FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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The Fed's Failings

The Fed speaks harshly and carries a small stick. Appearing before the House of Representatives Banking Committee, Paul Volcker, Chairman of the U.S. Federal Reserve Board, braved a storm of criticism and reaffirmed the Fed's determination to stick by its tough monetary policy. He pledged to curtail even further the growth of the money supply because, as he said, "curbing inflation will require persistent restraint in the growth of money and credit." On this score, Congressmen who denounced him as having "destroyed the American dream" and who even called for his impeachment have nothing to worry about.

Using the Fed's own figures, one notes that for 1980, all upper targets were breached (see Figure 1).

Figure 1

MONEY SUPPLY GROWTH (%)

	M1B	M2	M3
Range, 1980	4-6.5	6-9	6.5-9.5
Actual, 1980	6.75	9.6	10.2
Range, 1981	3.5-6	6-9	6.5-9.5
Range, 1982	2.5-5.5	6-9	6.5-9.5

Source: Federal Reserve Board

These unfortunate episodes have been accompanied by ever-higher-ratcheting interest rates, always well above forecast ranges. At best, the Fed reacts passively to the inflation in bank credit sweeping the banking system. And so, a then formidable-looking discount rate level of 9 per cent in late 1978 has turned into an even more formidable, but equally ineffectual, Fed Funds rate of 19 per cent in mid-1981. Federal Reserve credit, the stuff of which banking reserves are created, continues its ever-upward path. The mechanics of this nightmare are well-known: The economy demands a certain level of monetary balances; the commercial banks satisfy this demand and then turn to the Fed requesting new reserves. The Fed either lends them new reserves through the discount window (at usually profitable rates) or sanctions their needs by way of open market operations.

For a time, during April, May and part of June, Federal Reserve credit remained almost stationary at $144.5 billion, seasonally adjusted. With total reserves and non-borrowed reserves declining slightly, the Fed's posture could have accurately been termed *non-accommodative* rather than *tight.* This is so in view of the fact that the financial system can expand credit via deposit liabilities that *do not require any reserves,* such as overnight RPs, money market funds, Euro-dollar deposits, etc. In the closing days of June, possibly falsely encouraged by the flat behavior of M_1B, the Fed went

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back to its old ways. Federal Reserve credit now stands at $146.7 billion seasonally adjusted, and non-borrowed reserves have grown at a rapid 24 per cent per annum in the past four weeks.

Credit demand continues to increase at a dizzying rate (witness the extraordinary growth in commercial paper outstanding — a much cheaper source of financing than prime rate loans — and certificates of deposit). What is worse, this demand threatens to collide against an ever-declining supply of loanable funds as banks' loan/deposit ratios rise to record highs. A modest pick-up in economic activity, pivoted on increased arms-spending, coupled with the Fed's inevitable swing to a non-accommodative posture (as non-borrowed reserves soar) guarantees a *minimum* Fed Funds level of 18 per cent in coming weeks.

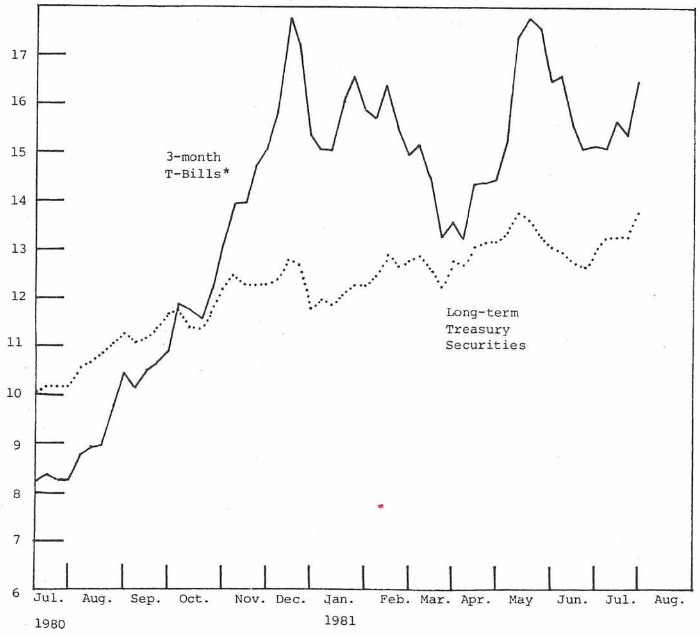
STRATEGY: *The longer the Fed postpones the crunch, the more devastating the final outcome. Continue to bet against the pundits: Rates are going irregularly higher. T-bill rates should hit 19.5 per cent before too long; ditto for long-term Treasuries at 15 per cent and prime at 25 per cent.*

Figure 2

3-Month Treasury bill — Averages of Daily Rates Ended Friday

Figure 3

US Interest Rates



* Adjusted to a true yield basis from a discount basis.

Source: Federal Reserve Bank of St. Louis

Figure 4

TREASURY BONDS (CBT) – $100,000; pts. 32nds of 100%

Sept	62-08	62-21	62-05	62-20	+ 26	13.419	– .175	51,121
Dec	63-07	63-18	63-02	63-17	+ 25	13.227	– .165	33,919
Mar82	63-25	64-09	63-25	64-08	+ 24	13.079	– .155	27,693
June	64-17	64-26	64-13	64-26	+ 23	12.964	– .147	26,938
Sept	64-28	65-09	64-28	65-09	+ 22	12.870	– .139	27,155
Dec	65-13	65-25	65-11	65-22	+ 21	12.790	– .130	28,559
Mar83	65-24	66-01	65-24	66-01	+ 20	12.722	– .123	22,822
June	66-10	66-11	66-03	66-11	+ 19	12.661	– .117	17,383
Sept	66-14	66-20	66-14	66-20	+ 18	12.607	– .109	23,455
Dec	66-22	66-28	66-21	66-28	+ 17	12.559	– .102	21,863
Mar84	66-29	67-03	66-29	67-03	+ 16	12.517	– .096	20,815
June	67-04	67-09	67-04	67-09	+ 15	12.482	– .089	9,967
Sept	67-15	67-15	67-15	67-15	+ 14	12.446	– .083	2,648
Dec	.....	.....	.....	67-21	+ 13	12.411	– .077	562

Est vol 50,000; vol Thu 40,859; open int 314,940, –2,073.

TREASURY BILLS (IMM) – $1 mil.; pts. of 100%

	Open	High	Low	Settle	Chg	Discount Settle	Discount Chg	Open Interest
Sept	85.63	85.77	85.58	85.75	+ .30	14.25	– .30	20,605
Dec	86.42	86.57	86.37	86.55	+ .30	13.45	– .30	10,374
Mar82	86.94	87.14	86.89	87.09	+ .29	12.91	– .29	7,490
June	87.20	87.44	87.15	87.43	+ .33	12.57	– .33	2,967
Sept	87.32	87.58	87.32	87.57	+ .34	12.43	– .31	1,766
Dec	87.35	87.61	87.33	87.61	+ .34	12.39	– .34	911
Mar83	87.38	87.69	87.38	87.66	+ .37	12.34	– .37	826
June	87.59	87.67	87.59	87.67	+ .37	12.33	– .37	7

Est vol 15,092; vol Thu 17,235; open int 44,946, +499.

Chicago Board of Trade

LaSalle at Jackson, Chicago 60604

90-DAY DOMESTIC CERTIFICATES OF DEPOSIT

($1 million; pts of 100%)

July 24, 1981

	Open	High	Low	Settlement	Net Chg	Dscnt Settl	Chg	Open Int
Sept81	82.57	82.80	82.57	82.76	+ .33	17.24	– .33	+ 65
Dec81	83.60	83.74	83.55	83.73	+ .32	16.27	– .32	+ 65
Mar82	84.23	84.45	84.23	84.43	+ .34	15.57	– .34	+ 47
June82	84.65	84.74	84.65	84.74	+ .35	15.26	– .35	....

Est. Sales; 2,700; Volume: Thursday 2,762; Open Interest: 536.

Figure 5

CANADIAN FUTURES CONTRACTS

91-DAY TREASURY BILLS
(Combined Toronto-Montreal trading)
$1 million; multiples of $0.005

Season High	Season Low		High	Low	Settle Price	Ch'ge	Open Int.
96.675	95.350	Sep 81	- -	- -	95.350	- -	43
96.725	95.475	Dec 81	95.475	95.475	95.475	- .025	22
95.900	95.625	Mar 82	- -	- -	95.625	- -	22
95.840	95.840	Jun 82	- -	- -	- -	- -	-

Sales: Friday 2; Thursday 20
Total Open Interest: Thursday 87 N-C
Normal Daily Price Limits: $0.150 above or below prior settlement price.

(Winnipeg trading)
91-day Canada treasury bills
$200,000; points of 100 per cent

Season High	Season Low		High	Low	Settle Price	Ch'ge	Open Int.
86.80	81.15	Sep 81	- -	- -	81.15	- .60	10
87.78	81.75	Dec 81	- -	- -	81.75	- .60	-
87.75	82.70	Mar 82	- -	- -	82.70	- .60	-

Total Sales: Thursday 10

MID-TERM GOVERNMENT OF CANADA BONDS
(Combined Toronto-Montreal trading)
5 Year 9% $50,000 princ.; Price is % of Par Value
(Fractions are 32nds of 1%)

Season High	Season Low		High	Low	Settle Price	Ch'ge	Open Int.
78-17	72-08	Sep 81	- -	- -	72-08	- -	10

Sales: Friday 0; Thursday 5
Total Open Interest: Thursday 10 N-C
Normal Daily Price Limits: 64-32 above or below prior settlement Price.

GOV'T. OF CANADA BONDS
(Combined Toronto-Montreal trading) — 18 Year
9 per cent $100,000 principal; price is per cent of par value (Fractions are 32nds of 1 per cent)

Season High	Season Low		High	Low	Settle Price	Ch'ge	Open Int.
71-02	55-20	Sep 81	56-19	56-05	56-16	+ 16	423
65-08	56-22	Dec 81	57-05	57-05	57-05	+ 15	53
63-16	58-05	Mar 82	- -	- -	57-19	+ 15	10

Sales: Friday 94; Thursday 186
Total Open Interest: Thursday 486 - 36
Normal Daily Price Limts: 64-32 above or below prior settlement price.

(Winnipeg trading)
Government of Canada bonds
20 years 10 per cent $20,000 face value
(Fractions are 32nds of 1 per cent)

Season High	Season Low		High	Low	Settle Price	Ch'ge	Open Int.
79-20	62-05	Sep 81	- -	- -	62-16	- -	5
79-15	63-00	Dec 81	- -	- -	63-07	- 01	-
79-30	64-03	Mar 82	- -	- -	64-04	- -	-

Total Sales: Thursday nil.

Currencies

As we pointed out last month, both Switzerland and West Germany continue to provide fresh evidence that the long decline of their respective currencies has improved their international competitiveness.

Switzerland's foreign trade deficit fell to SF3.88 billion, 27 per cent less then the corresponding period of 1980. In real terms, exports fell 0.7 per cent, while imports declined 5.3 per cent. Largely because of the more favorable foreign trade situation, it is expected that the current account will balance this year, reversing 1980's current account deficit — the first since 1965. In West Germany, April-May exports showed an increase of 4 per cent over February-March, while imports declined 3 per cent.

In the UK, cyclical indicators still show no signs of the long-awaited economic recovery. The "real" economy remains heavily burdened with excessive rates of taxation, semi-monopolistic labor wage-rate settlements and crowding-out pressures. Only substantially lower interest rates and the present Sterling depreciation can provide a quick fix to the UK's depression. As with any "quick fix", the future costs are incalculable.

***STRATEGY:** Remain short Sterling and the Japanese yen, with stops at 194.00 basis Sept. '81 BP, and 44.50 basis Spot yen, closes only.*

Figure 6

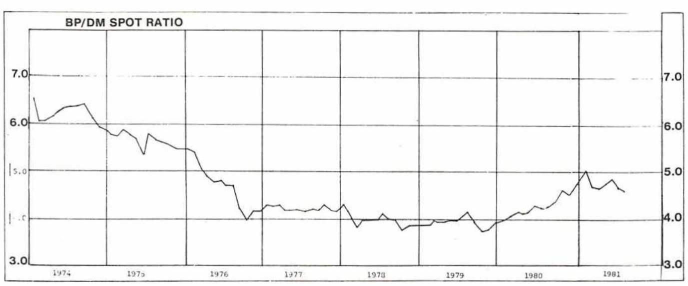


Figure 7

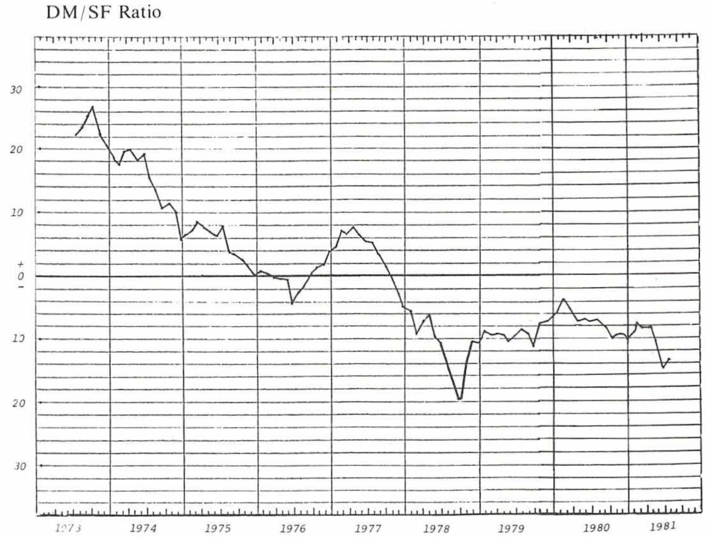


Figure 8

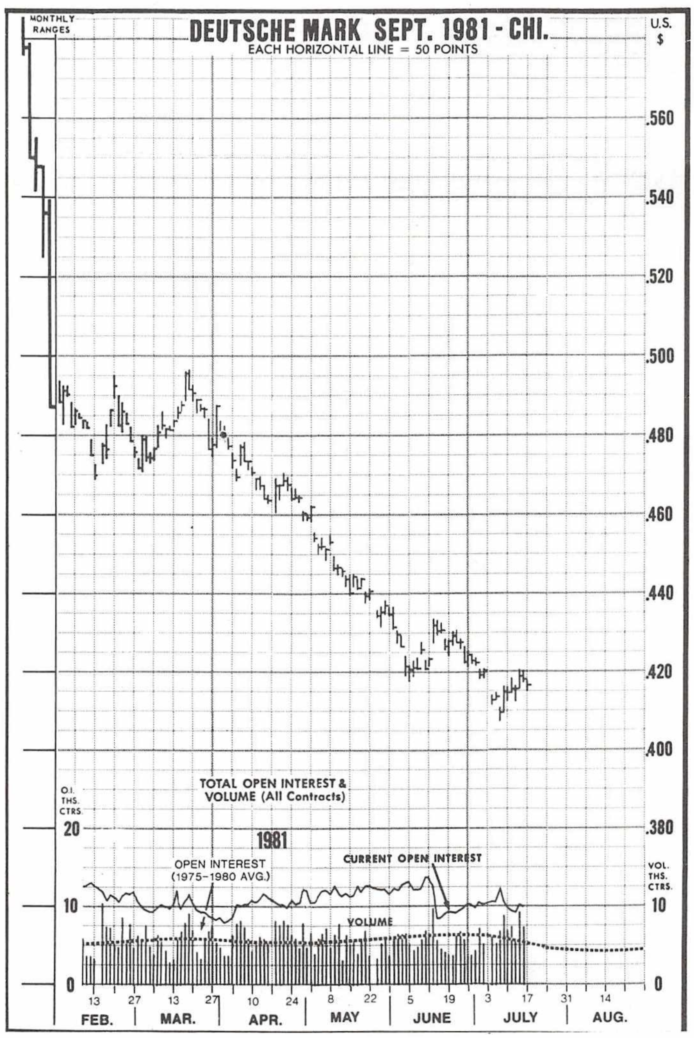


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Figure 9

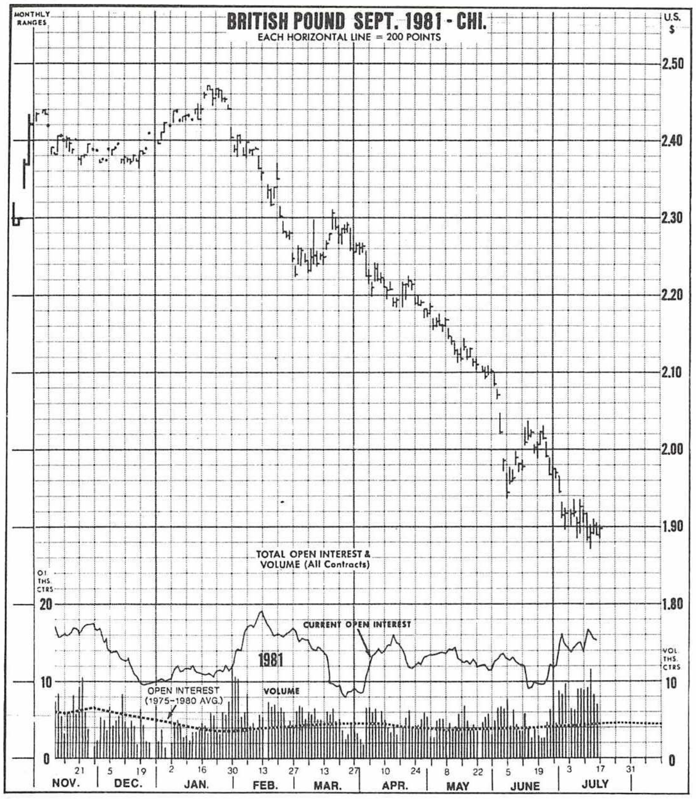

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Figure 10

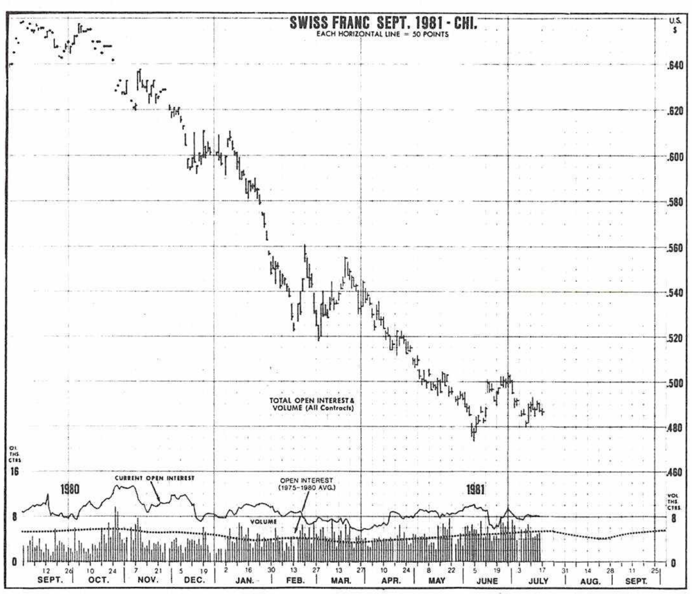

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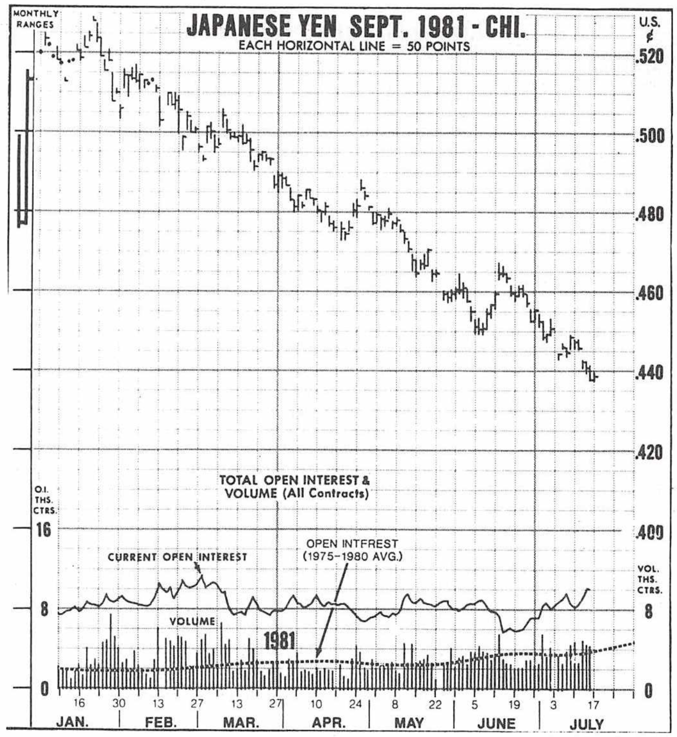
Figure 11



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Canadian Dollar

Relative to Canada's trading partners, domestic monetary expansion remains excessive. As we explained in our 1981 *Spring Review of Inflation in Canada,* fixed or managed exchange rate regimes leave tell-tale signs of the degree of relative ease or tightness in domestic monetary policy by way of the movement in net foreign currency assets. When too expansionary, net foreign assets will show a persistent and chronic decline. The converse is true when domestic monetary policy is too tight. A look at Figure 12 leaves little room for doubt. Despite a tough central bank line, monetary inflation is rampant in Canada.

Figure 12

Canada
Net Foreign Assets*
(Bln. of CD $)

1974	7.47
1975	6.70
1976	8.02
1977	5.95
1978	3.74
1979	-1.19
1980	-2.31
1981 Jan.	-5.67
Feb.	-5.86
Mar.	-8.33

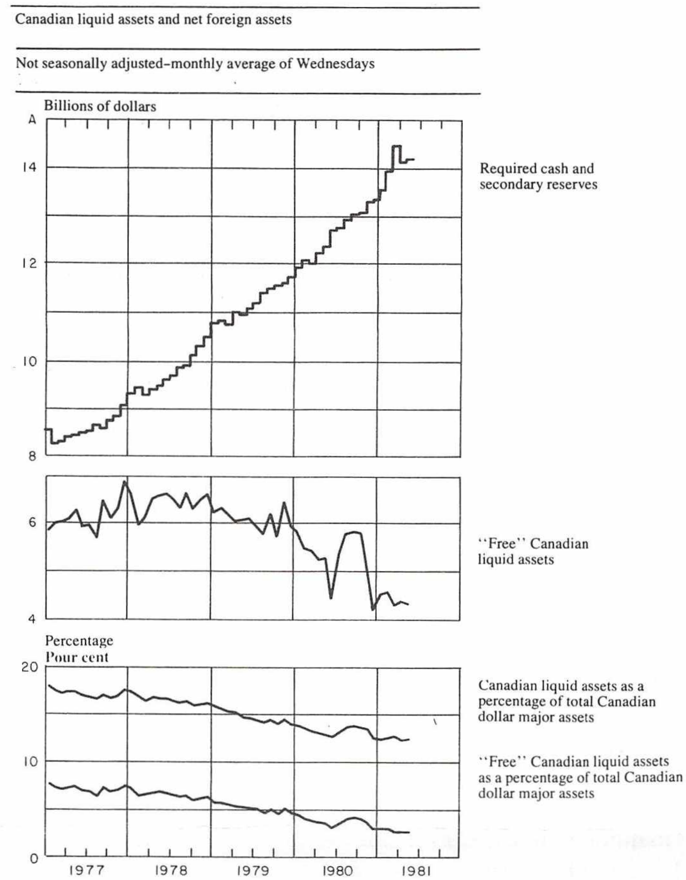
* End of Period.

Sources: IMF, Bank of Canada

Over the past three months, M_1 has grown at a 9.1 per cent annual rate, a pace that masks the natural, secular decline in non-interest-bearing transactional balances. Furthermore, M_2 has been growing at 15.4 per cent per annum and general loans at 17.7 per cent per annum, easily validating double-digit inflation. The culprit continues to be the Bank of Canada for allowing its assets to grow at almost 12 per cent per annum (May '81/May '80) and for facilitating the continuous drop in the chartered banks' required reserves ratio, which in March '81 stood at an all-time low of 4.83.

The Canadian Government has sufficient resources at its disposal to defend the existing parity, albeit at the slightly lower level of 81.50-83.40, as discussed in previous *Comments.* Nevertheless, it can hardly afford a net outflow of $6 billion every three months (see Figure 12), as occurred in the early part of 1981 and certainly continued through the end of the second quarter. The Bank of Canada is now faced with the following choices: (a) It either puts a full stop to its monetization of the federal debt and/or (b) raises abroad, by way of long term bonds, the government's 1981 net financing requirements and/or (c) introduces quantitative domestic lending limits. The fourth choice, foreign exchange controls, is too ineffectual at best, damaging at worst, and too difficult to administer.

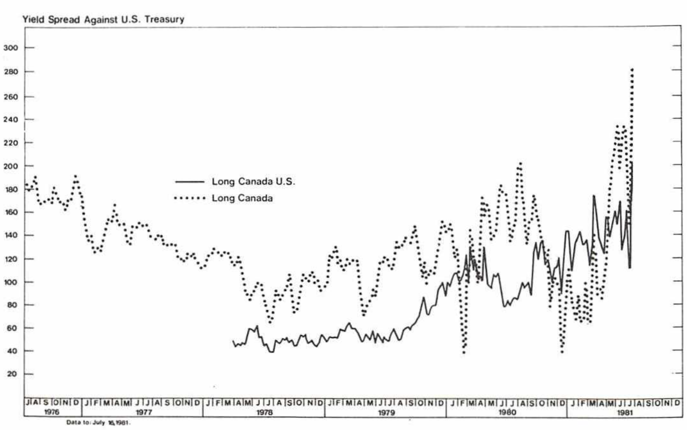
Figure 14



Source: Bank of Canada

***STRATEGY:** Remain short Canadian T-bills and Treasury bonds; treat the dollar as a trading affair bounded by 81.50 and 83.40.*

Figure 13



Courtesy of Wood Gundy Limited

Figure 15

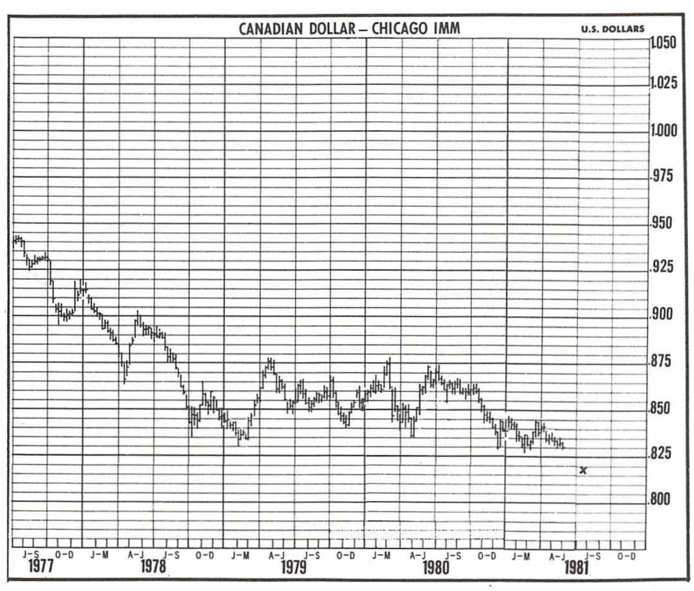


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Figure 16

	Jun.81	May 81	Apr.81	Mar.81	Feb.81	Jan.81
Balance of Trade						
U.K. (bln Stg)					+.314	+.742
C.D. (bln CD$)		+.37	+.124	+.494	+.461	+.793
D.M. (bln Marks)		+1.6	+3.3	-.135	+.864	-.923
J.Y. (bln US$)		+.856	+1.52	+2.15	+1.38	-1.47
SFr. (bln Francs)	-.723	-.482	-.703	-.798	-.784	-.388
Current Account						
D.M. (bln Marks)		-1.4	-.4	-.27	-1.6	-5.1
J.Y. (bln US$)		+.277	+.474	+.763	-.207	-2.83
Overall Account						
D.M. (bln Marks)		+2.83	+3.68	+8.14	-6.09	+.085
J.Y. (bln US$)		-1.17	+2.44	+1.82	+.656	-.048
Reserves						
U.K. (bln US$)	25.63	26.49	28.07	28.21	28.43	28.39
C.D. (bln US$)	3.05	3.18	3.165	3.715	3.341	3.436
D.M. (bln Marks)	74.3	75.6	72.8	69.1	61.0	67.1
J.Y. (bln US$)		27.73	27.34	27.02	26.68	26.50
SFr. (bln Francs)	23.04	19.3	20.37	23.38	20.96	21.72
Cost of Living/ CPI						
U.K. (1974 base)	295.8	294.1	292.2	284.0	279.8	277.3
C.D. (1971 base)	236.8	233.2	231.1	229.4	226.4	224.1
D.M. (1976 base)	123.9	123.3	122.8	122.0	121.3	120.5
J.Y. (1975 base)		144.8	143.3	142.2	141.4	141.3
SFr. (1977 base)	115.4	114.6	113.5	113.8	113.1	112.0
W.P.I.						
U.K. (1975 base)	221.0	219.0	217.8	214.5	211.8	209.6
C.D. (1971 base)		269.6	267.0	264.6	262.6	261.1
D.M. (1976 base)	125.1	124.9	124.8	124.0	121.9	120.3
J.Y. (1975 base)	134.4	133.8	132.7	132.1	132.1	132.3
SFr. (1963 base)	164.4	164.4	163.6	163.1	161.8	160.6
Unemployment rate						
U.K.	10.6	10.4	10.1	9.9	9.6	9.3
C.D.	7.3	7.1	7.1	7.4	7.2	7.3
D.M.		4.8	4.9	5.2	5.6	5.6
J.Y.		2.3	2.4	2.5	2.2	2.2
SFr.	0.1	0.2	0.2	0.2	0.2	0.3

Mexican Peso

Amidst bluff and counter-bluff, Pemex regained its "manhood" in the eyes of the world by coaxing the French into reinstating their full quota of oil despite price disagreements. As it always is, reality was quite different: Mexico agreed to provide a better mix of light/heavy oil and, in effect, lowered its prices by the full $4/barrel indicated in June. As other crude oil producers have begun to learn, however, the poker game has just begun, and the consumers have the chips. After the dust settles, Mexico's oil exports will barely reach 700,000 barrels per day in the third quarter, a substantial drop from planned estimates.

In an effort to calm the financial markets, President Lopez Portillo announced an unspecified set of budget cuts totalling 4 per cent. These cuts, equalling 92 billion pesos, are intended to narrow the fiscal deficit to the 298 billion pesos forecast earlier this year. Last year's deficit of 250 billion pesos equalled 6.5 per cent of GNP and was almost entirely monetized by the Bank of Mexico and the commercial banks. Financial observers believe that despite belt-tightening moves, this year's deficit will exceed 345 billion pesos — equal to almost US $14.0 billion at current exchange rates.

The growing current account deficit is forcing Mexico's public sector to accelerate its international indebtedness, with some banks expressing concern at the size of estimated year-end debt of some $39 billion. In recent weeks, margins in Euro-syndicated loans have begun to widen, giving belated recognition to our oft-stated assertion that Mexico is financially bankrupt.

A further element of anxiety has developed along Mexico's southern border. A quiet, but nonetheless bloody, civil war is shaping up in Guatemala where some twenty-five people a day are now being killed in acts of politically motivated violence. Given the Church's strong anti-government stand in Mexico, one wonders how long it will be before some fighting spreads to the beautiful Yucatán.

STRATEGY: We remain short deferred Mexican peso positions. Figure 18 shows the potential risks of assuming a short position at these levels, provided the Bank of Mexico continues its mini-devaluation but is not forced to float the peso. Our ultimate target remains .013.

Figure 17

MP — Spot Prices

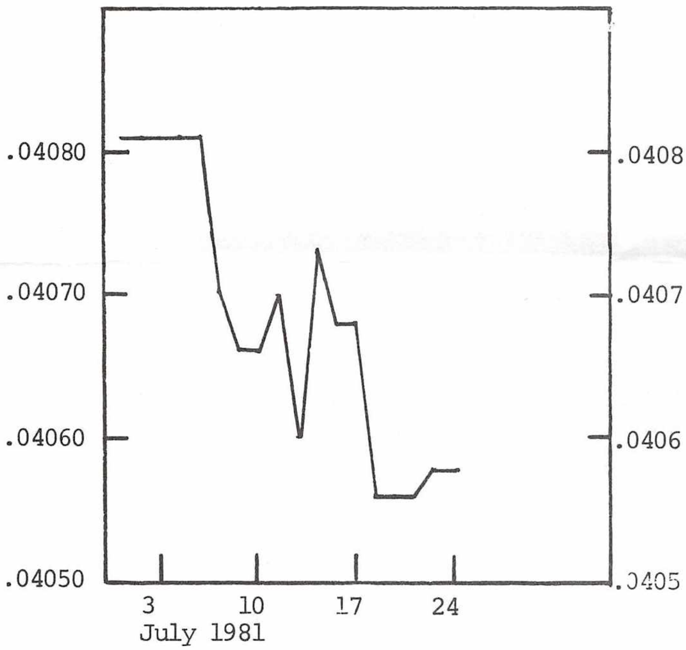

Figure 18

Potential Risk Exposure

	MEXICAN PESO At 1% Monthly Compounded Devaluation	At 1.1% Monthly Compounded Devaluation
July.24/81	.04058	.04058
Sep. 15/81	.03988	.03982
Dec. 15/81	.03871	.03852
Mar. 15/82	.03757	.03728
Jun. 15/82	.03644	.03605

Precious Metals

A significant abatement of selling pressure took place in the week of July 10 as gold, silver and platinum climaxed a month-long decline with a weekly upside reversal. Thereafter, while gold "reversed" this reversal (without making a new low), platinum and silver gave up ground rather hesitatingly, denoting a firmer undertone. What is more, platinum seems to have caught its breath, having narrowed its discount to gold to a mere $7/oz.

The Mid-East conflict seems to have prepared a better dumping ground for Soviet gold, which of late has been spotted in Zurich with more frequency. The US dollar remains gold's keenest competitor, and with the rate outlook outlined above, one doubts that rallies can be maintained. On a more positive note, both *Business Week* and *Time Magazine* have carried very bearish articles on gold, confidently quoting so-called "experts' forecasts of $200 to $300/oz. The market can hardly be that accommodating to popular beliefs.

The most concrete piece of news in the precious metals area is the final congressional approval to dispose of silver in an "orderly fashion" over the next three years. Starting October 1, and barring any further snags, the GSA will sell 1 million ounces of silver per week. It smacks to us as the END of the bear market.

***STRATEGY:** Upside weekly reversals have moved us to the sidelines, although there is still a good chance of seeing lower prices. The ultimate lows, however, may not be more than 10 per cent below recent lows; consequently, new shorts should only be probed by those flexible enough to stop positions at $450/oz. and $9.50/oz. basis closes in nearby contracts, for gold and silver respectively.*

Figure 20

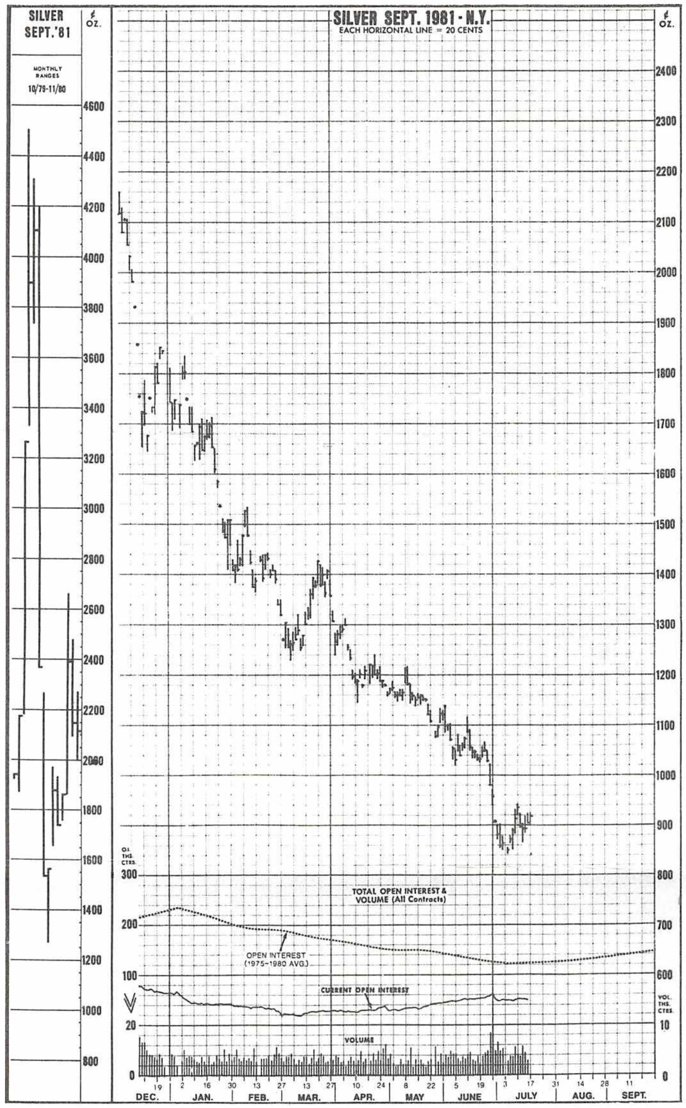

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Figure 19

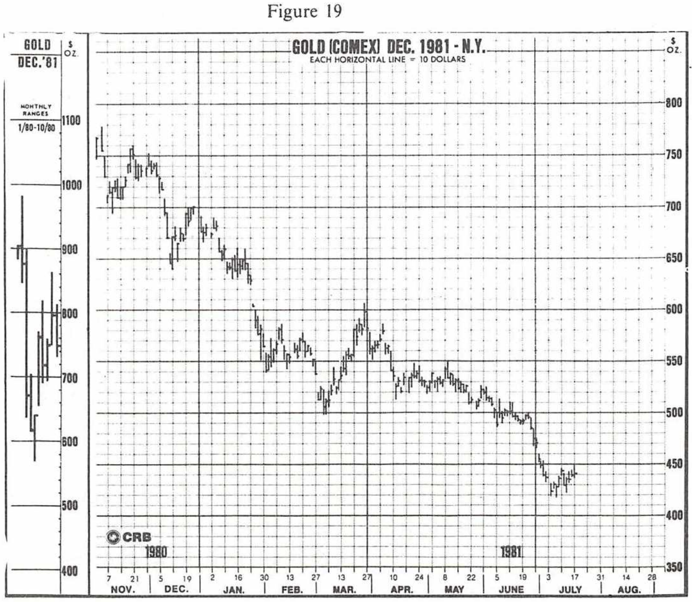

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Figure 21

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Copper

Warehouse stocks in London have fallen to 114,875 tonnes, the lowest level this year, or by 6 per cent since January. In New York warehouse stocks at 154,368 tonnes have also fallen to the year's lowest levels, and also by 6 per cent.

US mine production of copper during April fell to 140,123 tonnes from 145,325 tonnes last year, or by 4 per cent. At the same time, consumption during the month increased by 9 per cent to 163,000 tonnes from 149,000 tonnes during April 1980.

Refined copper stocks held by refiners rose 94,000 short tons from the abnormally low 22,046 tons held last year at this time, while refined production fell to 158,300 tons from 162,684 tons in June of last year, or by 3 per cent.

The statistics indicate that (1) persistently low prices are serving to reduce production at the mine level and, to only a small extent less, at the refinery level; that (2) dealers continue to pare inventories to very meager levels because of the high cost of financing; and (3) that refinery stocks represent a bit of an intermediate and temporary bottleneck only because of an absence of dealer buying.

We must conclude from the above that demand, slight though it may be, is sufficient to tip the scale ever-so-subtly to the bullish side. The technical picture, however, remains clouded; the charts show that the market has yet to vary from its step-down decline despite the usually bullish weekly reversal on the nearest futures contract four weeks ago.

Open interest remains quite high, which is not generally a condition occasioning a major trend reversal. Finally, it is difficult for us, having so bullish a view of interest rates, to imagine copper prices going higher in the face of still-higher carrying costs.

***STRATEGY:** Our finger is on the trigger. Discipline restrains us. Maintain strategy outlined last month by leaving buy stops at 86.00 basis December on close. If filled, place protective sell stops at contract lows.*

Figure 22

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Heating Oil

As early as last November we adopted a bearish view towards the prices of crude oil and oil by-products. We predicted at that time a major and cyclical shift in prices, one that would last for some time. In fact, beginning in November of 1980, we concluded that oil prices had seen their highs, in real terms, *permanently*. If we are right — and for reasons that were outlined in last month's *Comments,* we believe we are — and as long as interest rates remain real, i.e., above the underlying rate of inflation, as they are now, and as long as those real rates appear in the carrying charges, as they do at present (December heating oil is trading at 21.8 per cent annualized premium to September), then one can remain short the premium month at absolutely no risk in real terms.

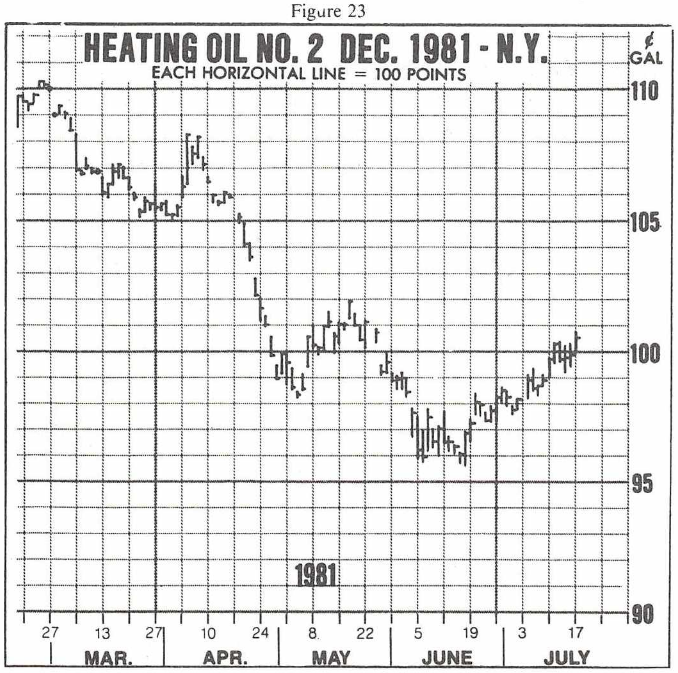
Looking at heating oil futures in a shorter-term framework, but keeping the above in the back of our minds, we note the persistent, but less-than-exciting bear market rally that began some six weeks ago.

The market's strength is attributable, only to a minor extent, to the small decline in crude production. A more logical reason is that importers of crude who had broken contracts with exporting concerns turned to the spot market for their residual purchases, thereby causing the discount of free-market oil prices to contract prices to narrow. Prices of crude in Rotterdam have risen to around the $32/barrel mark from $30/barrel six weeks ago. Given the bearish fundamental scenario it would seem extremely unlikely that spot prices can trade at a premium to contract prices. It is much more likely that those same fundamental factors will serve to push OPEC members to individually offer discounts to buyers, and that prices of contract and spot oil will decline as a consequence.

Unfortunately there is only an indirect relationship between prices of crude oil and heating oil. We assume that the point union of spot and contract oil prices translated into a December heating oil futures price of 102.00, which is where our heretofore well-placed stop-on-close has been.

STRATEGY: The technical picture shows that 102.00 has contained the current rally. Resistance is well positioned at that area. The uptrend, which as mentioned, we assume is minor, is located at just beneath today's closing price at 100.40. We advise, in conclusion, maintaining short positions, and adding to them on a sharp close below the uptrend. Raise close only stops to 102.40.

Figure 23



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Coffee

Last month we advised purchase of outright September positions in London and the retention of call options with "esperance." The 16th century noun was borrowed from Shakespeare's *Henry IV, Part I;* it was the motto of the rebel Percy family. The gallant Hotspur shouts out, "O Esperance, Oh, Percy" as he hops upon his horse en route to a battle the audience knows destiny will forbid him to win. In truth the author of the coffee forecast was beginning to feel that his call option hadn't much of a chance either. As we all know, we have been redeemed by the weather. A frost in Brazil has put a very dramatic, if only temporary, end to the bear market.

What's the story from this point? First of all, this year's crop of 32.0 million bags, the fourth largest on record, has already been harvested. So the damage is to next year's production and to the production of the year after next. Secondly, the extent of the damage is thus far unknown. The Brazilian Coffee Institute (IBC) issued a statement that between 10 mln. and 12 mln. bags of coffee could have been destroyed. Such an amount would exceed even the results of the devastating frost of 1975.

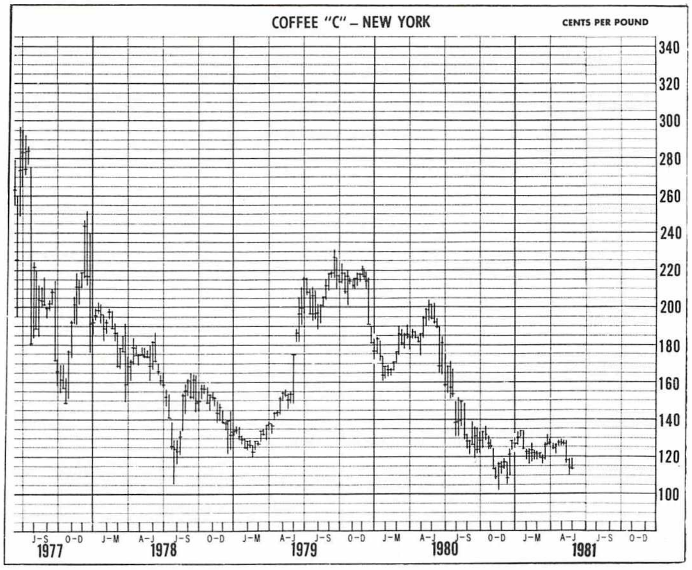
The market, possessed as it is of a special and often sagacious kind of skepticism, fell when the apparently bullish Brazilian communiqué was issued. Perhaps the market recognized that Brazilian authorities were committed to purchasing $875 million worth of coffee at pre-frost prices in order to stabilize values. Perhaps the market remembered the juggling of numbers the Brazilian authorities managed during the 1975 frost-initiated bull market.

Before we conclude that the current frost has initiated another major bull market, we prefer to await a less biased assessment of last week's damage, which should be offered by the USDA in the not-too-distant future.

The charts show that this week's rally carried values in London easily through the huge resistance area of around £1,000 to a high of £1,287. However, the depreciated pound Sterling makes a look at the New York "C" contract more significant. The latter rallied to, but not in excess of, the resistance zone between $1.10 and $1.35. Failure to conclusively leave that area behind and meet its more important test of the long term downtrend, which is currently found at around 155 basis nearest futures, leaves us to conclude, technically now as well as fundamentally, that a new bull market is, at best inchoate.

STRATEGY: We have used the rally as an opportunity to sell against September calls. We will trade them from the long side at around £1,040, having the comfort of locked-in profits and no risk. Outright positions should be liquidated at prevailing levels. Profits should be in the range of £300 per tonne, or $2,800 per contract.

Figure 24



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Soybean Oil

Soybean oil futures may well be the ones to pick as a probe against the prevailing bear sentiments that still shroud futures markets generally. On the surface it's true there is not a great deal to grow excited about: As Figure 25 shows, the USDA's most recent supply/demand estimates conclude in projecting a year-end surplus of 470 million pounds. Ending stocks are calculated to increase better than 20 per cent to 2,670 million pounds from 2,200 million pounds last year. In addition, last year's embargo opened a wide door to the southern hemisphere, which has increased production of grains and oilseeds and exports to the USSR, thus leaving the US a residual supplier.

Figure 25

USDA SOYBEAN OIL SUPPLY/DEMAND ESTIMATE (million pounds)

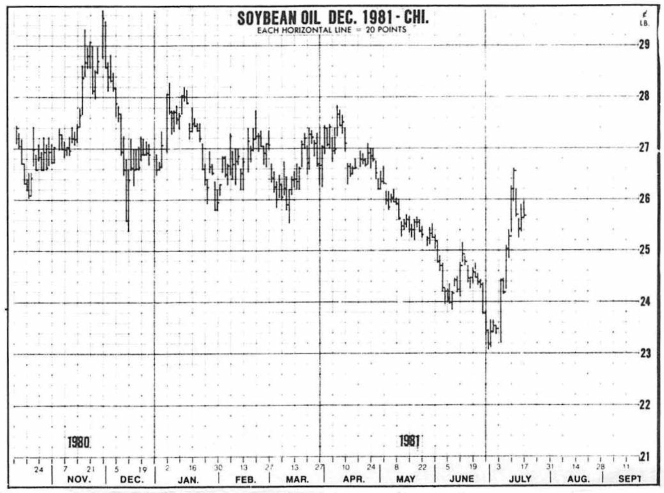
Season	Begin. Stocks	Production	Total Supply	Domestic Use	Exports	Total Use	Ending Stocks
1980/81	1,210	11,440	12,650	8,950	1,500	10,450	2,200
1981/82*	2,200	11,770	13,970	9,300	2,000	11,300	2,670

* Mid-point of USDA projections, June 30.

Since the breakout from the lows occurred after such apparently bearish estimates were published, it is our opinion that the above has been discounted and that the market is looking ahead to fresh fundamentals; specifically, (a) weather conditions, which from this point forward are more likely to impact more unfavorably than otherwise on the crop from a price point-of-view, and (b) the outlook of the dollar. In this regard we see the dollar continuing to strengthen but for a short time only. The net effect on exports is thus difficult to gauge.

STRATEGY: *Charts show that the market has the look of having seen its lows. The reaction from the mid-July breakout provides an excellent stop of 24.36 as gauged against a target of 29.25 basis December. Restating our thesis, the favorable risk/demand ratio makes the oil worth probing from the long side.*

Figure 26



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Corn

STRATEGY: *Having been stopped out of short positions in December corn at 351 as per last month's recommendations, we advise remaining sidelined.*

Albert D. Friedberg
David B. Rothberg

Notes:

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Note:

In Canada, Hume Publishing Limited has moved to larger premises. Our new address is 4141 Yonge Street, Willowdale, Ontario M2P 2A7 (416) 221-4596. Our US address and telephone remain unchanged.