

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Financial Education Services

September 1, 1980

The Better Part of (Political) Valor

*"One of the problems in this country for the past year, one reason only,
is that we have paid ourselves 22% more for producing 4% less".*

Margaret Thatcher

Despite the announcement that UK unemployment has edged above two million people, its highest number since the 1930's, and stood at a seasonally adjusted rate of 7%, the Tory Government stood firm in its resolve to jar deeply-embedded inflationary expectations. To the Opposition's cries of 'insanity', 'lunacy' and 'inhuman and wicked', was joined the NIER's Keynesian diagnosis: unemployment is likely to go on rising from the current level of 1.62 million (seasonally adjusted and recently raised to 1.69 million) to 1.75 million in the fourth quarter of 1980 and 2.19 million by the end of 1981. Total output as measured by the real Gross Domestic Product is expected to fall by 1.8% this year (an upward revision from May's estimate of - 1.1%). On a more constructive note, the NIER concludes that output will rise by 0.6% next year (as against a previously estimated 0.6 fall), consumer prices are expected to rise 16.7% this year (versus an earlier forecast of 17.2%) and 15.3% (14.9%) next year, and personal income will rise 1.5% (2.1%) in

1980 and fall 0.3% (+ 1.2%) in 1981. The two major revisions, however, lie in the areas of Public Sector Borrowing Requirements and the Current Account.

The NIER reckons that the increase in world oil prices (which will add £4.5 billion in revenues between 1979-80 and 1981-82), the planned 10% *real* increase in the tariffs of the nationalized industries and the Treasury's determination to hold public sector wage increases below those in the private sector will contribute to the anticipated decline in PSBR from £9 billion in the current year to £6.2 billion in 1981-82, on unchanged policies. This achievement, despite the steep recession, should be beneficial to the crowded-out private sector. As well, it will help the Bank of England maintain its avowed monetarist target. Significantly, PSBR as a percentage of GDP drops from 5% in 1979/80 to 4% in 1980/81 and to 2.4% in 1981/82. Finally, and most importantly, the NIER has revised dramatically its current account forecast: instead of a deficit of £2.6 billion in 1980 and £1.3

Interest rates futures

Grain and oilseeds: erupting nicely

Precious metals: a shift from short to long

Also: super-currencies, copper, sugar and cotton.

FRIEDBERG
MERCANTILE
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.

All enquires concerning trading accounts should be directed to the Friedberg Mercantile Group,

347 Bay Street, Suite 207, Toronto, Ontario, Tel: 416-364-2700, Cable: Friedco Toronto, Telex: 06-23446

billion in 1981, it now thinks that the UK will suffer a much smaller deficit (£0.8 billion) in 1980 and a massive surplus of £2.0 billion in 1981.

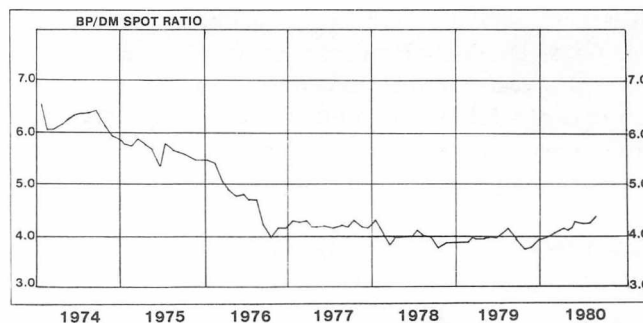
We take exception to the NIER's inflation forecast. In the first place, consumer prices for the past 3 months have averaged just under an annualized rate of 10.5%. Secondly, it is unlikely that wage demands, in the upcoming labor talks, should produce settlements near the NIER's assumption of gains of 18%-plus, in view of the growing number of unemployed workers. Our feeling is that settlements will range from 11% to 15%, tending to the lower figure and allowing take-home pay, in real terms, to rise perhaps 1-3% per annum.

There is little doubt that present economic policy, if maintained long enough, will re-orient British industry away from its obsolete and inefficient structure (heavy industry, textiles) to the more flexible and competitive sectors which include oil production and processing, marketing and financial services. Unfortunately, the Thatcher Government did not move fast enough to produce the desired shock effect and may not have given itself enough time before the next election to complete the much-needed reorganization. In par-

ticular, a great deal more could have been accomplished in the area of Government expenditure, transfers and subsidies. Nevertheless, the UK experiment marks the first exercise of political valor in the industrialized post-war-period world under a democratic Government. The groundwork is being laid for a sustained bout of economic expansion, free of the inflationary excesses and balance of payments constraints, so typical of the past 30 years.

STRATEGY: Remain firmly long Sterling; the lower end of our oft-repeated forecast of £2.40 - 2.75 has already been attained. The top range is now in sight. Stops should now be raised to 2.32 basis Spot.

The bears who bet on the inevitable drop of the MLR to drag Sterling down must now contend with a potentially favourable shift in the balance of payments — the prospective surplus on current account. By 1981, capital inflows will no longer be necessary to sustain Sterling (see Commodity & Currency Comments, The Silver lining in Sterling, June 2, 1980).



Reprinted from Commodity Research Bureau, Inc.

U.K. Economic Indicators

	Visible Balance	Current Balance	Oil Balance	DCE	Reserves	M1	M3	MLR	RPI	F.T. Comdty	Foods
Apr. 80	- 264	- 214	+ 44	695	28.01	-4.0	4.8	17	260.8	275.67	254.1
May 80	- 18	+ 32	- 10	1,144	28.28	4.0	12.6	17	263.2	268.23	255.7
Jun. 80	- 17	+ 33	- 15	1,352	28.17	-4.9	21.4	17	265.7	267.45	257.9
Jul. 80	- 261	+ 311	- 102	3,502	28.27	+11.2	42.0	16	267.9	273.57	259.9

Source: Financial Times

Shifting fortunes: the super currencies

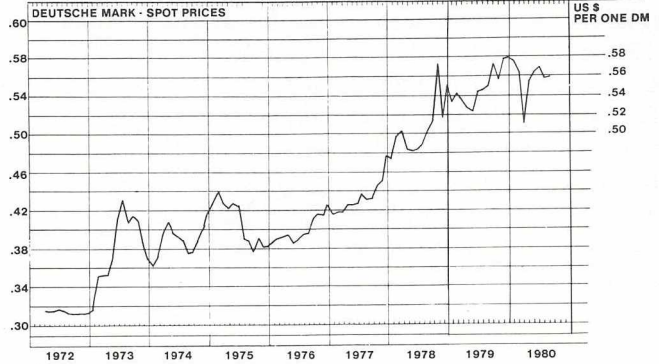
The dramatic currency appreciation of the DM, SFR, and Yen over the 1972-1979 period has begun to affect their respective trade and current-account balances.

W. GERMANY — A current-account surplus of DM 16.2 billion in 1978 turned into a deficit of DM 9.0 billion in 1979 and a DM 12.3 billion deficit for just the first 6 months of 1980 paced by a negative shift during this past year in the trade figures of approximately DM 10 billion.

West German

(mln DM)	Jul. 80	Jun. 80	May 80	Apr. 80	Jan-Jul.79	Jan-Jul.80
Balance of Trade	+107	+279	+297	+1,100	20,960	4,607
Balance of Payments						
Overall		2,214	829	-6,260		
Current	-5,200	-3,200	-1,460	-2,000	-1,615	-17,480
Unemployment Rate	3.7	3.4	2.3	3.6		
Cost of Living **	5.47	5.96	6.09	0.78		
W.P.I.**	7.78	8.11	9.03	8.7		
Monetary Reserves (bln DM)						
	Aug. 23 : 74.8	Aug. 11: 79.1	Aug. 4: 80.8	Jul. 31 : 78.6		
M1 **	1.56	2.04				
M2 **	9.37	9.41				
M3 **	4.77	4.67				
Euro Deposits : %	Aug. 1	Aug. 8	Aug. 15	Aug. 22	Aug. 29	
1 Mo.	9.	8 1/2	8 1/2	8 3/4	8 3/4	
3 Mo.	8 9/16	8 7/16	8 3/8	8 9/16	8 11/16	
6 Mo.	8 1/16	8.	8	8 3/16	8 7/16	
12 Mo.	7 7/8	7 7/8	7 15/16	8 3/16	8 1/4	

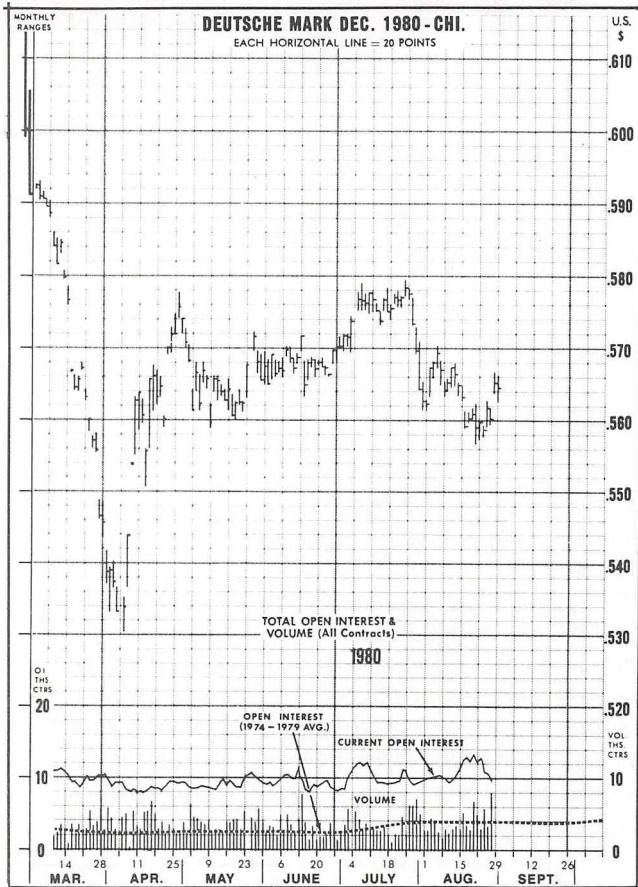
** Year-over-year % change.



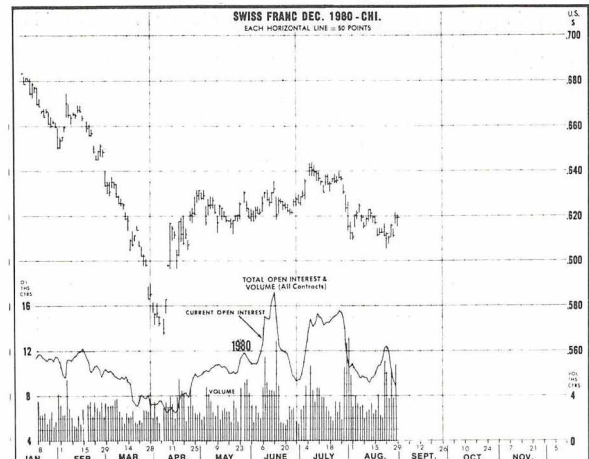
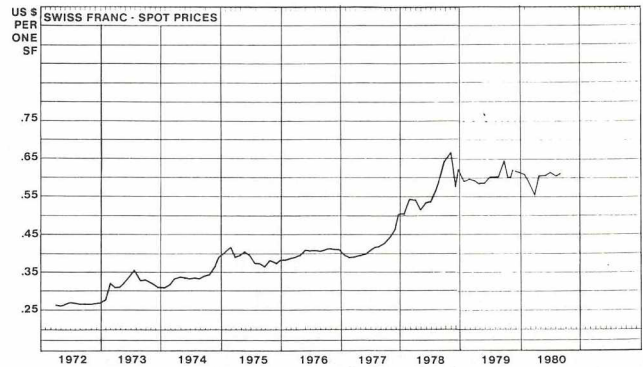
SWITZERLAND — A current-account surplus of SF 7.87 billion in 1978 fell to Sfr 4.06 billion in 1979 and is expected to remain only marginally in the black during 1980. The substantial decline in the current-account surplus was primarily the result of a negative shift in the trade balance equal to Sfr 7.0 billion in the 1978-1980 period.

SFr	Jul.80	Jun.80	May 80	Apr.80	Jan-Jul.79	Jan-Jul.80
Balance of Trade (mln SFr)	-992.50	-741.7	-669	-1,260	-2,714	-6,922
C.P.I. **	3.32	3.33	4.34	4.06		
W.P.I. **	4.83	4.23	-0.19	6.27		
Unemployment	0.2	0.2	0.2	0.2		
Reserves : (bln SFr)	Aug. 20: 19.75	Aug. 10: 20.05	Jul. 30: 20.37	Jul. 20: 19.90		
Current Acct : (bln SFr)	1979: +3.9	1978: +7.9	1977: +8.7			
Euro Deposits:	Aug. 1	Aug. 8	Aug. 15	Aug. 22	Aug. 29	
1 mo.	5 1/2	5 7/16	5 1/16	6 1/4	6 1/16	
3 mo.	5 9/16	5 7/16	5 1/16	5 7/8	6 1/16	
6 mo.	5 9/16	5 3/8	5 1/4	5 3/4	5 7/8	
12 mo.	5 9/16	5 1/4	5 1/16	5 1/2	5 5/8	

** Year-over-year % change.



Reprinted from Commodity Research Bureau, Inc.



Reprinted from Commodity Research Bureau, Inc.

JAPAN — A current-account surplus of \$16.6 billion in 1978 gave way to a deficit of \$8.6 billion in 1979 and, has, in the seven months to July, 1980 produced a deficit of \$5.5 billion versus a surplus for the same period of 1979 of \$3.6 billion. Here again, the trade balance has led the deterioration in the current account: from a trade surplus of \$24.8 billion in 1978 to a trade deficit of nearly \$4 billion in the first seven months of 1980.

Yen	Jul. 80	Jun. 80	May 80	Apr. 80	Jan-Jul.79	Jan-Jul.80
(bln US\$)						
Balance of Trade	+130	+127	-.664	-.831	+3,653	-3,848
Balance of Payments						
Overall	+320	Bal.	-.247	-5.38	-2,729	-11,319
Current	-.960	-.929	-1.77	-1.92	-8,399	-11,548
M1 **		3.81	1.95	5.74		
W.P.I. ** (Aug.17.12)	18.46	20.25	21.89	24.0		
Unemployment Rate	2.09	1.89	1.98	2.05		
Reserves (bln US\$)	22.79	22.64	21.40	18.91		
Euro Deposits %	Aug. 1	Aug. 8	Aug. 15	Aug. 22	Aug. 29	
1 mo.	13 1/4	12 1/4	12 3/8	12 3/8	11 1/2	
3 mo.	12 1/2	12 1/8	11 3/4	11 3/4	11 1/2	
6 mo.	11 1/2	11 3/8	11 1/8	11 1/8	11	
12 mo.	10	10 1/16	9 5/8	9 5/8	9 3/4	

** year-over-year % change.

If we consider that these three super-currencies appreciated dramatically over the past 8 years while at the same time their domestic inflation persisted, albeit at a subdued pace, one concludes that the long cycle of appreciation is over, i.e. their overvaluation has begun to affect their international competitiveness.

JAPANESE YEN — SPOT PRICES



	W.Germany	Switzerland	Japan	US
Currency appreciation vis a vis US\$	80.5%	133.8%	39%	
Consumer prices in domestic currency	+ 43.8%	+ 42.9%	+ 113%	
Consumer prices in US\$	+124.3%	+176.7%	+ 152%	97.0%

Source: International Financial Statistics
Prepared by our staff.

All figures are from 1972 (period average) to mid-year 1980.

The distortion in relative prices took a long time to correct itself chiefly as a result of the well known J-curve effects, boosting the local currency's value of exports and depressing the local currency value of imports. The reverse may be about to happen in the U.S. A current-account deficit of \$14.1 billion in 1977 fell to \$13.5 billion in 1978 and to a mere \$1.2 billion in 1979 with forecasts ranging of up to \$10 billion surplus for 1980-1981 (mid-year projections).

Strategy: We have been stopped out of our Japanese Yen short position at 45.25 basis Sept. '80. Remain sidelined.

Long term speculative and commercial accounts are urged to sell Dec. '80 DM and Dec. '80 Sfr. at present levels using protective buy stops at 58.00 and 64.50 respectively. We look for corrections of between 10% and 20%.

MP. — Following the recent trend towards accelerating inflation, the July CPI showed a 2.8% rise over June while wholesale prices rose 4.1% over the same period. The overvaluation of the MP is becoming acute.

Remain short September '80 MP until expiration and then roll-over to the December '80 position, mindful of the large prevailing discount (and therefore risk).

CD\$ — Remain sidelined.

M. Peso : C.P.I. : + 2.8% in July from June.
 W.P.I. : + 4.1% in July from June.
 Current Acct. : 1979 = -4.25 bln US\$, +81.3% from 1978.
 Trade Balance : 1979 = -3.18 bln US\$, +65.3% from 1978

	Jul.80	Jun.80	May 80	Apr.80	Jan-Jun.79	Jan.Jun.80
CD\$						
Balance of Trade (mln CDS)	n/a	+892	+579	-173	+1,023	+3,064
General Loans **	20.01	22.16r	20.54	20.71		
M1 **	3.78	1.28	3.91	5.92		
MIB **	1.62	-0.31	1.65	3.69		
M2 **	18.21	17.76	18.86	20.27		
M3 **	15.7*	15.06	15.61	17.24		
Int'l Reserves (bln US\$)	4.2	4.31	4.221	3.971		
Total Money **			16.61	15.72		
CPI **	10.10	10.13	9.44	9.21		
Food only **	9.08	12.26	8.09	7.71		
Unemployment rate	7.5	7.8	7.8	7.5		
Euro Deposits:	Aug. 1	Aug. 8	Aug.15	Aug.22	Aug.29	
1 mo.	11 1/8	10 1/2	10	10	10 3/8	
3 mo.	11	10 3/4	10 1/2	10 5/8	11 1/4	
6 mo.	11	11	10 7/8	11 1/4	11 5/8	
12 mo.	11	11 1/8	11	11 1/2	11 7/8	

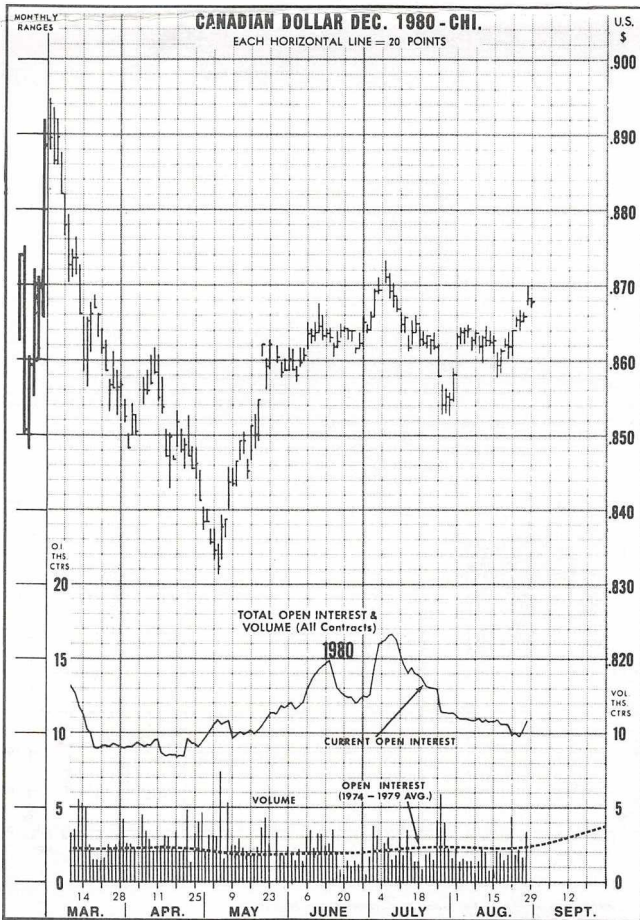
** Year-over-year % change.



Reprinted from Commodity Research Bureau, Inc.

Quotes as of Sep. 2nd, 1980:

	Sep. 80	Dec. 80	Mar. 81	Jun. 81
British Pound	241.20(+.10)	228.70(+.75)	237.15(+.65)	233.80
Canadian Dollar	86.62(+.19)	86.87(+.09)	87.04(+.04)	87.30(+.05)
Japanese Yen	46.31(+.56)	46.44(+.53)	46.80(+.70)	
Swiss Franc	61.33(+.42)	62.34(+.40)	63.39(+.37)	64.55(+.25)
W. German Mark	56.32(+.39)	56.81(+.36)	57.34(+.26)	58.07(+.57)



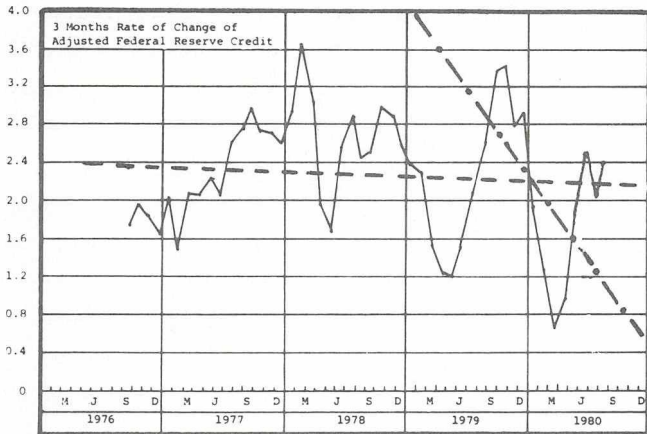
Reprinted from Commodity Research Bureau, Inc.

INTEREST RATES FUTURES

The percolating appearance of economic statistics throwing off signs of a near-term bounce coupled with the staggering one-time \$9.0 billion jump in money supply was too strong for the market to absorb. In a period of three weeks, three month Treasury Bill rates climbed 175 basis points while Treasury Bonds a touch more than 100 basis points, with most of the damage done over just 5 trading sessions. As a result, the yield curve flattened out to show a meager 100 basis points spread between the shortest and longest Government Paper. Clearly, our strategy had backfired; long Dec. '80 T-Bills purchased at 91 were stopped out at 90.50 while the spread long 7 Sept. '80 T-Bills short 2 Sept. T-Bonds put on at roughly 2.2% spread are showing an approximate loss of \$30,000.

Can it really be that rates have bottomed out, that a strong economic recovery is around the corner and that inflation is due to re-accelerate from an already-alarming 10-11% level? Or are we dealing with a residual (from late '79-early 1980) monster called 'high inflationary expectations'?

We think the latter. Here's why: The Federal Reserve has expanded its money-generating activities at a slightly declining rate which can be seen in the accompanying chart. By a statistical (and human) error last month,



we graphed incorrectly the month of June and July estimating an unusually low .22% rate-of-change reading for the last month in the series. Our revision does change the figures significantly but only in terms of magnitude rather than direction. A linear regression performed on the entire data shows a slight downtrend, which, in view of inflation and the ever-growing financing needs of the Federal Government, indicates a tightening, albeit quite gradual, *policy*. As we commented in years and months past, this gradualistic policy is not good enough when you are starting from a high level of credit expansion (in absolute terms) and in the midst of a credit boom. *It is, however, effective once the boom has subsided* and economic participants have come to expect an accommodative policy in terms of present output and inflation. Furthermore, one notes a significant *steepening* of this downtrend when attention is concentrated on just the Oct. '79-Aug. '80 period.

Another sign of the change in *policy* evident at the Fed is the rapidity with which Fed Funds have been allowed to trade up. Unlike years past, the Fed has not resisted market forces; rather, it has followed the latter's desire to put a premium on inflationary expectations. We can only wonder whether the Monetary Authorities held the very same view as market participants and therefore encouraged such a run-up. Only time will tell.

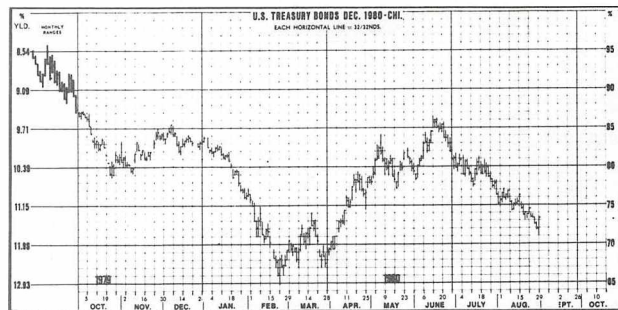
In the interim, we know the following: a) interest rates gave back about half the Spring gains, still a permissible type of correction (as opposed to a reversal of trend) in a bull market; b) interest rates are, despite the huge drop from their peaks, still slightly *positive*; c) inventories have been moving dramatically out of line with sales and the inevitable correction should lead to a quick abatement of credit demands; and d) the U.S. dollar is navigating in calmer waters and can count on a surplus on Current Account to offset any negative short term capital outflows.

STRATEGY: We conclude that the recent shakeout provides the patient, long-term investor with an excellent opportunity to re-establish long positions.

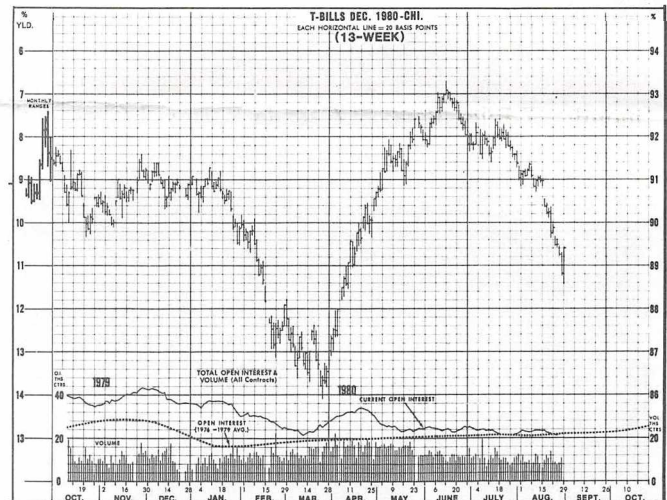
Buy December '80 T-Bills at market, risking 88.50 with objective of 94.00.

Retain and/or add to spread long 7 December '80 T-Bills US short 2 December '80 T-Bonds.

Finally, but least desirable by implication, purchase Dec '80 T-Bonds at market placing stops at 71.00, close only.

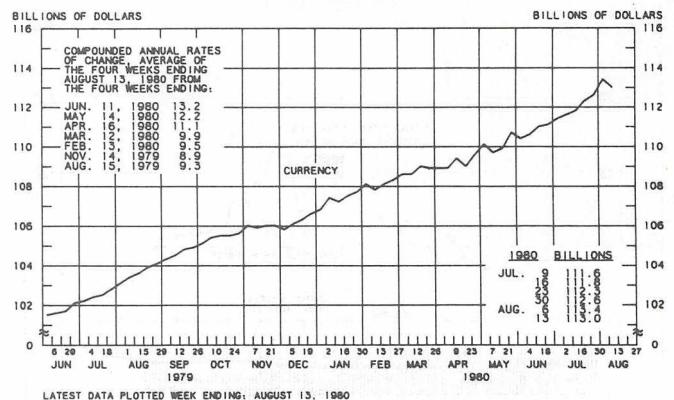


Reprinted from Commodity Research Bureau, Inc.

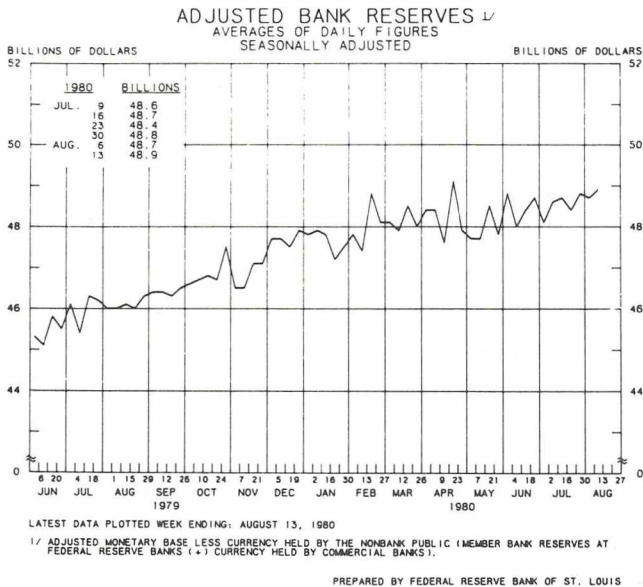


Reprinted from Commodity Research Bureau, Inc.

CURRENCY OF MONEY STOCK MEASURES 2
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: AUGUST 13, 1980
CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.



Quotes as of Sep. 2nd, 1980 :

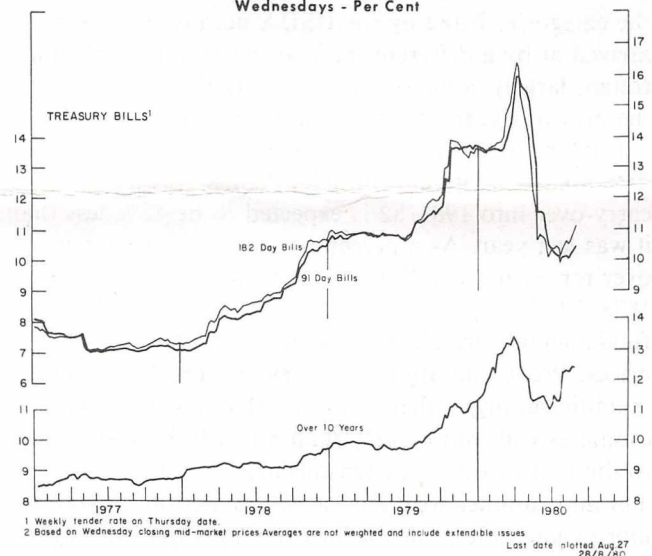
	GMA 8%		T. Bonds		T. Bills	
	Settle	Yield	Settle	Yield	Settle	Discount
Sept. 80	72-08	12.654	74-09	11.261	89.86	10.14
Dec. 80	72-09	12.647	74-11	11.251	89.53	10.47
Mar. 81	72-12	12.627	74-18	11.216	89.36	10.64
Jun.	72-14	12.614	74-24	11.186	89.22	10.78
Sept.	72-16	12.601	74-30	11.156	89.14	10.86
Dec.	72-16	12.601	75-01	11.141	89.05	10.95
Mar. 82	72-16	12.601	75-04	11.126	88.93	11.07
Jun.	72-15	12.607	75-07	11.111	88.82	11.18
Sept.	72-14	12.614	75-10	11.097		
Dec.	72-13	12.621	75-13	11.082		
Mar. 83	72-12	12.627	75-16	11.067		

NOTE

Canadian interest rates futures, a 3-months Treasury-Bill and a long-term Government of Canada bond, will begin trading tomorrow on the Toronto Stock Exchange. Given the extremely close correlation of 3-months' T-Bills, Bank of Canada Rate and Chartered Banks Prime rate, an ideal hedging vehicle has been created. It should be of great interest to *all kinds of commercial borrowers and lenders*. As well, it should be of great interest to speculators. Pamphlets and related information will be available on request.

STRATEGY: *In line with our U.S. comments, we'd expect to be buyers of these instruments at present levels.*

**GOVERNMENT SECURITY YIELDS
Wednesdays - Per Cent**



GRAIN AND OILSEEDS

In our comments of July 2, we presented a fundamental projection of the 1980/81 soybean crop and concluded that the market, November then trading at 700, would work as high as 840. This level was achieved *precisely*. Last month we presented a brief technical discussion of the market and concluded that a reinstatement of long positions was warranted with a

target of as high as 950. The market has taken its time to consolidate, (note the large continuation triangle on accompanying chart); Friday's breakout leaves us feeling confident that our views will be vindicated.

Our success in soybeans has been a very pleasant surprise to us; we have emphasized our relative lack of expertise in grains and oilseeds in our past issues. So pleasant has it been in fact, that we presently find ourselves diversified into corn also. The raw numbers of corn as well as an update on beans follows:

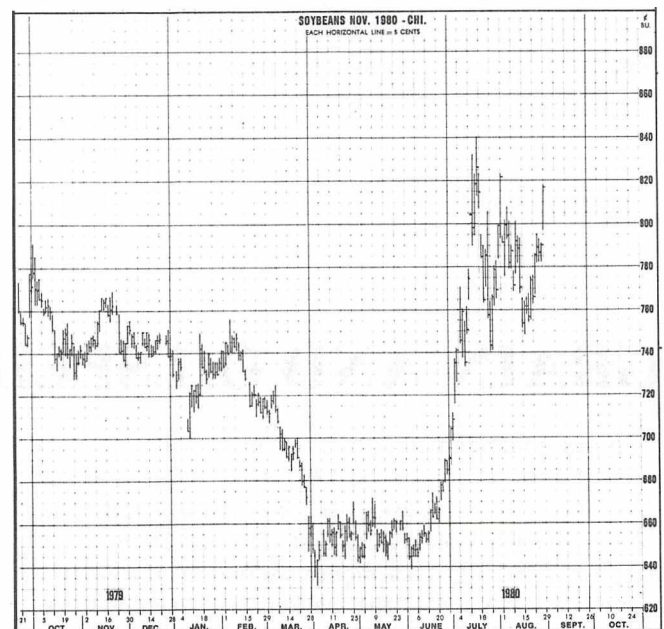
	CORN		BEANS			
	1979/80	80/81	79/80	Friedberg Proj.	80/81	
area planted	80.0 mln acres	83.5 mln. acres	71.6. mln acres		70.3 mln. acres	
area harvested	71.0 " "	71.4 " "	70.5 " "		68.6 " "	
yield/harv. area	109.4 bushels	93.0 bushels	32.2 bushels		27.4 bushels	
production	7.8 c mln.bushels	6.6 c mln.bushels	2.3 c mln.bushels	2.0 mln bushels	1.9 c mln bushels	
begin stocks	1.3 " "	1.7 " "	.2 " "	.4 " "	.4 " "	
total supply	9.1 " "	8.3 " "	2.4 " "	2.4 " "	2.4 " "	
domestic use	5.0 " "	4.9 " "	1.11 " "		1.05 " "	
exports	2.4 " "	2.5 " "	.85 " "		.84 " "	
total use	7.4 " "	7.4 " "	2.1 " "	2.3 " "	2.0 " "	
end stocks	1.7 " "	.98 " "	.4 " "	.2 " "	.3 " "	

(The above data is culled from the USDA supply/demand estimates dated Aug. 12, 1980. Our estimate of Beans, made in July, does not include all the categories listed by the USDA because they were arrived at by a different method; we simply applied a rough, largely commonsense-type elasticity model to the previous years' numbers and prices.)

Looking at corn alone, we must conclude the above data are decidedly bullish. The 1980/81 projected carry-over into 1981/82 is expected to be 42% less than it was last year. As a percentage of usage the carry-over represents 13.2% versus 23% last year and 19% in 1978/79. The question of course is whether such fundamentals are already discounted at prevailing prices. We would argue that they are not. We would, in addition, argue that future USDA supply/demand estimates will, more likely than not, tilt the scales more to the bullish side. Our reasons are: 1) the poor early and mid-summer weather leaves production prospects more vulnerable to downward revisions than upward revisions; 2) world production prospects, revised downward in August from July's projections, are also vulnerable due to unsettled weather; 3) Sorghum carry-over during 1980/81 is expected to be reduced by 50%, thus improving disappearance prospects for corn, the bellweather of the feedgrain complex; 4) there still exists the possibility of a relaxation in the grain embargo to the Soviet Union. Points 1), 2), and 4) are apropos of Soybeans as well.

Finally, President Carter's bid to win back some of the farm vote he lost in '76 to Ford (and that he has further disgruntled by imposing the embargo,) by raising release and call levels on farmer-owned reserves affords the farmer, now looking at all the possibilities mentioned above, to withhold offerings from the market without as much risk as he would previously have incurred.

STRATEGY: *Technically both Corn and Beans have erupted nicely from firm consolidation formations. Both have advanced contraseasonally which adds to our bullish sentiment. We expect both these markets to maintain an upward bias until the end of the year when Southern Hemisphere production prospects become better known. Advise being firmly long, establishing stops at 346 basis December Corn and raising stops to 780 basis November Beans. Our targets are 395 and 950 respectively.*



Reprinted from Commodity Research Bureau, Inc.

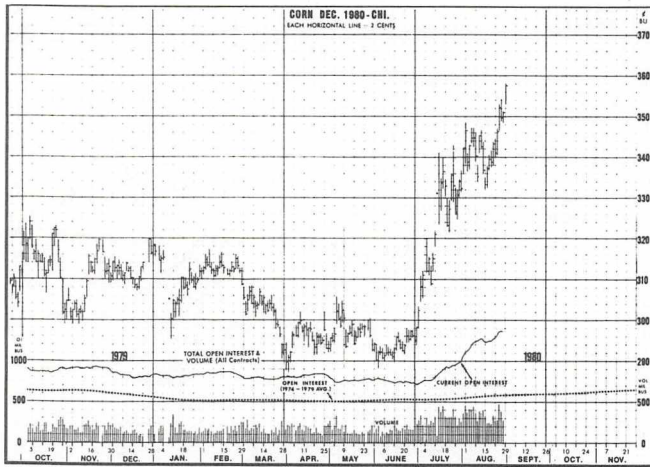
SUGAR

For the past several months we have presented a bearish viewpoint and on-balance a profitable strategy of short selling this market. Last month our protective buy stops of 32.50 were executed mercilessly before the market turned viciously volatile, dipping to 30.50 and then turning around to close at 33.25.

A brief summary of the bullish and bearish opinions is in order here. The bullish case reads as follows: during the 1979 season which just ended August 31, stocks were drawn down by as much as 7.0 mln to 23 mln. tonnes or from 34% to about 25% of consumption. The adage in the sugar industry is that 25% represents the lowest acceptable stock level. Estimates for the current 1980/81 crop year are at this point, still rough. However, taking into account crop disease in Cuba, and bad weather in eastern Europe, Thailand, Peru and South Africa, the incentive that the relatively high prices should have had on production is unlikely to effect a material increase of greater than 4 mln. tonnes (to say 88 mln. tonnes). It is generally agreed upon, especially by present bulls, that consumption of sugar is relatively inelastic and grows at around a mean rate of 3% annually. Allowing for a slight dip beneath that level this year, because of the relatively high prices, to 1.5%, consumption is forecast at 92.5 mln tonnes. The resultant deficit of 4.5 mln. tonnes draws stocks down to 18.5 mln. tonnes or 20% of consumption and therefore prices must rise dramatically.

Our bearish argument was largely technical. Persistently wide premiums of forward to cash month contracts suggested to us that there existed not only a present surplus of available sugar but no fear on insurance buying by importers. This suggested that there might have been something amiss in the bullish scenario presented earlier. Our bearish views were strengthened by the generally high consensus of bullish opinion and high open interest, both of which told us that a bloody shakeout was in order.

Although the spreads, in recent weeks, have tended to widen and narrow inconsistently, the bullish consensus as well as open interest have come down. That the market has held its major uptrend, (note chart), indicates that our previously bearish technical views are no longer tenable. Thus are we won to the bullish side. This is not to say that we wholly endorse the bullish *fundamental* case. Our argument with it is that it is simply too pat. An improvement in production is not beyond the realm of possibility. More importantly a reduction in consumption did occur in 1974, the year of the last major bull market, and could easily occur again. More than six months ago Coca Cola and Pepsi Cola both announced a substantial move away from sugar to fructose. We assume it is only a question of

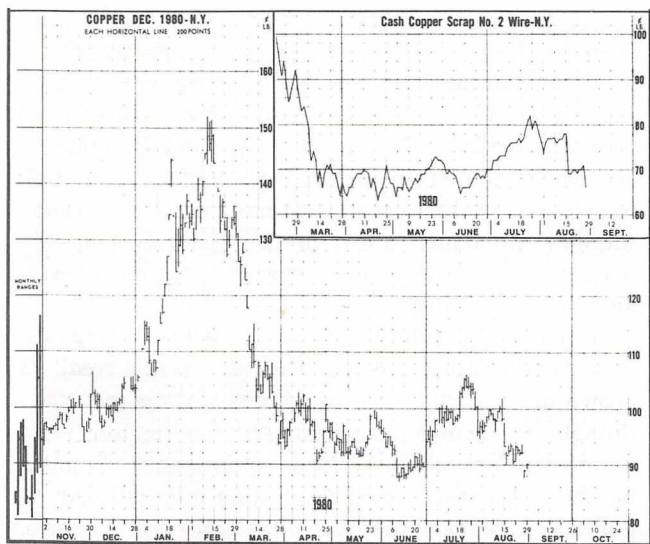


Reprinted from Commodity Research Bureau, Inc.

COPPER

The market performed according to our expectations last month, suffering as it did, the weight of a substantial increase in visible stocks in warehouses in London and New York and, more obviously, the resolution of the strike in the U.S. Stocks in London have increased to 119,625 tonnes or by 11,000 tonnes in the past five weeks. In New York Stocks, as of Aug. 25th stood at 187,977 tonnes, increasing at a twelve-week rate of change of 15.16%. Resolution of the strike coming, as it does, in the midst of soft demand, is a further depressant on this market.

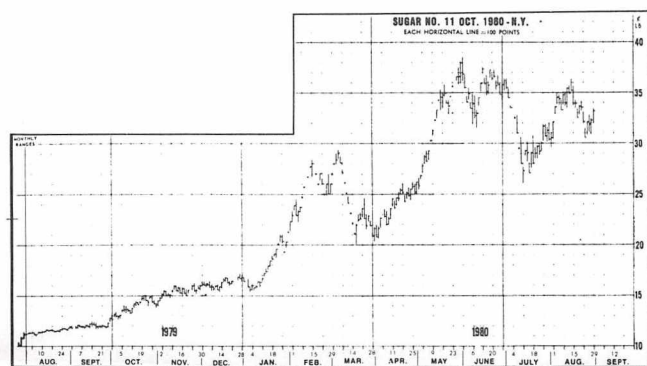
STRATEGY: Remain short. Lower protective stops to 96.00 basis December. We tentatively plan to add to position on a close below 86.50.



Reprinted from Commodity Research Bureau, Inc.

time before such plans and others like it infringe upon usage.

STRATEGY: Wild and often unpredictable swings are expected as the market follows a broad uptrend to 45¢ basis nearby. The market must be traded from the long side with the understanding that to do so is to play a big man's game so to speak. Outright positions in October should be protected with stops at 30.60. A second strategy is to buy March call options in London which traded today at £47 premium a ton (\$5600); £350 striking.



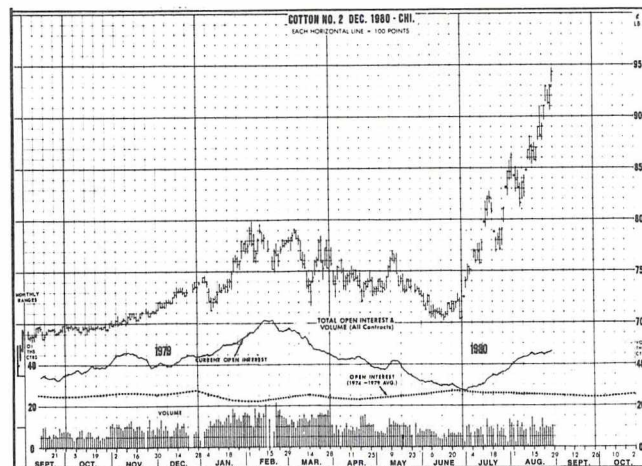
Reprinted from Commodity Research Bureau, Inc.

COTTON

Hot and dry conditions in the South West and parts of the Delta and South East of the U.S. have combined to reduce sharply prospective yields placing the most recent estimate at just 12.8 million bales. Exports have been forecast to fall to 6.8 million bales, down from 9.4 million in 1979/1980 but up 17% from the 1975-79 average while domestic disappearance is seen to come in at 6.0 million bales. The recent USDA export estimate may have to be revised upwards in view of the substantial damage to the Chinese cotton crop. At the same time, crop prospects in the US at Aug. 24 were rated by the USDA a fair to poor due to lack of moisture, thus necessitating, in all probability, a further downward revision on September 11th.

The exceedingly tight (the lowest level since 1926) carry-over of 2.8 million bales in the 1979/80 crop year might be reduced further during the upcoming year. Price rationing may be the only alternative.

STRATEGY: By December '80 cotton at market; risk 87.00 close only. Look for a very substantial advance.



Reprinted from Commodity Research Bureau, Inc.

PRECIOUS METALS

Over the past three months we have reiterated and reiterated a consistently negative opinion of precious metals. Our reasoning has been that the recession would reduce industrial demand, and that the restrictive monetary policy adopted by the Fed would slow the rate of price inflation. Other bearish factors included the expected improvement in the U.S. balance of payments and the commensurately strong dollar, and the ongoing fall in the price of oil. There also exists the unofficial and enigmatic generally-established relationship of an ounce of gold equalling 17 times the value of a barrel of oil which, at today's spot oil prices, translates to a gold value of \$510/oz. At the beginning of this year we examined gold in terms of personal income over the past fifty years and concluded its value at beneath \$300/ounce.

Over the past three months the single positive factor we could uncover for gold was Middle East buying on insurance against a confrontation in the Persian Gulf. Even here we were and are forced to point out that such buying would probably be somewhat restricted by a market rendered relatively thin due to reduced South African offerings. Despite the foregoing, December gold today stands within five dollars of its price twelve weeks ago. In the interim gold has traded erratically though, on balance, above prevailing levels. Our experience as brokers suggests neither longs nor shorts have been rewarded.

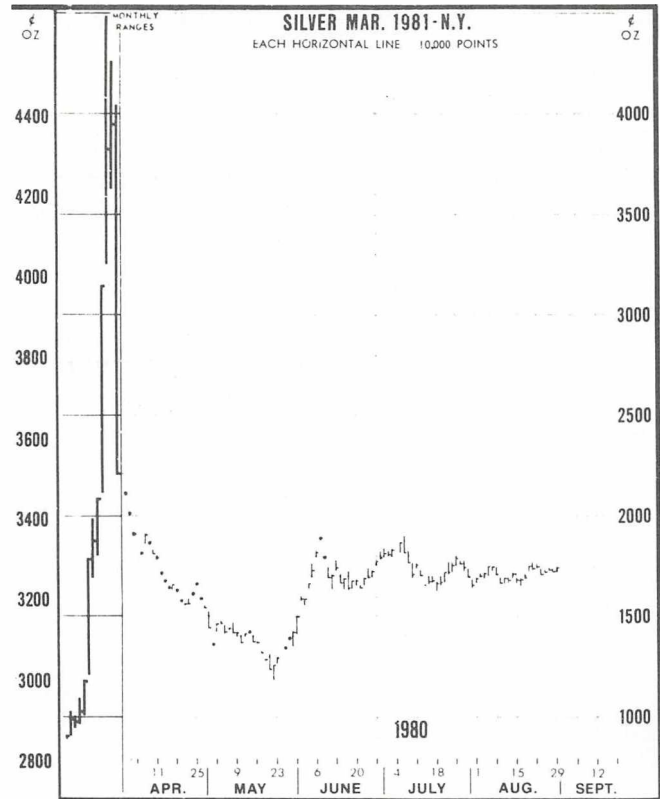
Why has gold not broken down? All the foregoing reasons still apply; it is true Federal Reserve credit has grown in nominal terms over the past three months though, as discussed in the interest rate section, Fed policy could hardly be termed expansionary. Could it be that the market perceives existing international political tensions as leading to a serious confrontation? This is possible though we tend to regard such a

buttress as weak inasmuch as it is a view held all too eagerly by the class of speculative Cassandras who are more frequently wrong than right. The recent strike in Poland was thought of as being bullish for gold because it would have taken us one step closer to an East/West crisis whereas, in fact, disputes amongst the Warsaw pact are bullish for the West and the real fear in Poland is that, as one of the major debtors to the West, it might default on outstanding loans. Or could the reason gold has not dropped be that for one reason or another — maybe sunspots, maybe the movement of the stars on the icebergs — people have lost respect for traditional values, and the admittedly imprecise formulae we use to quantify our reasoning no longer apply? The liquidity and international acceptance of gold certainly makes it easy to buy.

In truth we do not know why gold has refused to crack. But its refusal leaves us less negative than our reasoning. The technical action is superb. Charts like the accompanying rarely indicate weakness and can be explosive on breakouts. To sell against them is to fight against something we do not know. It is to fight against the market.

STRATEGY: Last month we advised selling short on a violation of the 615 level basis December. The mark was not achieved. In addition we suggested that courageous speculators could be short risking the previous week's high of 680 which also has not been achieved. Presently advise covering all short positions at market. We are currently long December with stops at 640.00. We tentatively plan to add to our position on a close above 680.

Albert D. Friedberg
David B. Rothberg

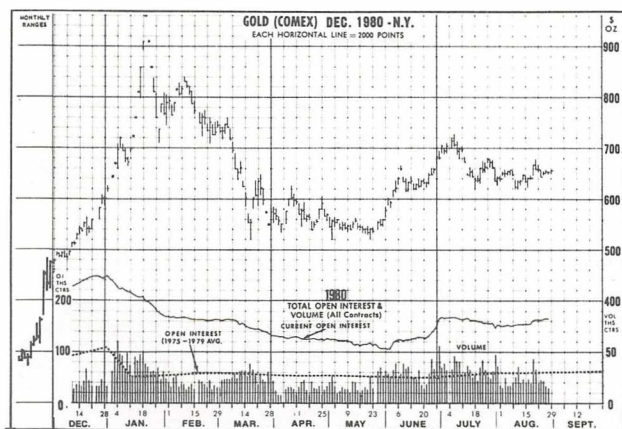


Reprinted from Commodity Research Bureau, Inc.

The extremely quiet seven week range in Silver speaks of great technical strength.

A reliable breakout would occur at 18.10 while a more significant one would take place above 19.10 .

Strategy: Follow the breakouts with confidence.



Reprinted from Commodity Research Bureau, Inc.

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