 30,500 ounces of palladium.
 2/ Includes companies reporting annually.

The third component of demand, insurance buying, is legitimate. We refer of course to the Middle Eastern oil barons who live under the threat of a Soviet move into the Persian Gulf. Ironically, however, buying from insurance seekers bids the price of gold further beyond the reach of those who might otherwise reasonably seek to purchase for jewelry or inflation hedge purposes.

In the case of silver, 91% of world consumption is industrially-based according to figures which are

complete through 1978. In the United States nearly all of platinum consumption is industrially-based as well. Our point is that these two commodities are not even possessed of the insurance buying incentive that is held by gold.

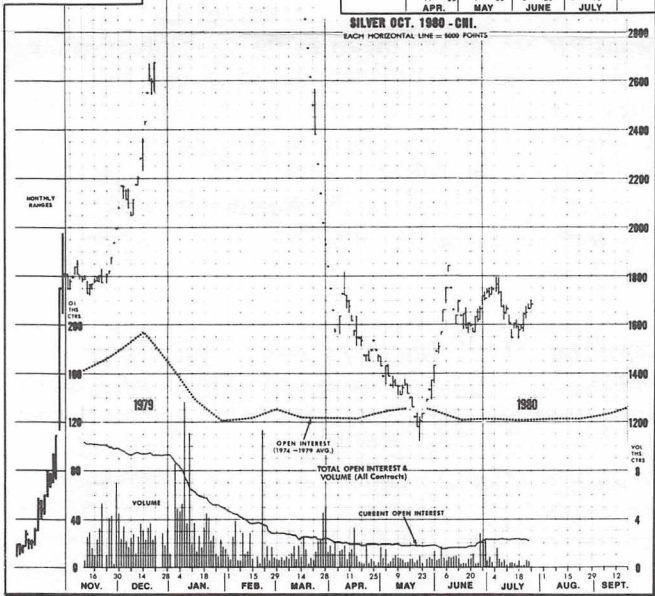
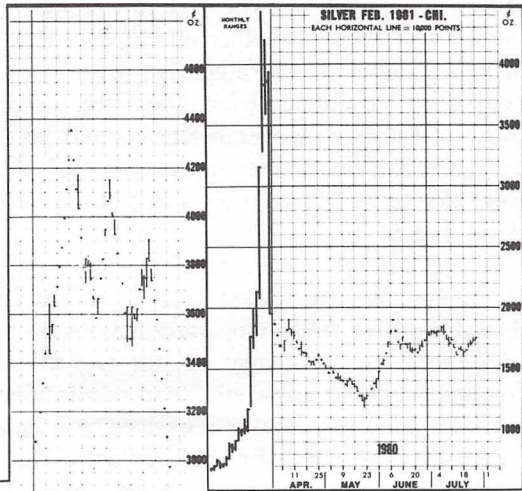
Gold supplies from official sources, as discussed last month, are expected to show a reduction through all of 1980, of 37% as compared with last year. This reduction in official offerings is tricky from an analyst's point-of-view inasmuch as it does not take into account dishoarding from profitable or just simply enervated longs; nor does it account for the effect the reduction in sizeable supplies will have on potential new big buyers. In addition the above estimate does not allow for unexpected increases in supplies being made available in the near future. Brazil for example is attempting to raise production from its current 32-34 tonnes annually to as much as 300 tonnes annually by 1984. Also, the strength of South African and Canadian gold shares indicates that at current prices it is profitable to increase production.



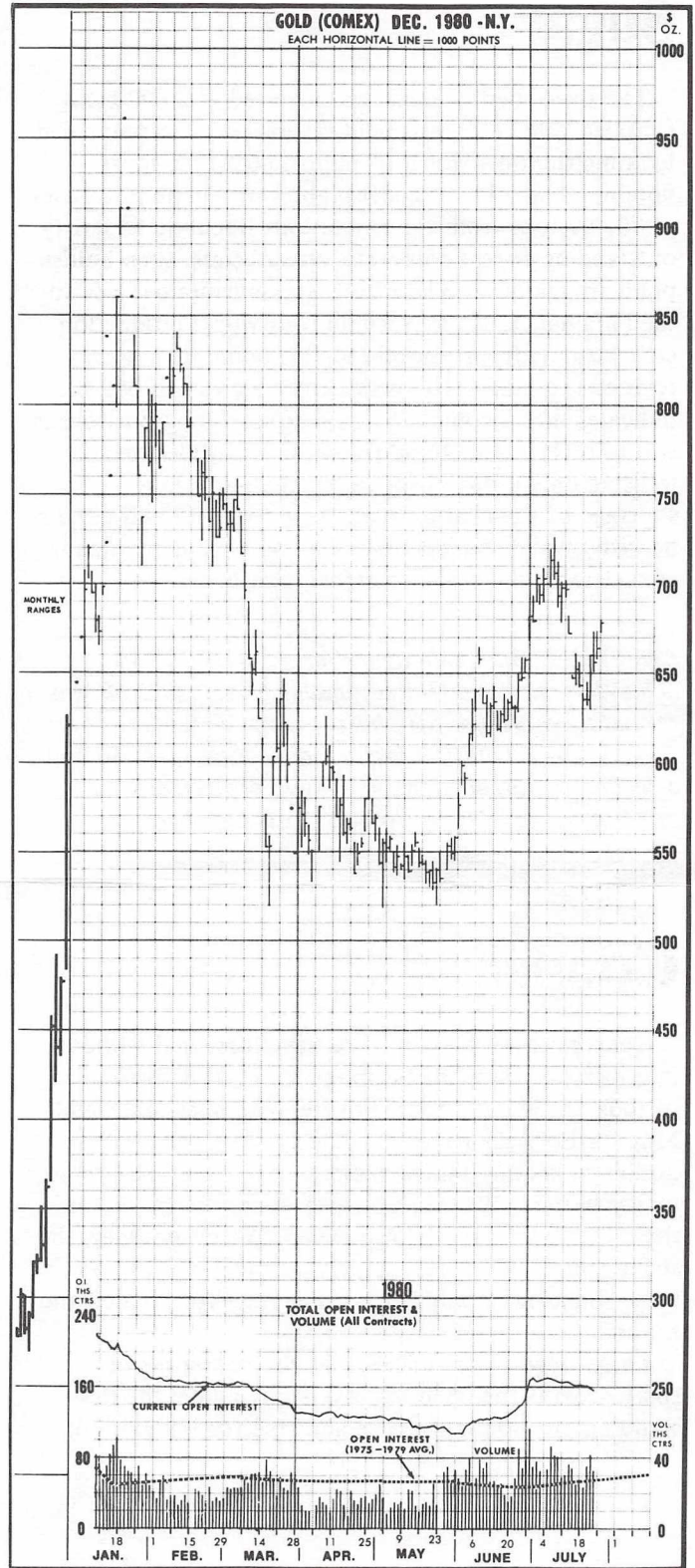
Gold gapped below the preliminary intermediate uptrend at 675.00 basis December to reach 620.00 and then with surprising resilience bounced back to 680.00. A possible head and shoulder may have been formed although this is not indicated by the volume which has been relatively heavy on the right side. The accompanying rally in silver and platinum has been considerably less exciting and leaves both these markets looking more vulnerable.

STRATEGY: Obviously this is not the time to mortgage your home to take an outright position in precious metals. Speculators who look at the market from a risk/reward point of view could be short either platinum or gold risking the highs of last week. The

profit potential is five times the risk factor even though the success probabilities are no better than fifty/fifty. More sanguine traders should be sellers of gold on a close below 615 basis December. Because of the relatively weaker fundamental scenario for platinum and silver, as outlined above, we expect the gold/silver and gold/platinum ratios to widen further and recommend positions. We favour a 2:1 sale of platinum to long gold spread.



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Sugar

The sweetener's demise was arrested at 26.00 basis October '80. The subsequent reversal was accompanied by a metric ton's worth of bullish news, the most notable of which was confirmation of Cuban purchases of 70,000 tons from the Dominican Republic to satisfy outstanding export contracts. Nonetheless, such bullish publicity about crop shortfalls etc, is contained within the parameters of an 89.8 mln tons world production estimates made last month; at this point we have no revisions to make. The persistently high open position indicates that a complete liquidation of long positions is still to be effected. In addition the still-wide spreads indicate only a hoped-for rather than an actual shortage of sugar at present. As a result we still remain bearish on this market despite a chart picture which is considerably less weak than last month.

STRATEGY: Our preliminary target of 29.50 was achieved with ease. Our secondary target of 25.50 was missed by a meagre fifty basis points. Those still short should now establish a preliminary target of 25.50 and a secondary target of 20.00. Lower protective buy/stops to 32.20 on close-all basis October.

Copper

Copper stocks in New York have increased without interruptions since the beginning of 1980 and stood as of today at 181,803 tons. For the first week since mid-May LME stocks have not shown a commensurate decline indicating that strike-protection supplies are no longer needed. We are, as stated plainly elsewhere in these comments, recession-minded. We do not view the strike and its effect on supplies, at this point at least, to be sufficiently bullish to compensate for the demand fall off.

These views are not shared by the consensus of speculators if the open interest is any guide: the outstanding position is oversize and ripe for liquidation.

STRATEGY: Short with buy stops at 105.00 basis December.

Soybean Complex

Last month we arduously constructed a fundamental picture of the bean complex with the freely offered admission that, as analysts of grains and oils, we were strictly amateurs. We will have to wait until year-end before we find out whether our supply/demand estimates come in accurately. However our price projection has already been vindicated; we predicted a move to 840 basis November beans and, as though heralding the call of the enthusiastic naif, the beans went exactly to that number and not a quarter of a point higher.

A first act and profits like that make one reluctant to try an encore. Nonetheless, and with all suitable disclaimers, we feel opportunity behooves us to opine once more. Our fundamental estimates will not be repeated here but are available in our July issue or upon request. We confine ourselves to a technical viewpoint beginning with the conclusion that the market has not topped out. A breakout from the base beans left behind and fueled by the momentum of the first three weeks of July does not result in a bull market that lasts only a month. The correction to 740 represents a 59% retracement of the upmove which is well within the permissible corrective decline. Spreads have tended to narrow on oil. Action in related commodities especially cotton and corn have been constructive.

STRATEGY: On balance, and with typically amateurish enthusiasm, we find ourselves once again long, looking now for an ultimate move to 950 basis November. Our stops are currently at 739. If stopped out we would consider reinstating positions at 720 with subsequent stops at 700.

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