

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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Taxes, Liquidity and the Great Puzzle

Why are today's real interest rates so high? The sophisticated phrasing of this question implies an authoritative view that (a) interest rates should only be measured in real terms (a belated but correct view) but without due adjustment for taxes (incorrect), and (b) the supply and demand flows in the credit market work smoothly without regard to *stock* imbalances (an incorrect view, as we shall explain).

Let us rephrase the question. If we begin with the fairly simple assumption that real returns to capital in the long run, average approximately 2 to 3 per cent per annum, it would appear that borrowers on the average would refuse to pay interest rates that exceed in real terms 2 to 3 per cent per annum. Why, then, have borrowers found their demand wanting at the 3 per cent level and, similarly, why have lenders not accepted this 3 per cent level but have instead demanded ever-increasing rates?

The question assumes that present after-tax yields exceed 3 per cent. But, of course, we know that this is not so. For, whereas 17 per cent (the very approximate proxy for a composite of short-term interest rates) exceeds the expected rate of inflation by at least 7 per cent (assuming a 10 per cent rate of inflation), it falls far short of this bountiful return on an after-tax basis. Indeed, adjusting 17 per cent by the lender's overall

average rate of tax, assumed to be 33 per cent, we are left with an after-tax return of just 11.25 per cent. The real rate of interest to the lender is, then, only 1.25 per cent. Using the same calculation, the borrower who pays 20 per cent (17 per cent plus the cost of intermediation), is paying a real rate of 3.2 per cent.

Clearly, real rates of interest are not astronomic as some observers would have us believe. After-tax calculations are providing an effective floor under *nominal* rates in the neighborhood of 17 to 20 per cent, *provided* real rates of return to capital do not vary significantly from long-term trends, expectations of price inflation are not revised downwards to any great extent, and/or income taxes are not cut substantially below this 33 per cent average. The imbalance created between after-tax returns to lenders (1.25 per cent) and borrowers (3.2 per cent) can only be adequately redressed by a continuous drop in intermediation costs, a process that has been taking place ever since the Fed began its banking deregulatory process.

The above explanation to the Great Puzzle is only but a partial answer. It assumes that borrowers and lenders alike enter credit markets daily with a rational, cold-blooded attitude of paying and receiving rates of interest that are compatible with real rates of returns to capital (or profitability). No allowance is made for the fact that

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the economy is at present operating with low levels of liquidity, resulting from a mismatching of assets and liabilities.

Figure 1 summarizes the extraordinary growth of short-term vis à vis long-term credit that has taken place since 1976. On the one hand, borrowers have become saddled with increasing short-term claims on themselves, forcing them to run ever faster to stand still. Rolling over maturing debt must be done *regardless of consideration of profitability*. This is clearly evident from the fact that a substantial portion of corporate America does not show pre-tax rates of return of anything like 20 per cent per annum. On the other hand, because they are unhappy with meagre real rates of return in the long end of the bond market or because they need to maintain a certain cushion of liquidity, lenders have shown a strong preference for providing primarily short-term credit.

Figure 1

	Credit Market Funds Raised by		
	Private Domestic Nonfinancial & Financial Sectors		
	Corporate Equity	Corporate Bonds	Bank Loans NEC & Open-Market Paper
1973	9.2	12.7	53.8
1974	4.1	21.8	47
1975	10.7	30.1	17.5
1976	11.8	28.6	6.5
1977	4.0	31.1	39.2
1978	3.8	27.6	59.9
1979	6.6	29	79.5
1980	1.5	34.9	48
1981 1st Qtr.	16.7	22.1	82.8

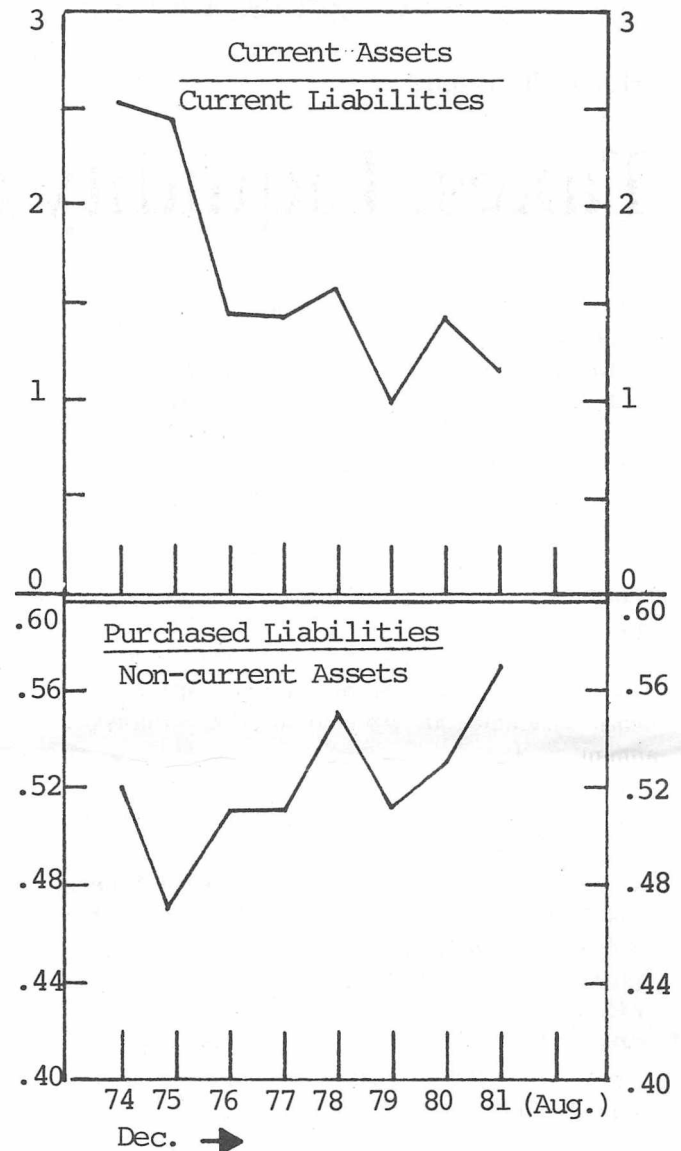
Source: Flow of Funds Accounts,
Board of Governors of the Federal Reserve System.

Liquidity is a balance sheet concept; it is measured by the ratio of current assets to current liabilities and/or the ratio of current liabilities in relation to non-current assets. A great deal of work has already been done to demonstrate that corporate balance sheets have become relatively less liquid in recent years. Much less has been said about the liquidity erosion experienced by US commercial banks.

Figure 2 provides a quick glimpse at the two liquidity ratios of the 12 largest banks in New York City. For the purpose of determining the quick ratio (current assets over current liabilities), we have separated Federal Reserve borrowings, Fed funds purchases, and certain other types of short-term borrowings from other deposits that are considered more stable, less volatile, and less sensitive to daily money market fluctuations. For the purpose of determining the ratio between current liabilities and non-current assets, we added time deposits to the numerator (quick liabilities) with the rationale that time deposits are a great deal more liquid than non-current assets. Both measures show an alarming deterioration in New York City banks' liquidity.

Figure 2

Large Commercial Banks
in New York City



Furthermore, one should bear in mind that the quality of assets has also been deteriorating — particularly loans to LDCs, loans to failing corporations, and market-value of long-term securities.

Summing up this approach, we posit that liquidity considerations are adding a premium, albeit an indeterminate one, to the structure of interest rates. The magnitude of this premium can only be guessed at by examining past periods in which liquidity was being rebuilt. An interesting case in point is the first and second quarters of 1980, during which short-term and long-term rates collapsed as much as 900 and 400 basis points respectively. Clearly, *long-term expectations of profitability* could not have changed so dramatically as to account for the spectacular fall in the cost of money.

Having attributed to liquidity such a predominant role in the deterioration of real rates of interest, and having

seen rates climb uninterruptedly for the better part of the last 15 months (and secularly for the better part of the last six years) one wonders whether there is a market mechanism that will force an improvement of liquidity. Furthermore, if there is such a mechanism, one may further wonder whether we, as market participants, would be able to gauge such an impending change. The answer, on both counts, is yes.

As interest rates climb, borrowers become increasingly averse to locking themselves in high-priced debt for long periods of time. The cost of borrowing short-term and waiting for long-term rates to go down is reflected in the negative yield spread. For triple-A corporate borrowers today, that cost is approximately 400 basis points. That this cost has not deterred corporations from waiting is evident by the extremely low level of long-term borrowing in relation to bank loans and corporate commercial paper.

Referring to Figure 1, we note that in the first quarter of 1981, corporate bond borrowing amounted to a seasonally adjusted annual rate of \$22.1 billion, while short-term credit amounted to a seasonally adjusted annual rate of \$82.8 billion. Since the end of the first quarter, C & I loans reported by large commercial banks have grown at 20 per cent per annum, while commercial paper outstanding has grown by over 30 per cent per annum.

The corporate bond calendar, however, has been relatively modest; in the month of August, only \$645 million of corporate bonds were sold, a far cry from the \$2.8 billion raised in August 1980. Lenders, on the other hand, have not seen fit to lock themselves in for long periods of time at a negative (after-tax) real rate of return.

Two things must happen. First, nominal long-term rates must rise to provide long-term lenders with expected (after-tax) real rate of return. On present indications, this rate is nothing short of 18 per cent for triple-A corporates and probably closer to 20 to 21 per cent (a 500 basis point jump from present levels). Second, the cost to borrowers of "waiting" for rates to come down must become *prohibitive*. If 400 basis points is too low, perhaps the yield curve must become negative by 500, 600, or even 800 basis points. Should both of these developments take place, borrowers and lenders alike will converge on the bond market. Corporate and bank liquidity will improve. Interest rates will begin to drop.

This theoretical framework has strong practical implications (or else we wouldn't bother discussing it). To even begin contemplating a meaningful drop in interest rates, one must be satisfied that corporate and bank liquidity is being restored to healthier levels. For *that* to happen, the corporate bond calendar must begin to show offerings of *at least* \$6 billion per month on a consistent basis. In other words, the market must show

lenders and borrowers at the long end of the market. Until such time, any hope for lower rates is downright premature.

STRATEGY: *Remain short financial instruments. In keeping with the above comments, the yield curve should become even more negative in coming weeks and months. Therefore, T-Bills and Certificates of Deposit futures are a better short than T-Bonds. Place stops at 87.00 basis Dec. '81 T-Bills, close only. We are revising our target downwards from 81.50 to 79.00.*

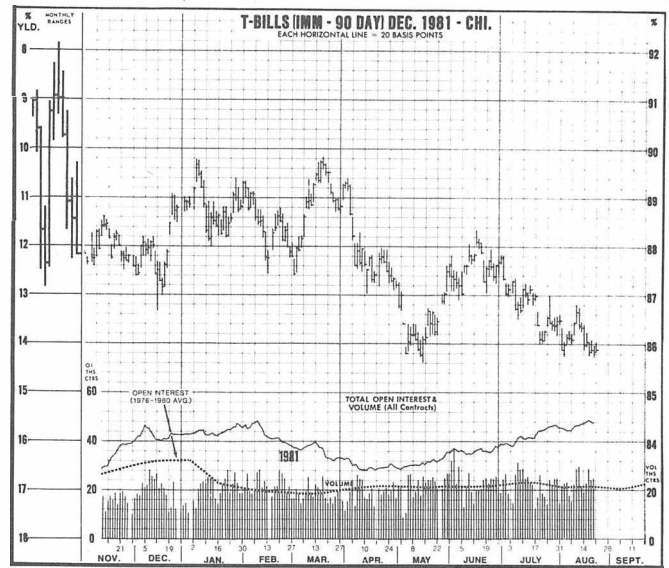
Figure 3

us that there has been a meaningful convergence of

Figure 5

Chicago Board of Trade									
LaSalle at Jackson, Chicago 60604									
90-DAY DOMESTIC CERTIFICATES OF DEPOSIT									
August 28, 1981									
	Open	High	Low	Settl- ment	Net Yield Chg	Settl Chg	Open Int		
Sept81	81.80	82.33	81.80	82.19	+ .39	17.81	- .39	630	
Dec81	82.34	82.63	82.34	82.45	+ .15	17.55	- .15	861	
Mar82	83.06	83.15	82.98	83.03	- .02	16.97	+ .02	642	
June82	83.55	83.55	83.38	83.38	- .12	16.62	+ .12	199	
Sept82	83.65	83.65	83.58	83.58	16.42	
Est Sales: 2,000; Volume: Thursday 1,861; Open Interest: 2,332, -279.									
TREASURY BONDS (CBT) - \$100,000; pts. 32nds of 100%									
Sept	58-18	59-01	58-13	58-16	+ 5	14.354	-.038	26,446	
Dec	59-23	59-30	59-10	59-13	+ 4	14.139	-.029	55,746	
Mar82	60-10	60-20	60-03	60-04	+ 2	13.972	-.015	31,588	
June	60-28	61-06	60-21	60-22	+ 1	13.844	-.007	25,080	
Sept	61-09	61-16	61-04	61-04	13.746	25,301	
Dec	62-01	62-02	61-15	61-17	- 1	13.656	+ .007	24,777	
Mar83	62-00	62-10	61-28	61-28	- 2	13.581	+ .014	20,721	
June	62-14	62-22	62-06	62-06	- 3	13.513	+ .020	16,439	
Sept	62-21	62-27	62-15	62-15	- 4	13.452	+ .027	19,629	
Dec	63-02	63-06	62-23	62-23	- 5	13.399	+ .034	19,065	
Mar84	63-07	63-08	62-30	62-30	- 6	13.352	+ .040	17,507	
June	63-15	63-15	63-04	63-04	- 7	13.312	+ .046	9,153	

Figure 7



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Figure 8

Corporate Debt Issuance
(\$ millions)

	1979	1980	1981
Jan.	1,902	3,711	2,442
Feb.	1,869	1,468	2,751
Mar.	1,707	2,200	3,652
Apr.	3,078	3,322	5,403
May	2,057	6,682	2,439
Jun.	3,893	7,344	6,198
Jul.	2,055	5,214	3,239
Total	16,561	29,941	26,124

Currencies

Canadian Dollar

The foreign exchange crisis: its causes and potential remedy

The NEP has been blamed for the recent collapse of the Canadian dollar and the consequent explosive rise in domestic interest rates. The fact is that a persistent outflow of foreign currency has been occurring since 1976, long before the NEP was ever drafted. Foreign assets held by Canadian residents fell by \$10 billion between 1976 and the end of 1980. These outflows were the net result of a large current account deficit and a slightly smaller capital account surplus.

The current and capital accounts can never be looked at in isolation; each is the counterpart of the other. A deficit on current account indicates that the country is importing capital, i.e., consuming (and investing) by borrowing. Conversely, a surplus on current accounts indicates that the country is consuming relatively little and saving (investing abroad) relatively more.

It is not our purpose here to discuss whether a country is better off with a current account deficit or surplus. The answer depends on the country's relative state of development; a growing nation needs capital and therefore must run a current account deficit (the classical example is the US in the nineteenth century). A mature nation generally generates excess capital by running a surplus on current account.

The scissor-type effect is no magician's trick. Here is how it works. A current account represents, by definition, an excess of international expenditures over incomes. Therefore, domestic residents must acquire foreign currency to pay for the excess expenditures. When a country runs a current account deficit (for a variety of reasons, including the drop in price of its main exports or the necessity to import oil rigs to develop its energy potential), the central bank, in an attempt to stabilize the currency, sells foreign currency out of reserves that inturn will pay, as we argued above, for the deficit.

When the central bank sells assets (any kind of assets, be it US dollars, bonds, or buildings) it forces a contraction in the money supply, which in turn raises the domestic level of interest rates, which inturn attract foreign capital. Presto! This inflow of foreign capital will balance the outflow caused by the deficit on current account. Also, the higher level of domestic interest rates will slow down the domestic economy, thus forcing a better international trade performance as imports contract and exports expand. This, in turn, will narrow or eliminate the current account deficit.

The problems arise when a central bank offsets the contractionary impact of a current account deficit. With one hand, it sells assets (US dollars or other foreign currency) out of reserves, and with the other it buys assets such as government bonds. This contradictory operation invalidates the scissor-type effect that we have come to expect; current account deficits can no longer exert enough of a contractionary impact to force an automatic offset by way of capital inflows.

Over the past six years, Canada has run an accumulated current account deficit of \$26.3 billion. Instead of allowing this deficit to contract money supply by running down assets, the Bank of Canada increased its assets by no less than \$7.9 billion. No wonder we have experienced a continuous outflow of foreign currency of the order of \$16 billion!

The noxious psychological and financial effects of the NEP accelerated the outflow by reversing the capital account from a mild inflow (and partial offset to the

current account) to a violent outflow. The necessary adjustment, at this stage, would imply a massive contraction of money supply and a full fledged liquidity crisis.

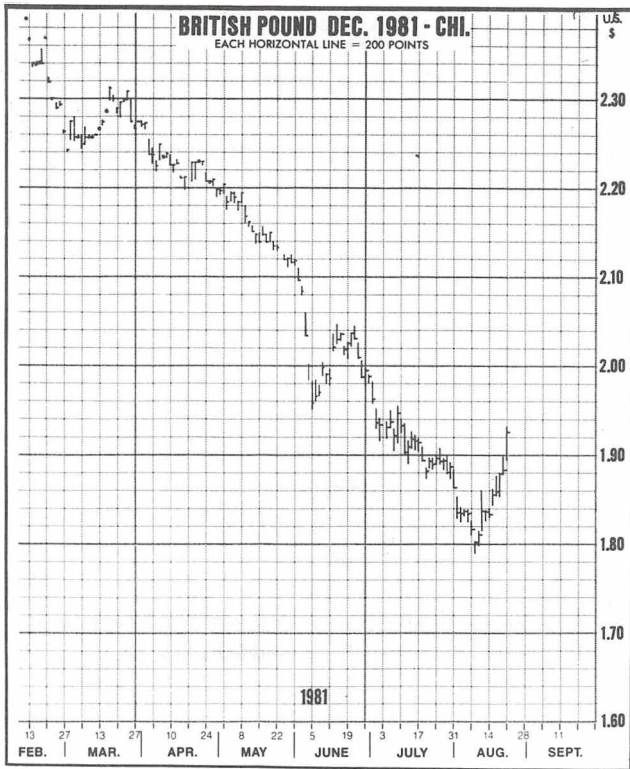
What can be done? The healthiest measure would be to balance the fiscal position. This chimerical hope, however, should turn our attention to the second best alternative: financing the government's borrowing requirements in a non-inflationary form, i.e., by tapping genuine savings. The sad truth is that the government of Canada can no longer (nor has it ever been able to) place all its long-term bonds with the non-banking public. Very soon, the underwriting community will be bankrupt, as the last government of Canada issue made abundantly clear. A way must be found to place long-term bonds without the continuous help of the Bank of Canada, which, by taking down a substantial portion of the new (and old) issues, has poured fuel on the inflationary fires.

Three years ago we suggested a course of action. The time has come to implement it. Let the government of Canada issue long-term bonds, indexed to the CPI, plus a nominal return of, perhaps, 2 per cent per annum. The UK has already experienced success with two such bonds, one restricted to people over 60 years of age (and now open to anyone) and one restricted to pension funds. The Canadian issue should be open to anyone, including foreign residents. It should be tax-exempt on the capital gain portion arising from indexation, if the bonds are held a minimum number of years (the government may want to consider disallowing carrying charge deductions). It should forbid the Bank of Canada from purchasing them.

It is our belief that these bonds will receive an enthusiastic response from pension funds, retirement funds and individuals now struggling to keep up with inflation. It will eliminate the government's continuous need to sell bills, notes, and bonds and will also eliminate the government's need to replace the run-off of Canada Savings Bonds (and/or raising their rate). It will force the government to have a vested interest in the elimination of inflation (the less inflation, the less the cost of indexation) rather than on its continued existence (so as to pay off the public debt with cheaper dollars). Finally, and at one stroke, the foreign exchange crisis will go away as the scissor self-stabilizing effect will once again assert itself.

STRATEGY: Last month we stated that the Canadian dollar is in a trading range bound by 81.50 and 83.50. Although the range was exceeded on the downside (with a low of 80.06), the market has rebounded with hopes of an oil agreement between Alberta and the federal government. A case of buy on the rumor and sell on the news. With the release of an agreement, we would sell the Canadian dollar with gusto, looking for a test of the recent lows.

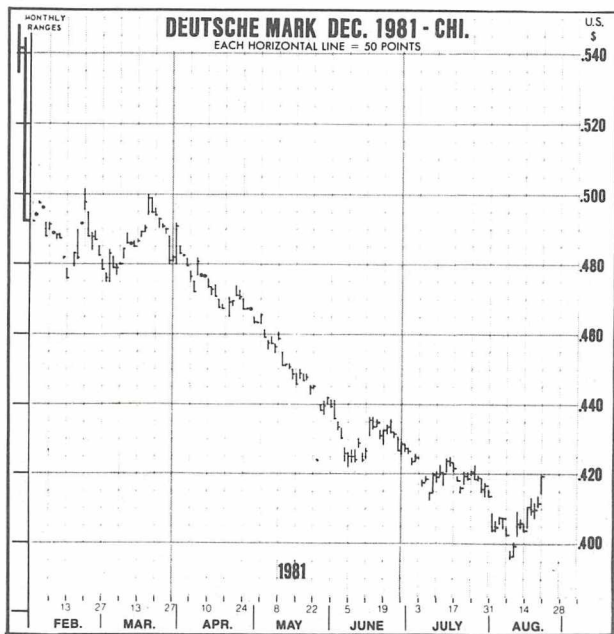
Figure 12



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STRATEGY: Remain firmly short. Spreaders may wish to purchase Swissies against their short Sterling on days of extreme weakness in the latter, and sell off these Swissies on strength. We expect Sterling to reach new all-time lows during 1982.

Figure 13



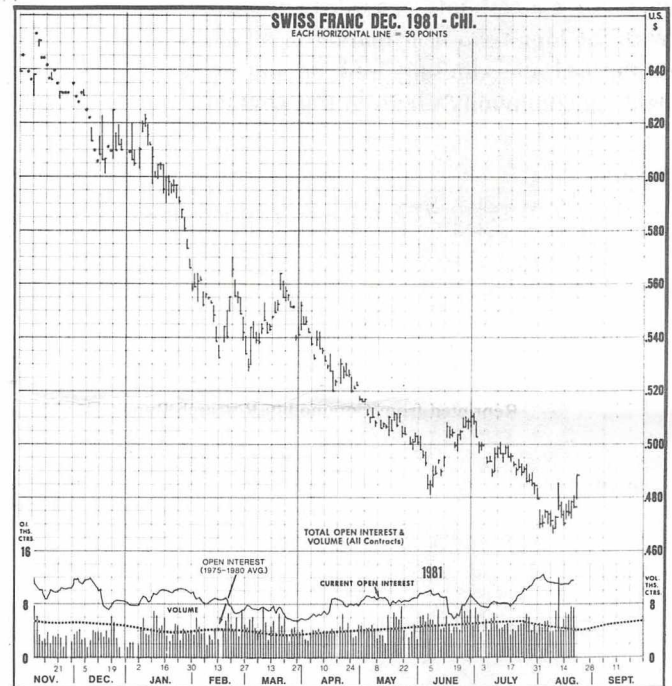
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Swiss Franc & Deutsche Mark

The Swiss franc and Deutsche mark continue to show signs of bottoming against the US dollar.

Narrowly-defined money supply in Switzerland has declined at an annual rate of 4.6 per cent per annum from the first quarter of 1979 to the first quarter of 1981, indicating a very substantial drop in the Swissies' real rate of exchange. It is this factor which has helped to turn Switzerland's current account to a modest surplus.

Figure 14



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STRATEGY: Remain sidelined. Any speculation against European currencies and in favor of US dollars should be concentrated on Sterling.

Mexican Peso

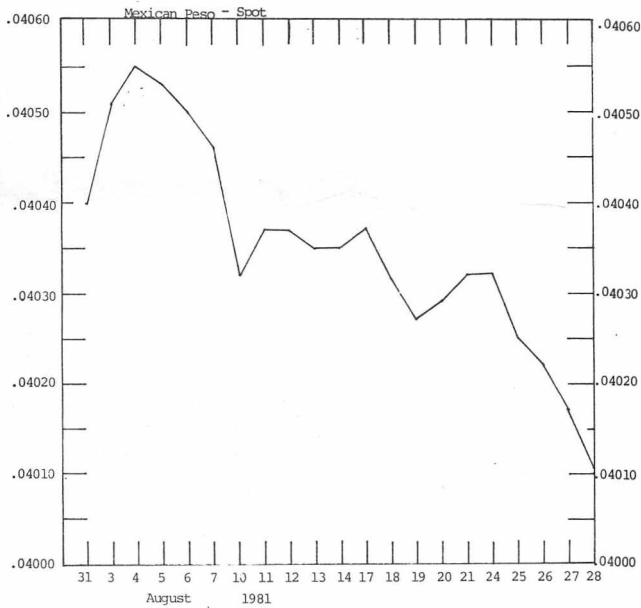
After a brief hiatus in July, when the spot MP benefited from a reflow of US dollars in response to Portillo's oil power play, the spot rate resumed its 1 per cent monthly devaluation and now stands at 40.06.

Continuing the long list of suicidal protectionist measures, the Mexican government took steps to limit imports of automotive parts. Beginning with the 1982 model year, Mexican auto makers must export as much as they import in terms of value. Currently, imports

provide about 40 per cent of the parts in Mexican vehicles assembly, almost all of which are sold in Mexico. These moves have upset \$1.2 billion of investments in new engine and auto assembly parts, planned by units of General Motors Corp., Ford Motor Co. and Chrysler Corp. Those companies will be forced to cut back auto assembly operations and to change production schedules for the 1982 model year because certain parts can't be imported any more. Mexican auto production had been growing at about 18 per cent per year for several years. Domestic production in the first half rose 22 per cent for autos and 34 per cent for trucks from the year earlier.

Protectionist and import substitutions policies are so well advanced in Mexico, that a substantial drop in living standard is a certainty, regardless of energy prospects. With the long-term bear market in oil prices firmly established, one can only look on and wonder at the banking community's faith in this country.

Figure 15



STRATEGY: A rash of very substantial devaluations is imminent. It will carry very serious social and political consequences.

Remain heavily short deferred contracts, using present strength to add to positions.

Japanese Yen

STRATEGY: Remain short, lowering stops to 44.05, close only, basis Spot.

Figure 16



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Figure 17

	Jul.81	Jun.81	May 81	Apr.81
Balance of Trade				
C.D. (bln CD\$)	+439	+500	+ .461	+ .124
D.M. (bln Marks)	+3,37	+1.67	+1.57	+3.3
J.Y. (bln US\$)	+2.36	+2.58	+ .856	+1.52
SFr. (bln Francs)	-511	- .708	- .482	- .703
Current Account				
D.M. (bln Marks)	-3.1	-3.8	-1.5	-0.4
J.Y. (bln US\$)	+ .871	+1.31	+ .277	+ .474
Overall Account				
D.M. (bln Marks)	+1.3	-1.46	+2.83	+3.68
J.Y. (bln US\$)	- .781	- .954	-1.17	+2.44
Reserves				
U.K. (bln US\$)	24.57	25.63	26.49	28.07
C.D. (bln US\$)	3.29	3.05	3.18	3.16
D.M. (bln Marks)	71.1	74.3	75.6	72.8
J.Y. (bln US\$)	27.66	27.84	27.73	27.34
SFr. (bln Francs)	19.20	23.04	19.30	20.37
Cost of Living or C.P.I.				
U.K. (1974 base)	297.1	295.8	294.1	292.2
C.D. (1971 base)	240.0	238.9	236.8	233.2
D.M. (1976 base)	124.7	124.4	123.9	123.3
J.Y. (1975 base)	105.0	105.3	105.3	104.2
SFr. (1977 base)	117.8	116.0	115.4	114.6
W.P.I.				
U.K. (1975 base)	223.8	222.1	221.0	219.0
C.D. (1971 base)	272.9	271.9	269.6	267.0
D.M. (1976 base)	127.7	126.0	125.1	124.9
J.Y. (1975 base)	135.0	134.4	133.8	132.7
SFr. (1963 base)	166.6	164.4	164.4	163.6
Unemployment rate				
U.K. (Aug.81:10.9)	10.7	10.6	10.4	10.1
C.D.	7.0	7.2	7.3	7.1
D.M.	5.5	5.3	5.3	4.8
J.Y.	2.1	2.2	2.3	2.4
SFr.	20.2	0.1	0.1	0.2

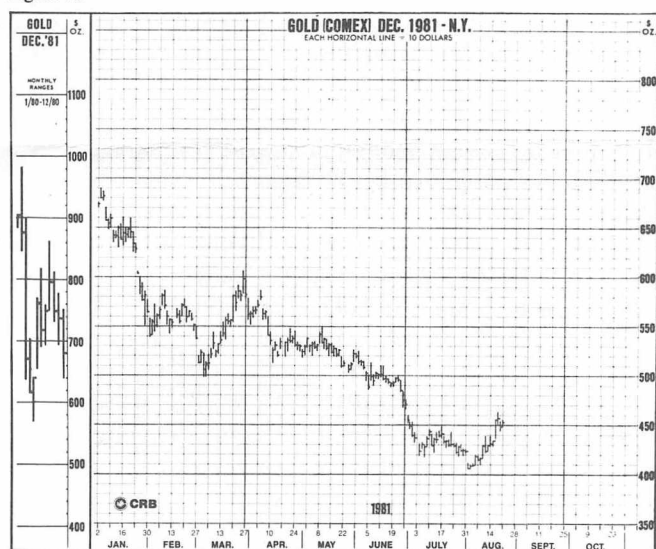
Precious Metals

Base-building periods tend to be dull and frustrating. Often, trend-following traders probe the short side of the market to find themselves stopped out one or more times. Similarly, bottom-pickers have either been decimated already or, if they still have resources at their disposal, probe the long side just prior to a renewed shakeout that tests but does not break previous lows.

We are reserving judgment on pronouncing dead the bear markets in precious metals for just one more month, although we should note that both technical and fundamental factors have begun to tilt the equation towards the bull side. Since bull markets tend to run for a number of months and years, we see little advantage in being premature.

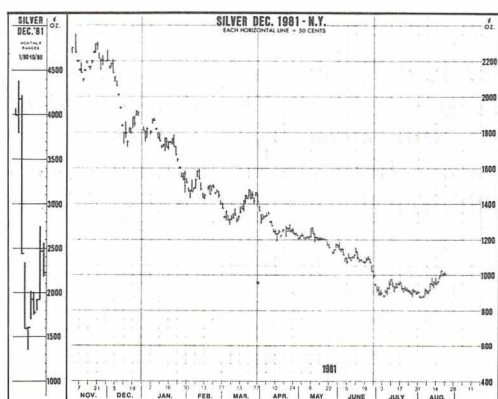
STRATEGY: *Remain totally sidelined. At this time, the reward to risk ratios favor neither the bulls nor the bears.*

Figure 18



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Figure 19



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Copper

The very rapid rise and fall of the red metal over the past four weeks since our last *Comments* was published indicates to us the extent of latent enthusiasm on the part of investors and speculators about copper's future price prospects. Beginning in the first quarter of this year, a great many analysts — including us — recommended copper as one of the safer bets. Of all metals it seemed most likely to enjoy a major bull market run beginning sometime in the early part of the current decade.

The rationale most frequently offered was that copper's price expressed in real terms was near historic lows, and as a result (1) substantial demand base was subtly building and (2) new production capacity was unlikely. This theoretical framework was certainly convincing; what's more, it was and still is an accurate appraisal of underlying fundamentals.

The question has always been when the damn thing would start. As we are all well aware, high interest rates have dealt crippling blows to the auto and housing sectors of the economy and have acted as a powerful inhibitor to dealers' assuming of inventories — three absolutely necessary requisites for a beginning to any bull market in copper.

But one could reasonably argue that all of this was very well known by the market and thus, perhaps discounted, gives the historically low real price. Further, one could make reasonable argument, as many Reagan administration officials, senior institutional analysts, and other pundits have during the past several months, that rates were more likely than not to soften. Slowly prices crept forward until the important looking March/July downtrend was broken at 83.00.

The beginning at last? It would certainly seem that a great many investors and speculators thought so. Prices ran up to 86.50 from 81.50 (basis December '81) in a matter of days and then consolidated, or so it seemed, between that level and 89.00.

The consolidation area, which proved to be false, was accompanied by a substantial increase in open interest, which would suggest that a great number of convinced speculators were climbing aboard, eager lest they miss the beginning of the big move. When the market proved unable to make further headway, and news from the money market sent rates higher once again, their disappointment routed prices.

What now? Our fundamental reason for entering the market on the long side — at 86.50 stop close — was that warehouse and refinery stocks had declined, so that we assumed that the previously well-balanced supply-demand equation had shifted quietly to the bull side.

Since last writing, warehouse stocks in London and New York have continued their trend of eroding but at a slower rate. Although the three-month moving average of

combined Comex and IME stocks has declined to 272,537 tonnes from 276,604 tonnes, the actual level has fallen by only 723 tonnes to 268,614 tonnes from 269,337 tonnes.

Still, we must consider the data somewhat bullish. On the other hand, our view toward rates has changed from a belief that they would peak in the form of a very sharp but short-lived spike to a view that they are now more likely to persist and creep slowly but depressingly higher. The former condition would be more easily taken by copper than the latter. Finally, the still-relatively-high level of open interest suggests, though not conclusively, that some liquidation from the early August runup may be due.

STRATEGY: Taken together, we are less than optimistic about copper's immediate prospects and would recommend liquidating outstanding long positions were it not that our previously advised stop at recent lows — 79.40 basis December — has yet to be violated. That stop, being as close as it is, makes holding those positions worthwhile when thought of in terms of risk/reward. Leave stops, then, at those levels.

exporter's plea to lower its quotes from \$36 per barrel. The South American country is in a more fortunate position than its Mid-Eastern colleagues inasmuch as its reliability as a supplier and its proximity to the US (toward whom 60 per cent of its exports are directed) have allowed it some respite from the series of broken contracts that have plagued its competing cousins in the wake of the current glut.

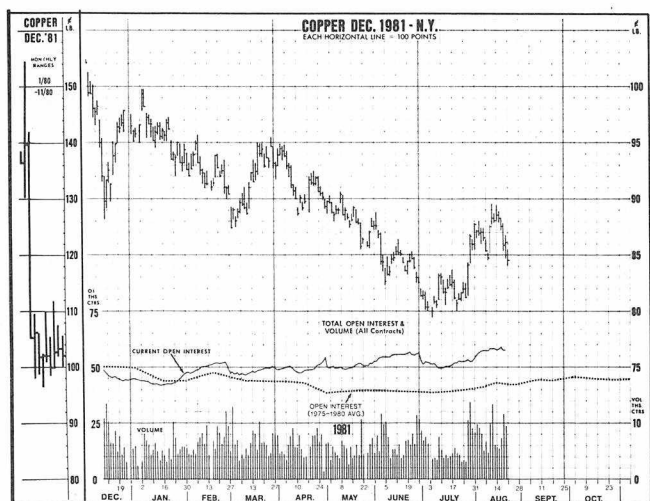
Less fortunate, of course, have been Nigeria, Libya and Algeria. Nigeria, suffering a reduction in export volume approaching 65 per cent from 1.8 MBD to .6 MBD, was forced to reduce its price by \$4 per barrel, to \$36 per barrel. Libya and Algeria, who both market a similar type of crude, were expected to follow suit but have instead, just recently (August 27), begun negotiating with importers to sell oil via barter in an attempt to maintain their quotes at an equivalent of \$40 per barrel. Thus far, such efforts, as one would expect, have been rebuffed.

Last week's meeting and the events that followed are a good illustration of OPEC's condition: (1) Previously fraternal members cannot cohere in the face of buyers' market; (2) an immature unwillingness to deal with the reality of market conditions exists amongst certain members. This may be because of national pride as was demonstrated by Mexico last month, or because of a relatively strong reserve position as is now the case of Libya, or because of a misapprehension of market conditions, as seems to be the case with Iran whose delegate to the OPEC meeting is without experience. Whatever the reason, persistence will only serve to exacerbate the dissension already manifest and will ultimately serve to further depress prices.

Meanwhile, latest weekly statistics prepared by the American Petroleum Institute continued to show the relatively consistent trend that has prevailed in recent months for mounting inventories despite declining production. This indicates that demand for oil at recent prices simply is not there.

STRATEGY: We maintain our long-standing view that the secular peak in oil prices has been seen and that a long-term downtrend has begun. Additions to existing short positions should have been made in keeping with last month's Comments. Maintain stop at 102.00 on close.

Figure 20

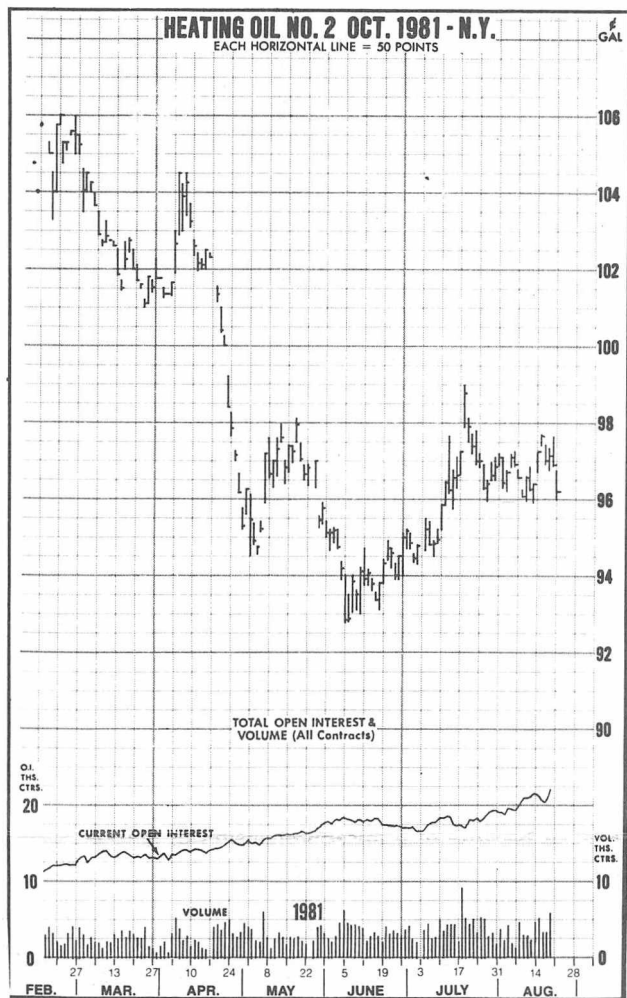


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Heating Oil

Last week's much anticipated OPEC meeting ended in highly publicized and surprising disarray when Venezuela, one of the cartel's founding members (and, probably because of that, one of its most compromising), shocked Saudi Arabia by refusing to agree to the world's largest

Figure 21



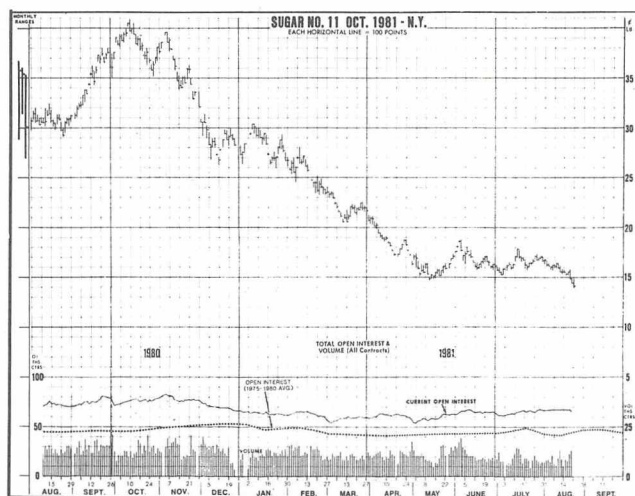
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Sugar

F.O. Licht's last estimate of a record European beet crop of 31.65 mln. tonnes for 1981/82, up 15.34 per cent from last year is the most recent bearish bit of news the sweetener has been dealt in past months. Notwithstanding the frost-damaged Brazilian crop, which is not expected to impact upon prices until 1982/83, sugar has enjoyed a rare year of good growing conditions internationally. That, coupled with inroads artificial sweeteners have made as a result of last year's bull market, insure a continuation of the long downtrend that began when prices peaked at near 50¢ per pound. This is confirmed by the collapse of prices from the very obvious continuation triangle shown in Figure 22.

STRATEGY: With a target of 10¢ there is still ample opportunity for handsome profits on the short side. Place protective buy stops at 15.70 basis October 1981.

Figure 22

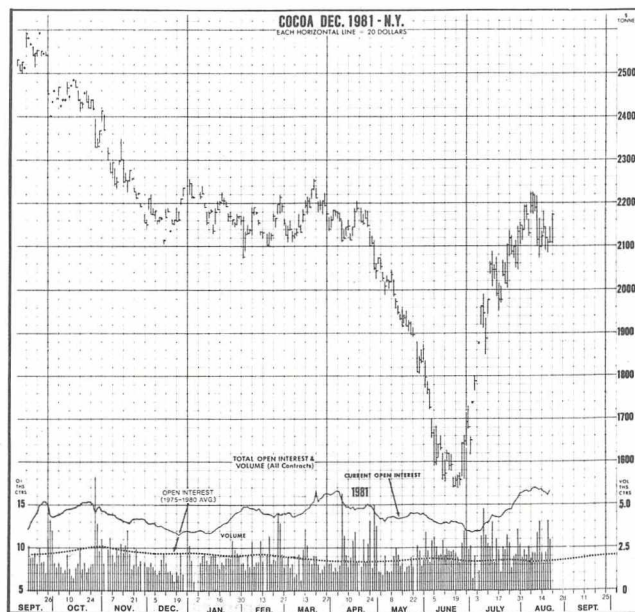


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Potpourri

STRATEGY: Stopped out decisively in Bean Oil at 24.36 basis December, once again demonstrating the folly of trying to pick a bottom against a general trend. We are short Cocoa with stops at 22.50 basis December 1981.

Figure 23



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Albert D. Friedberg
David B. Rothberg

Notes:

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.

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