

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

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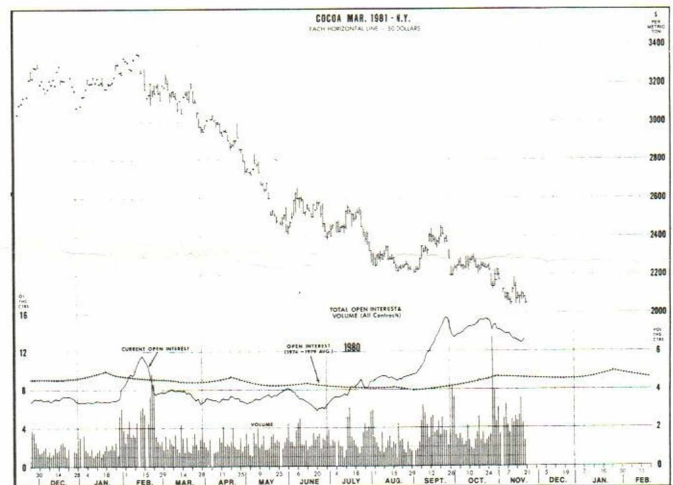
November 26th, 1980

### On Supply, Demand, and Common Sense

The glamorous commodities of yesterday have become today's duds. The 'shortages' of our present day will become tomorrow's 'surplus'. What is the culprit? Price, of course.

Look at Cocoa, for example. From a low of approximately 20¢/lb in 1970/71, Cocoa prices climbed to a spectacular peak of \$2.42/lb in 1977, a rise of 1210%. Since then, prices have retreated to the present 88¢/lb despite the workings of a price-control system in three of the largest producing areas of the world, i.e. Ghana, Nigeria and Cameroon, which succeeded in stunting the famous elasticity of supply effect. Given that it takes 3 years to bring a tree into full production and assuming that those trees were planted in 1974/75 when prices seemed to have reached a plateau at the historically high level of 80¢/lb to \$1/lb, one would have expected to see some increased outturns around 1977/78. That is exactly what happened. From an average outturn of 1,490,000 metric tonnes in the 1971/1973 period, production has increased to 1,595,000 tons in 1979/80 and is estimated to exceed 1,600,000 tons in 1980/81. At the same time, consumption has decreased from 1,500,000 tons to 1,437,000 tons. Since prices remained relatively high (above \$1.20/lb) up until late 1979, it follows that increased plantings will continue to be felt until at least late 1982, to later plateau at the new level or slightly lower, depending on worldwide demand and the farmer's incentive to pick cocoa beans off existing trees. Farmers in Ghana, Cameroon and the Ivory Coast have already

been operating with 65¢/lb cocoa and it is unlikely that they will reduce their pickings considering that world prices are still above this level. Nevertheless, with inflationary (local) cost increases, incentives will undoubtedly diminish as time elapses. Major reduction in output, past 1982, will occur in Brazil, Malaysia and Ecuador, thus providing the base for a future bull market.



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While time-wise, this bear market has yet some time to go, price-wise it may bottom not much below \$1350/ton.

#### In this issue

Dynamics of a Bear Market: Cocoa, Tin and now, Oil.

Currencies: the U.S. dollar steamrolls ahead and there is no stopping it.

Precious Metals: trading them may be fun, but watch the big picture; some guidelines.

Interest Rates Futures: the new long-term Canadas may be flashing an opportunity.

Grains: unlike Soybeans, Corn leaves no room for doubt.

Sugar: a changing trend

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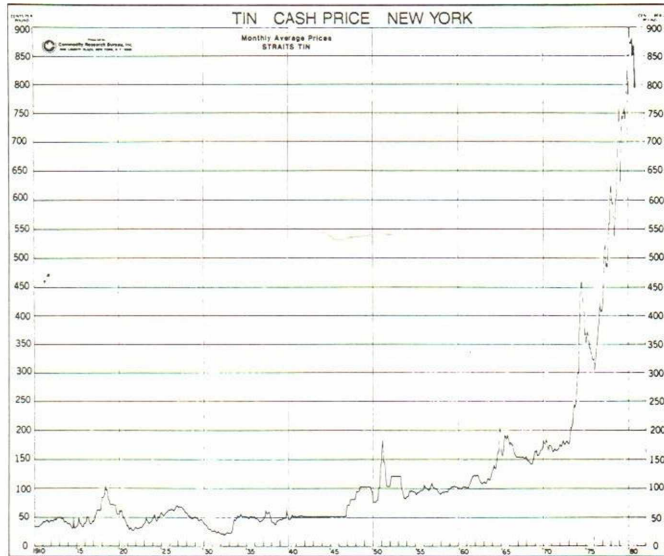
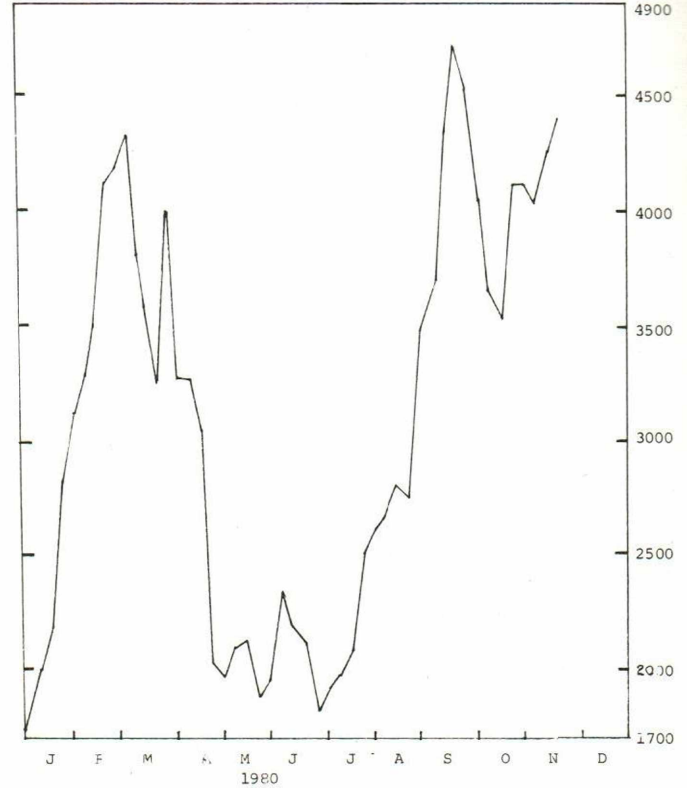
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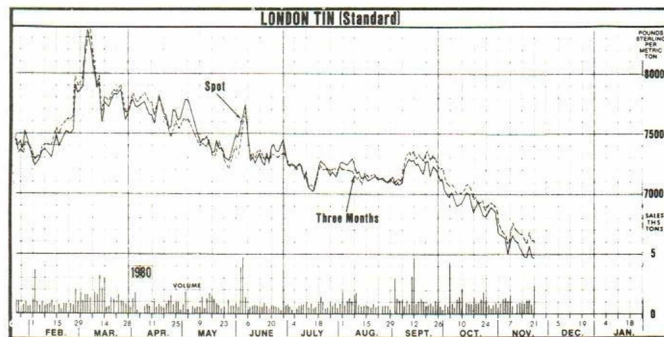
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Tin is another interesting example of the workings of the price system. Having risen from an unrealistically low price (war-controlled) of 50¢/lb in 1945/46, prices peaked at an exorbitant price of \$9.00/lb by early 1980, an 1800% appreciation since World War II and a 500% appreciation since the more sensible levels attained in the 1965-1972 period. World primary tin production has increased from 214,000 tons in the late 1960's to over 260,000 tons by the end of 1980, while smelter capacity has increased to over 415,000 tons from 389,000 tons in just three brief years. In the U.S. alone, consumption has dropped a precipitous 20% in the span of seven years (1978-1980). With the U.S. Government disposing as much as 25,000 tons out of its strategic stockpile (albeit in an 'orderly' fashion), it is clear that the bull market in Tin is over and that a period of falling prices is ahead.

TIN - LME Warehouse Stocks ( in Metric Tonnes )



The next casualty will be crude oil. Consumption peaked in the U.S. in 1978 at around 18.8 million barrels per day and is now running conservatively at 17 mb/d. In W. Germany, consumption reached a high in 1979 of 2.6 mb/d and is unlikely to exceed 2.4 mb/d in 1980. The same can be said for every major industrial country in the world with the sole exception of Canada, where prices have remained exceedingly low in relation to the world market. Severe belt-tightening measures adopted in the LDC's suggest even more drastic reductions in use. Finally, there is little doubt that similar rationing measures, although of a non-price nature, have been successfully adopted in the USSR and its satellites.



After rising steadily from 35 mb/d in 1967 to 60 mb/d in 1977, production has remained relatively flat around the 60-62 mb/d level, despite short-sighted money-grubbing moves on the part of the potential Western producers: the U.S. (e.g. windfall profit tax and price controls that are finally being lifted), Canada (unrealistically low prices), and the UK/Norway (confiscatory tax rates). Furthermore, world production has had to contend with a staggering drop in Iranian production, from 6 mb/d in the pre-Shah days to less than 1 mb/d, prior to its most recent conflict with Iraq.

Given favourable conditions, U.S. production will continue to rise from the 1977 lows of 8.2 mb/d (8.8 mb/d at the present time) and may easily exceed 11 mb/d two years after 'decontrol'. Furthermore, important capacity additions have taken place in some OPEC countries raising their potential combined output to well

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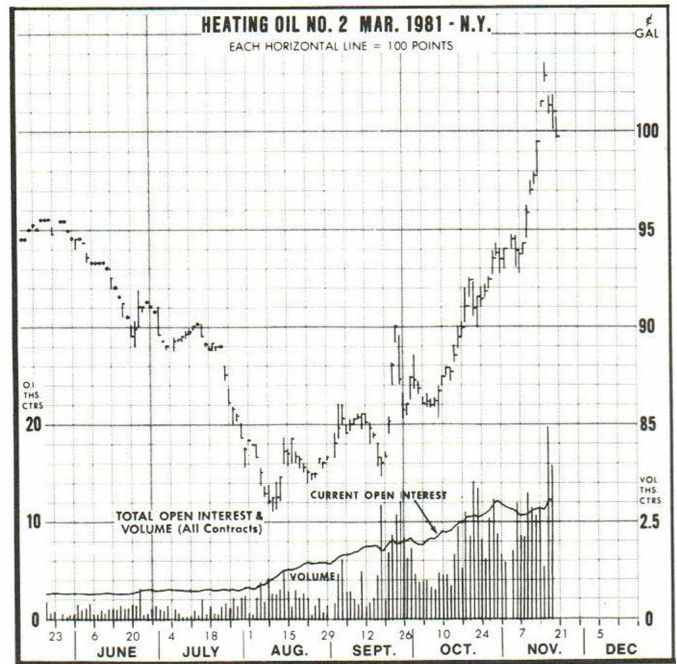
over 35 mb/d. This unused capacity, in the hands of countries necessitating ever-increasing amounts of income to match arms and social expenditures, (Parkinson's Law) will begin to crack the (apparent) uniformity of the Oil Cartel. As a portend of things to come, it is estimated that OPEC nations have taken up the slack produced by Iran and Iraq to the tune of *at least* 2 mb/d. Finally, oil-substitution efforts involving coal, natural gas and nuclear energy, have proven extraordinarily successful in countries like Japan, South Africa and France, bringing ever closer the day of an oil glut.

There is little doubt that the oil strangle hold would have been broken a great deal sooner without Government price manipulation in the major non-OPEC producing and consuming nations. Nonetheless, it is now clear that, barring another major Mid-East war (or revolution in Saudi Arabia), *oil prices have peaked in real terms at around \$40 per barrel*. In all, prices rose nearly 3200% since 1960 and 1800% since the early 1970's.

All commodities respond to the price mechanism. Some, such as Sugar and Soybeans, with short production cycles, respond almost immediately. Others, such as Cocoa, Coffee and Tin, with much longer production cycles, respond, but with a considerable lag. Finally, still others are not allowed to respond because prices are controlled and supply and demand imbalances are delayed or even perpetuated, i.e. the case of oil.

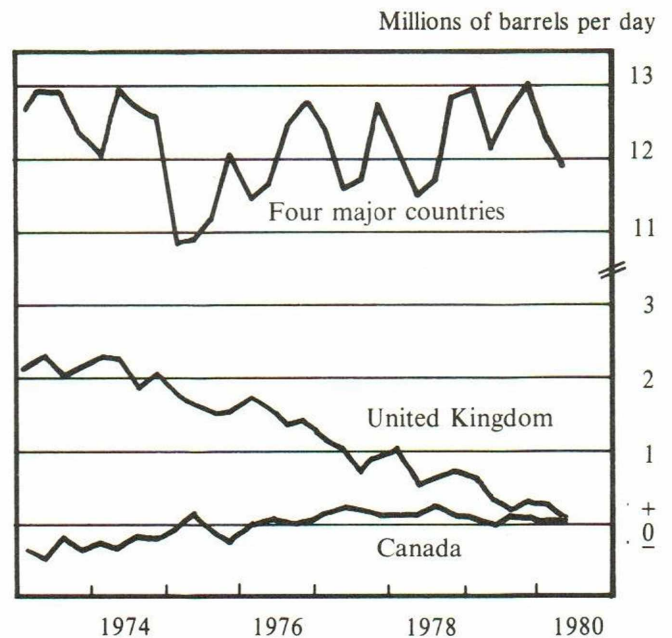
The new U.S. Administration has a golden opportunity to crack the oil Cartel. It should order the immediate decontrol of oil and natural gas prices while, at the same time, it should abolish the windfall-profit tax, or, at least, mitigate its effect by providing extra credits for domestic exploration. The sensational rise of U.S. oil stocks in recent weeks does not imply rising prices, as many would think. Instead, it indicates the beginning of the end of oil shortages.

**STRATEGY:** *Remain short (or commence new short positions) in commodities that, as a result of spectacular past increases in real terms, have entered a period of clear-cut surplus conditions, such as Cocoa, Tin and Heating Oil #2 (a good proxy for Crude Oil).*



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VOLUME OF NET OIL IMPORTS  
FRANCE, GERMANY, ITALY, JAPAN



# Currencies DM/SF/J.Y.

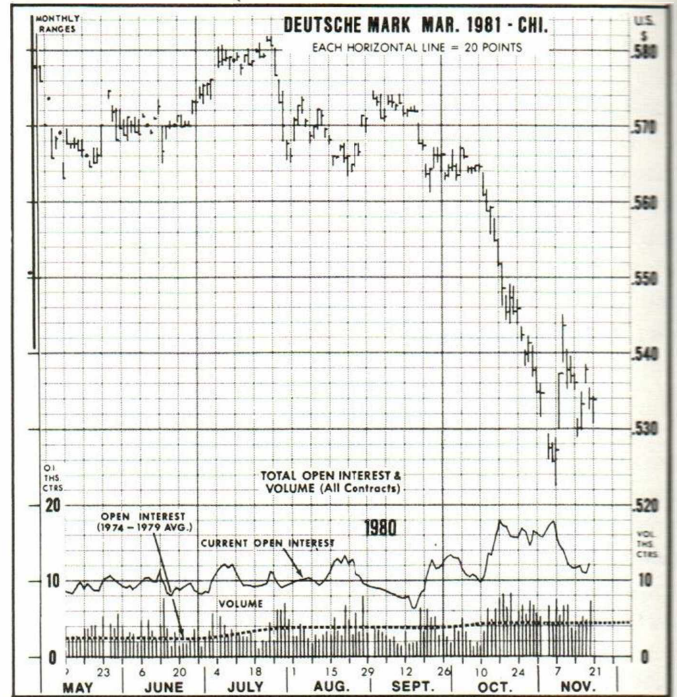
Powered by rising interest rates and an improving balance on current account, the U.S. dollar reigns supreme. We fearlessly predict that this strength will persist much longer and go much farther than anyone cares to admit at this time.

In the first place, as we demonstrated in previous issues, the U.S. dollar is finally responding to the extraordinary gain in international competitiveness achieved vis a vis the Swiss Franc, the DM and the Japanese Yen. Aiding this trend, the U.S. is about to enjoy the largest gain in trade of agricultural commodities in its entire history. Due to strongly rising prices of wheat, corn, rice, soybean and cotton, the U.S. will show a favourable trade balance in agriculture of *at least* \$30 billion in 1980, up from \$23.2 billion in 1980. Furthermore, assuming a continuation of the present trend of reduced oil imports, the U.S. will save close to \$10 billion during 1981 versus 1980. Finally, and more importantly, given a proper energy 'policy' (see introductory comments), the U.S. will attract an unquantifiable, but no doubt enormous, amount of capital from the large multinational concerns eager to participate in the coming 'oil rush'. This long-term capital swing will easily dwarf movements of short-term capital and/or export gains.

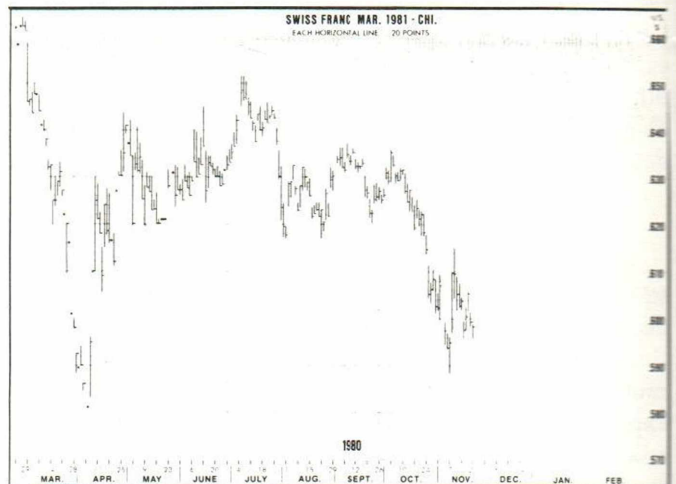
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**STRATEGY:** We remain extremely bullish on the Yankee dollar. Remain short March SF and March DM (and thus long the U.S. dollar), lowering stops to 54.75 and 61.50. We anticipate a long-term decline to the 40¢ range for both the DM and SF. Remain short December 80 and March 81 Mexican Peso.

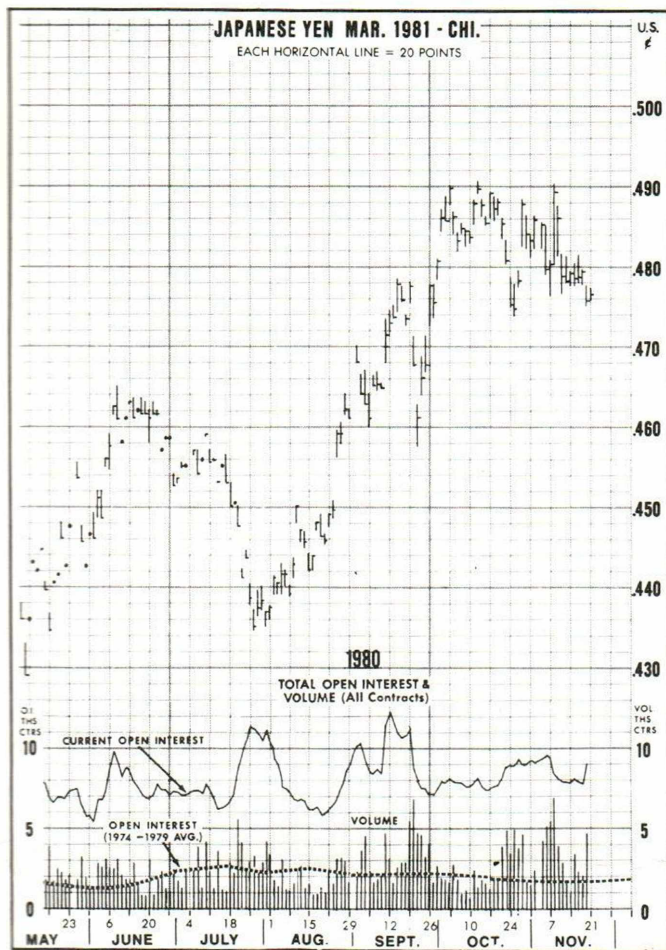
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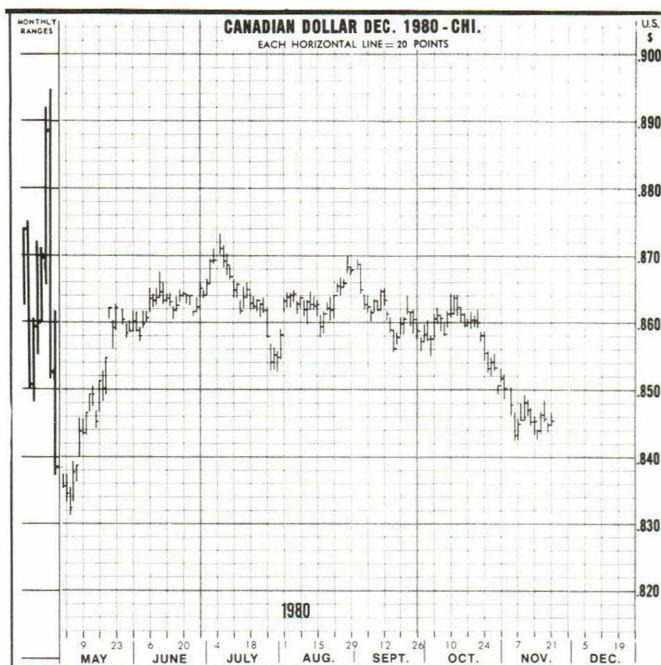


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The *Japanese Yen* has now begun to 'roll-over' and is likely to join the bear parade. Sell March 81 at market placing initial stops at 47.60, close only.

**CDS** A test of the May lows is in the offing. Unless Canadian interest rates narrow the present yield differential, vis a vis the U.S. rates, it is likely that new lows will be seen.

Sell March '81 at market, taking advantage of the wide premium. Place protective stop at 85.50, close only.



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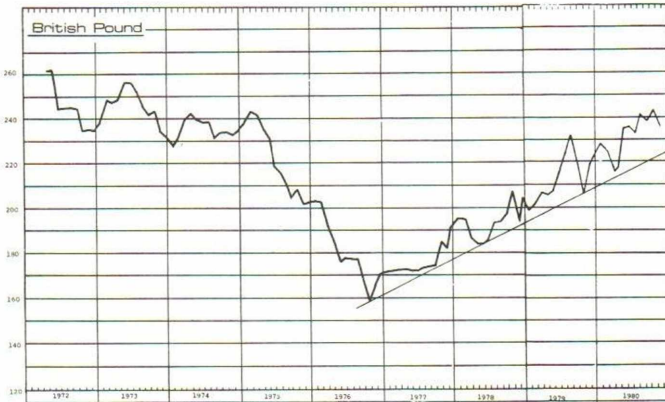
## Sterling

The great Conservative Strategy has ended in failure. Line by line, Chancellor Howe's mini-budget was a repudiation of all that is sensible and healthy (in economic matters, that is). In the first place, the Exchequer conceded that PSBR will exceed its forecast of 8.5 billion by no less than 3 billion, only half of which sum is due to the ongoing recession and its impact on revenues. Instead of a financial deficit equal to 3¾% of GDP envisioned in the medium-term strategy, the actual deficit will likely exceed 5%. Next year, allowing for some horrendous tax increases, the PSBR will 'only' amount to 4½% of GDP. Diminished investment prospects and rising tax evasion, both a direct result of higher rates of taxation, will nullify even *that* forecast.

U.K.'s golden goose, North Sea Oil, has been dealt a further blow. With the effective tax rate now approaching 90% of earnings, whatever oil is found and is easily extracted given present levels of investment in rigs and other equipment, will be exploited. Further exploration will, for the most part, cease. In the not-too distant future, capital outflows will become once again a burden on the UK's balance of payments.

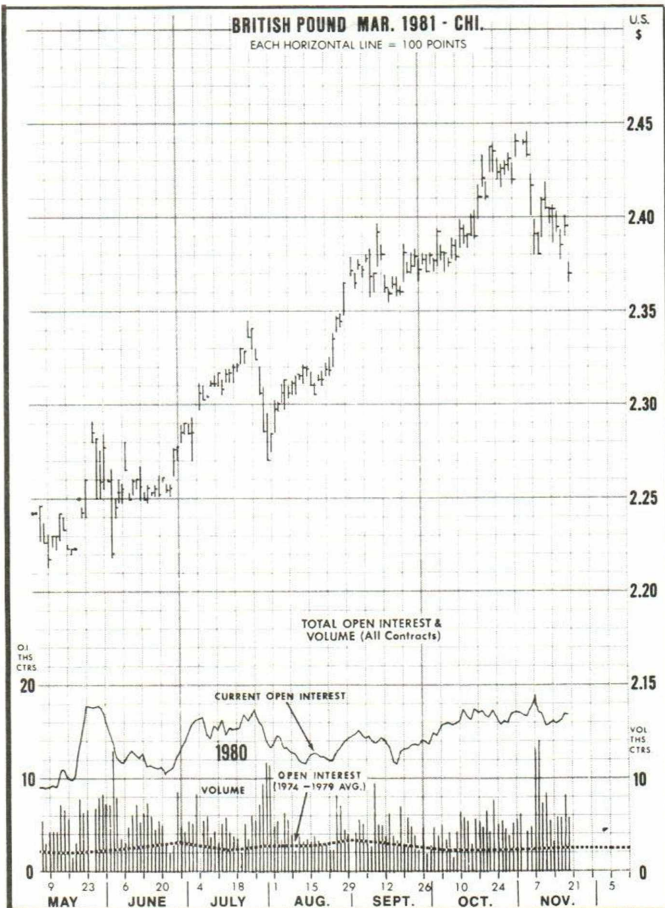
On the monetary front, the MLR was cut by an unexpected 2 percentage points despite the Governments admission that monetary targets had been exceeded by a considerable margin. Nevertheless, and given that in all probability the demand for money has risen rather sharply, we doubt that this 'easing' will rekindle inflationary pressures.

The Thatcher experiment shows that, despite good intentions, the entrenched Civil Service runs a democratically-elected Government. Meaningful spending cuts, as well as plans for privatization of Crown corporations, have gone by the boards. The 'squeeze' of the private sector, alluded to in our last issue, has formed an unholy alliance of Big Business and the Left, thus removing the Tories' best pillar of support.



**STRATEGY:** Long Sterling position should have been closed out at 2.38 basis Spot, as per last month's advice. The present downtrend could extend to the \$2.25 level before encountering meaningful support. Remain sidelined.

	Oct. 80	Sep. 80	Aug. 80	Jul. 80	Jun. 80	May 80	Apr. 80
<b>Trade Balance</b>							
U.K. (Bln Stg)	+ .459	+ .369	+ .063	+ .261	-.017	-.018	-.264
C.D. (Bln Dlr)	+ .573	+1.02	-.351	+ .854	+ .579	-.007	
D.M. (Bln marks)	+1.63	-.100	+ .107	+ .279	+ .297	+1.100	
J.Y. (Bln Dlr)	+ .780	+1.95	+ .314	+ .113	+ .127	-.664	-.831
SFR. (Bln francs)	-.795	-1.1	-1.03	-.992	-.741	-.669	-1.26
<b>Unemployment (% labor)</b>							
U.K.			7.0	6.6	6.3	6.1	6.0
C.D.	7.6	7.5	7.7	7.6	7.8	7.8	7.5
D.M.	3.8	3.5	3.7	3.7	3.4	3.3	3.6
J.Y.		2.02	2.09	2.09	1.89	1.98	2.05
SFR.	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Reserves</b>							
U.K. (Bln Dlr)	28.03	27.64	28.29	28.27	28.17	28.28	28.01
C.D. (Bln US\$)	3.68	3.95	4.27	4.02	4.31	4.22	3.97
D.M. (Bln marks)	71.9	73.9	78.4	78.6	77.4	75.2	76.0
J.Y. (Bln Dlr)	24.74	23.77	23.05	22.79	22.64	21.40	18.91
SFR. (Bln francs)	19.2	19.27	19.91	20.37	23.52	19.64	21.22
<b>Cost of Living/CPI</b>							
U.K. (1974 base)	271.9	270.2	268.5	267.9	265.7	263.2	260.8
C.D. (1971 base)	217.3	215.4	213.5	213.5	209.9	207.6	205.2
D.M. (1976 base)	118.1	117.7	117.7	117.4	117.4	116.8	116.3
J.Y. (1975 base)	140.0	137.9	138.1	137.8	137.4	137.4	136.2
SFR. (1977 base)	109.5	109.7	109.6	108.9	108.6	108.2	107.5
<b>W.P.I.</b>							
U.K. (1975 base)	205.3	204.5	203.7	203.1	201.0	199.3	197.0
C.D. (1971 base)	251.5	248.6	245.8	245.8	243.3	243.0	240.3
D.M. (1976 base)	115.6	116.6	117.8	---	---	---	---
J.Y. (1975 base)	133.1	134.1	139.5	133.5	133.0	133.1	133.3
SFR. (1963 base)	157	155.8	155.9	156.2	155.8	155.7	156.0



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Quotes: as of November 26th, 1980

Contract	High	Low	Close	Chg	Day
<b>AMERICAN PLSO (MMB) - 1 million lbs. 5 per cent</b>					
8012 8100 Dec	8076	8015	810	118	
8010 8100 Mar	8040	8015	805	50	
8008 8100 Jun	8060	8015	800	20	
8006 8100 Sep	8070	8015	800	20	
8004 8100 Dec	8070	8015	800	20	
8002 8100 Mar	8070	8015	800	20	
8000 8100 Jun	8070	8015	800	20	
8008 8100 Sep	8070	8015	800	20	
8006 8100 Dec	8070	8015	800	20	
8004 8100 Mar	8070	8015	800	20	
8002 8100 Jun	8070	8015	800	20	
8000 8100 Sep	8070	8015	800	20	
<b>BRITISH POUND (MMB) - 25,000 pounds, 5 per cent</b>					
8012 8100 Dec	2380	2375	2375	10	
8010 8100 Mar	2380	2375	2375	10	
8008 8100 Jun	2380	2375	2375	10	
8006 8100 Sep	2380	2375	2375	10	
8004 8100 Dec	2380	2375	2375	10	
8002 8100 Mar	2380	2375	2375	10	
8000 8100 Jun	2380	2375	2375	10	
8008 8100 Sep	2380	2375	2375	10	
8006 8100 Dec	2380	2375	2375	10	
8004 8100 Mar	2380	2375	2375	10	
8002 8100 Jun	2380	2375	2375	10	
8000 8100 Sep	2380	2375	2375	10	
<b>WEST GERMAN MARK (MMB)</b>					
8012 8100 Dec	321	318	321	41	541
8010 8100 Mar	321	318	321	41	541
8008 8100 Jun	321	318	321	41	541
8006 8100 Sep	321	318	321	41	541
8004 8100 Dec	321	318	321	41	541
8002 8100 Mar	321	318	321	41	541
8000 8100 Jun	321	318	321	41	541
8008 8100 Sep	321	318	321	41	541
8006 8100 Dec	321	318	321	41	541
8004 8100 Mar	321	318	321	41	541
8002 8100 Jun	321	318	321	41	541
8000 8100 Sep	321	318	321	41	541

Globe & Mail

## Precious Metals Gold

Concern with the upcoming OPEC meeting in mid-December, and the ever-growing possibility of Russian military intervention in Poland, has kept the gold market buoyed above the now 'critical' \$600/oz level, basis the nearest N.Y. contract, at least on a closing basis.

In last month's issue, we suggested that a short-term bottom had developed in Gold, precisely because the market's new perception of increased Russian sales (to pay for grain and sugar purchases) left prices in an uncomfortable 'oversold' condition. Furthermore, it accommodated 'volume' buyers who, otherwise, may have had to run up prices to satisfy their requirements. The expected bounce saw prices challenge the \$650/oz level, but once there, profit-taking set in and a new downward, albeit gentle, motion ensued.

**STRATEGY:** Barring a much-feared Soviet intervention in Poland, gold prices will, in the course of the next few weeks, crack the \$600 barrier and head for a possible test of the May lows (\$450-475/oz). The well-established trading range of the past few weeks permits a variety of strategies: The inveterate bull can go long risking a close below \$600/oz basis the nearby N.Y. contract; the confirmed bear, among which we humble ourselves, may establish short positions at these levels, risking a close above \$660/oz basis nearby. It should be noted that, at best, the bull stands to reap a \$60-80/oz profit while the bear may yet gloat in a spectacular \$170/oz run.

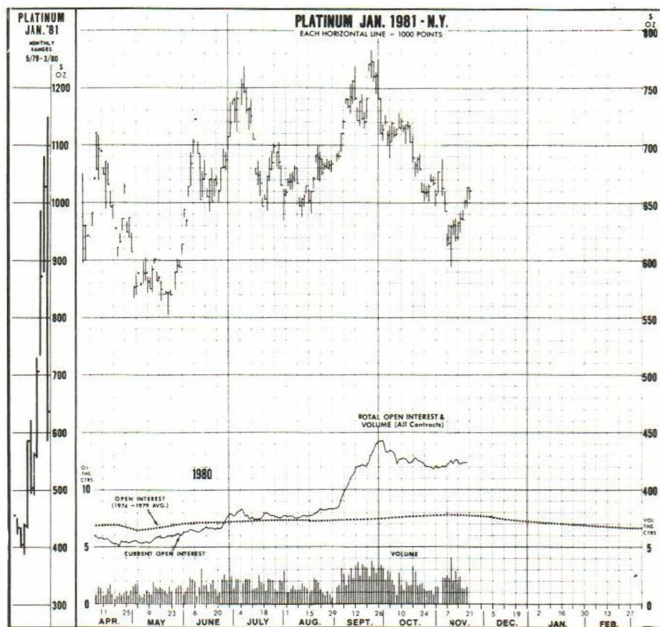


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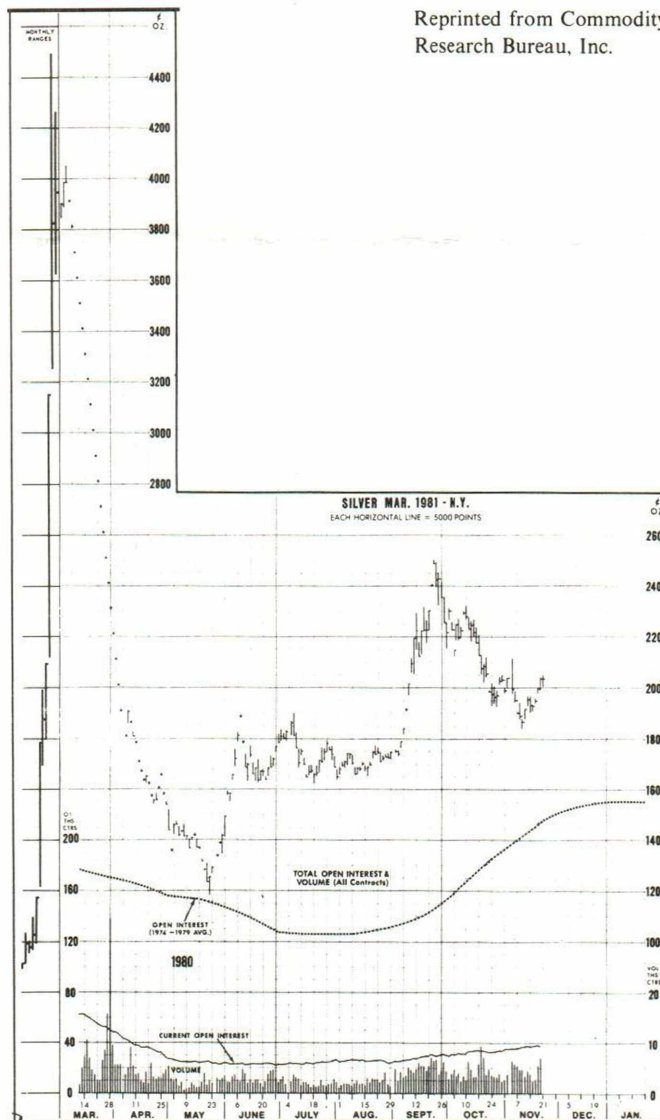
## Platinum

Traders who are short Platinum, the 'sure thing', are benefitting from the systematic erosion of the Platinum/Gold ratio, which today managed to close at an all-time low of unity (i.e. Platinum sells at the same price as Gold). Furthermore, traders heeding our advise to trade Gold, on sharp setbacks such as last month, from the long side, against short Platinum positions rode out successfully the recent \$50/oz correction.

**STRATEGY:** As Gold approaches the \$600/oz level, traders should once again probe the long side of Gold as a hedge against Platinum **provided** that they are flexible enough to liquidate Gold on a close below \$600/oz. We continue to look for Platinum to sell at a very **substantial discount** from Gold.



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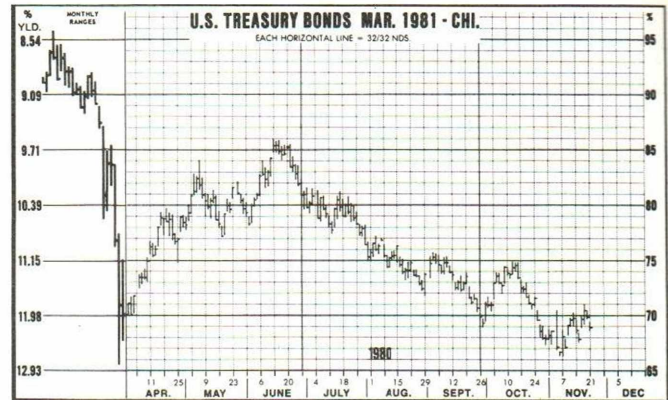
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# Interest Rates Futures

The strongly monetarist bent evidenced by the Federal Reserve Board and its OMC arm, has pushed Fed funds well above 17% in an effort to control 'runaway' M1B growth rates. This policy has produced 'real' rates in excess of 5% per annum, although tax considerations, as Mr. Wallich has pointed out, have reduced the return to levels barely above present rates of inflation (assuming an average tax rate of 33<sup>1</sup>/<sub>3</sub>%).

How high may rates yet go? If we are to allow a maximum 3% real rate of return (a 6% level was seen in mid-1969, in the midst of an economic boom), a maximum (average) 33% tax rate and a rate of inflation near 12% per annum on Mr. Wallich's (a hawkish member of the Federal Reserve) calculation, one would be staring at a top rate (Cd's or prime) of 23%! A horrifying prospect and one that could have immense repercussions on LDC borrowers, leveraged real-estate concerns, etc.

**STRATEGY:** Roll-over long Dec. '80 T-Bond position to March '81 T-Bonds and place stops at 66.



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# Canadian Interest Rates Futures

The long bond contract has begun to attract some participation. Volume has been averaging close to 100 contracts daily and promises to continue to expand. We note an interesting phenomenon: The traditional yield differential in favour of long Canadas vis a vis U.S. Treasuries, has narrowed-in to just 100 basis points, coming close to its two year low of 77 basis points registered in late February '80.

**STRATEGY:** Should yields narrow another 25 basis points, we suggest the sale of March '81 Canadian long bond versus the purchase of March '81 U.S. T-Bond. Spread margin of \$5000 should return a profit of as much as \$4000. Keep in close contact.

GNMA 8% (CBT) - \$100,000 princpl; pts., 32nds of 100%							
	Open	High	Low	Settle	Chg	Settle	Chg Interest
Dec	69-10	69-24	68-22	68-23	- 8	13.436	+ .057 5,530
Mar81	69-14	69-28	68-24	68-25	- 9	13.422	+ .064 11,373
June	70-00	70-09	69-04	69-04	- 12	13.343	+ .085 8,959
Sept	70-12	70-12	69-14	69-09	- 15	13.308	+ .106 8,595
Dec	70-19	70-24	69-08	69-11	- 17	13.294	+ .120 7,819
Mar82	70-15	70-23	69-11	69-12	- 19	13.287	+ .134 12,871
June	70-13	70-22	69-22	69-13	- 20	13.279	+ .140 14,409
Sept	70-14	70-14	69-22	69-13	- 21	13.279	+ .147 16,522
Dec	70-19	70-19	69-26	69-13	- 22	13.279	+ .154 8,793
Mar83	70-20	70-20	69-27	69-13	- 23	13.279	+ .161 2,592
June	70-18	70-18	69-28	69-13	- 24	13.279	+ .168 270

Est vol 11,000; vol Mon 10,371; open int 97,733, +788.

TREASURY BONDS (CBT) - \$100,000; pts. 32nds of 100%							
	Open	High	Low	Settle	Chg	Settle	Chg Interest
Dec	68-24	69-12	68-04	68-06	- 5	12.312	+ .029 18,286
Mar81	69-30	70-14	69-10	69-11	- 3	12.101	+ .017 35,057
June	70-20	71-07	70-00	70-04	- 4	11.961	+ .022 22,790
Sept	71-02	71-17	70-14	70-17	- 5	11.890	+ .027 18,966
Dec	71-08	71-23	70-24	70-24	- 5	11.852	+ .027 20,329
Mar82	71-23	71-29	70-28	70-31	- 5	11.814	+ .027 17,501
June	71-29	72-05	71-10	71-05	- 5	11.781	+ .027 20,285
Sept	72-02	72-03	71-11	71-11	- 5	11.749	+ .027 22,938
Dec	72-08	72-07	71-13	71-17	- 5	11.717	+ .027 17,211
Mar83	72-14	72-14	71-23	71-23	- 5	11.685	+ .027 7,202
June	72-20	72-20	71-29	71-29	- 5	11.653	+ .027 18

Est vol 40,000; vol Mon 41,220; open int 200,583, +4,100.

TREASURY BILLS (1MM) - \$1 mil.; pts. of 100%							
	Open	High	Low	Settle	Chg	Settle	Chg Interest
Dec	86.35	86.51	86.13	86.18	- .01	13.82	+ .01 9,442
Mar81	87.25	87.38	87.00	87.02	- .08	12.98	+ .08 15,426
June	87.62	87.78	87.40	87.42	- .03	12.58	+ .03 6,153
Sept	87.69	87.88	87.58	87.59	- .02	12.41	+ .02 3,335
Dec	87.85	87.95	87.68	87.68	- .05	12.32	+ .05 1,907
Mar82	87.96	88.06	87.78	87.78	- .08	12.22	+ .08 1,636
June	88.05	88.05	87.88	87.88	- .02	12.12	+ .02 428
Sept	88.05	88.06	87.96	87.96	+ .06	12.04	- .06 162

Est vol 17,522; vol Mon 19,693; open int 38,489, +222.

CANADIAN FUTURES CONTRACTS														
<b>91-DAY TREASURY BILLS</b> (Combined Montreal-Toronto Trading) \$1 million; multiples of \$9,000						<b>GOV'T. OF CANADA BONDS</b> (Combined Montreal-Toronto Trading) - 18-Year \$1 million; multiples of \$9,000 principal; price is per cent of par value (Fractions are 32nds of 1 per cent)								
---Season---						---Season---								
High	Low	Price	Chg	Settle	Open	High	Low	Price	Chg	Settle	Open			
97.420	96.750	Dec 80		96.750	96.750	96.750	- 830	22		76.27	76.09	76.09	+ 85	161
97.350	96.830	Mar 81		96.750	- 400	18				76.22	76.06	76.12	+ 16	97
Total Sales: Tuesday 6; Monday 8						Total Sales: Tuesday 89; Monday 35								
Total Open Interest: Monday 50 - 6						Total Open Interest: Monday 370 - 2								
Normal Daily Price Limits: \$0.150 above or below prior settlement price.						Normal Daily Price Limits: 64-32 above or below prior settlement price.								

Globe & Mail  
November 25th, 1980

# Grains and Oils

Corn and bean prices have advanced handsomely as the market appraised itself of the fundamental picture outlined last month. Of the two, corn has been by far a more stellar performer. In last month's Comments, we discussed the statistical picture of corn and, perhaps too quickly, concluded that beans would rise sympathetically.

Wall Street Journal  
November 25th, 1980

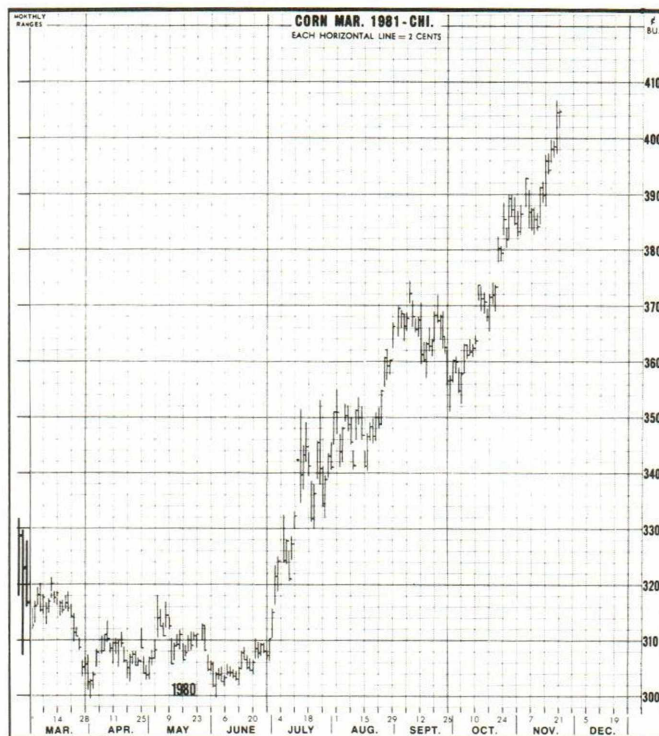
This need not be the case of course. The previous high in corn was \$4.00/bushel achieved in October of 1974. Beans had peaked at nearly \$13.00/bushel in early summer 1973, and could only manage a rebound from the subsequent decline of \$7.70/bushel to \$9.50/bushel in sympathy with corn. When beans tested \$11.00/bushel in May 1977, corn barely halted at the \$2.60/bushel level in its long-term bear market which had begun 30 months earlier at \$4.00/bushel.

There is no question that by comparison to last year, the 1980/81 soybean crop should be looked upon bullishly. According to the November USDA estimate, production, at 1,775 mln bushels, represents a 490 mln bushel decrease from 1979/80. Allowing for the USDA's projection of total usage, of 1,954 mln bushels, and taking into account beginning stocks of 359 mln. bushels, carryout is figured at 186 mln. bushels. The ratio of year-end stocks to expected usage works out to 9.2%. By comparison, the ratios of carryout to usage in 1972/73 and in 1976/77 were 4.6% and 7.6% respectively. As mentioned last month, the ratio of corn carryout to usage this year is safely put at about 6.5% as compared with a ratio of 7.5% registered during the bull market of 1974.

The numbers reveal the reason corn has acted better than beans and leave us questioning whether or not long positions in beans should be maintained. At this point it should be noted, as we did last month in our discussion of corn, that the USDA allows for a swing factor when it makes its supply/demand estimates. Given that the current harvest is virtually complete, the swing factor would most likely effect the demand side of the ledger primarily. A significant factor affecting export demand will be Southern Hemisphere production, which at this point — planting time — is still too early to forecast. Allowing for the most bullish possible scenario as outlined by the USDA, the ratio of year-end stocks to usage could work out to as low as 6.4%, which would imperfectly translate into a price in excess of the 1977 peak of \$11.00. Such would be in keeping with our roughly calculated objective states last month.



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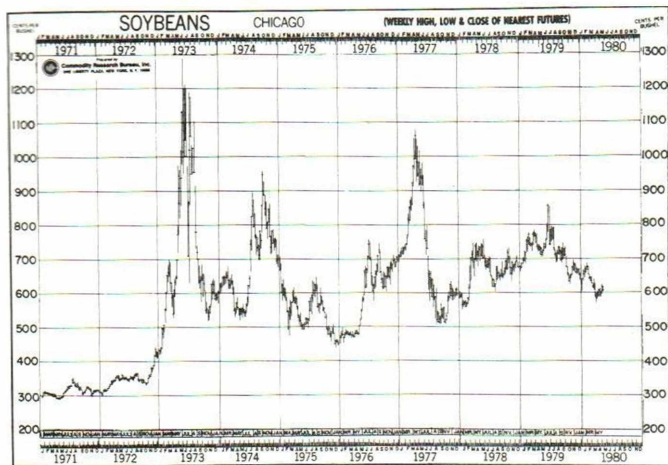


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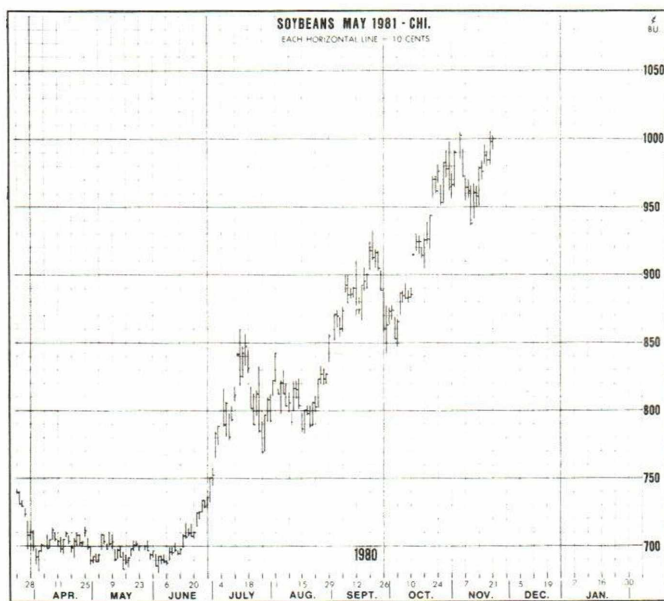
**STRATEGY:** We remain comfortably long corn within the statistical picture forecast last month. Our target once again remains between 450 and 472 basis old crop. Current stops are at 382.00 basis March.

**Beans**

Allowing that the current statistical picture is at present only potentially bullish and recognizing the volatility of the market, we have adopted a less aggressive posture. Remain long with tight stops of 957 partial positions and 936 on the remainder, basis May.



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## Sugar

Futures markets' virtual about face has occurred in total disregard of both short and long-term bullish news. The former includes further buying activity on the world market by the Soviet Union and China. The longer-term information offerings of significance come first from F.O. Licht, the noted statistician, who forecast 1980/81 year-end stocks, (crop year ends August 31), at 25.6 mln. tonnes on just 24.6% of usage and then the USDA which forecast year-end inventory at just 20.4 mln. tonnes or approximately 22.5% of usage. It is generally accepted that a carryout position equal to 24% of annual consumption is the minimum amount of sugar required to maintain normal trade. Why the market has plummeted, in the face of such news can only be explained by a) The unlikely possibility that the trade

recognizes a substantial demand shift to other more price-competitive sweeteners; a fact heretofore unseen. b) The real possibility that the market has already discounted all the bullish data for the 1980/81 crop year and is already looking forward to 1981/82. 3) Subscribing to the Machiavellian view of markets, the speculators who jumped onto the bandwagon must be thrown off. Both numbers 2) and 3) are equally probable at this point but both have significantly different consequences. If the market has at this point already discounted the perceived numbers it is working with and is looking ahead to next year, then we have seen the highs. It is noteworthy that the 1973/74 bull market topped in November of 1974 presumably for the same reason. If, on the other hand, the market is only suffering from a bad case of overspeculation, then the argument would run that the highs have yet to be seen. On the other hand, one can assume that 1981/82 supplies, especially of beets, encouraged by high prices, should show an improvement over current year availability and the closer we move toward the 1981/82 year the better those prospects will appear. In sum, our fundamental view of sugar is slanted slightly toward the negative side but generally murky.

A look at the chart hardly serves to clarify the view. The most important March contract has punctured major uptrends but has yet to violate the previous correction low of 32.00 which would be the market's obituary. In addition, powerful-looking support exists beginning at 35.00.

**STRATEGY:** Given the virtually uninterrupted 10¢ drop from the highs and the proximity to the 35.00 support base, a bounce is in the offing. However, with the major trend at this point objectively indeterminable and with our having a slightly negative fundamental viewpoint, we cannot advise taking a position. Having been stopped out as per last month's recommendation we remain sidelined.



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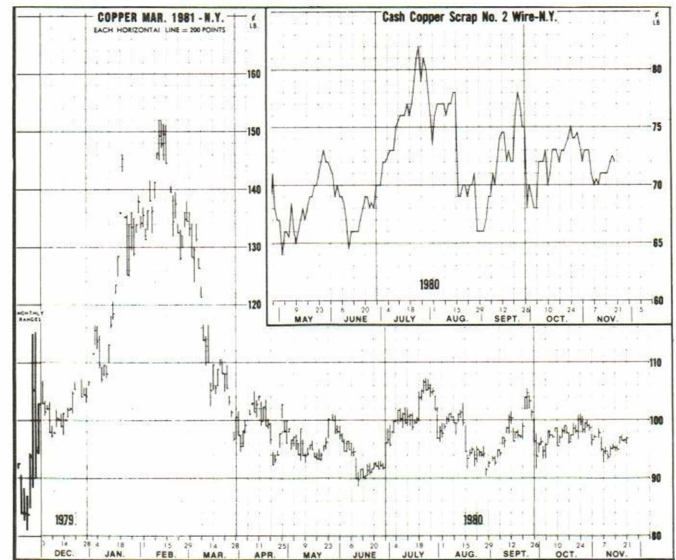
# Copper

In keeping with our general overview of business conditions remaining sluggish in the foreseeable future, and of the housing sector (which represents roughly 20% of demand for copper in the U.S.) being particularly weak, we view prospects for offtake as being bearish. With domestic production now returning to normal, a buildup in visible warehouse stocks (which as of Nov. 24 stood at 296,000 tonnes, combined Comex and LME, versus 305,000 tonnes last writing) is anticipated. It is worth mentioning that due to the precious-metal byproducts that result from domestic-mining operations and because of Copper's disproportionate importance to the economies of developing countries — Zambia, Chile, Peru are the best examples — supply is unlikely to respond to a reduction in demand as nimbly as would be the case in other commodities. Over the near term there exists the seasonal tendency for fabricators to step up inventory purchasing. However, we feel these considerations will be outweighed by longer-term fundamentals.

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**CONCLUSION AND STRATEGY:** *Copper prices have thus far remained supported by speculators who still see all metals as "collectibles" within an inflationary context. "It's cheap" is the comment most frequently heard. These naifs are being accommodated at ever-lower prices. The market will break in the wake of their disillusionment or of their recognition that the fundamentals must eventually take their toll. Remain patiently short lowering protective buy stops on existing profitable short positions to 98.50 on close basis March.*

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Albert D. Friedberg  
David B. Rothberg

## Notes

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

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