FRIEDBERG'S
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The Bottom of the Barrel?

The curtain is about to fall on a drama that's been playing on the world stage to a capacity, and at times hypnotized, audience. The final act will leave a message with far-reaching consequences for the business and financial community, political strategists, and governments. We are speaking of the imminent demise of oil prices.

A major top has been made that will not be breached unless a political/military eruption in the middle east occurs and drastically imperils the flow of supplies. We now consider the probability of such an event occurring to be very low. Persistently low demand in the face of supplies that financially strapped OPEC members must offer to market is finally about to vindicate the bears. Heating oil prices collapsed beginning the week following our last *Comments* (October 17) in, as opined at the time, a classic downside weekly reversal accompanied by high volume and a sharp drop in outstanding commitments.

Over the past four weeks, US distillate stocks have increased, contraseasonally, from 168.9 million barrels to 173 million barrels. The reasons are as follows: First, a technological advance in the refining process has allowed for increased production of distillate relative to gasoline; over the same four-week period, distillate production, as a percentage of refinery runs, has averaged 24.3 per cent compared with an average of 21 per cent over the comparable period last year; Second, the weather this heating season has so far been warmer than normal — contrary to the virtually unanimously dire predictions of cold. The heating degree indicator for the Toronto metropolitan area, for example, showed 207.7 heating degrees in October and 111.7 heating degrees through November 11. Last year the same periods recorded heating degrees of 302.2 and 119.9 respectively. Normal is considered 220.1 for October and 392.5 for all of November.

Demand for all refined products has dropped 3.5 per cent since mid-October by comparison to last year, and stocks of crude, gasoline, and distillate, in aggregate are down a relatively meager 7.0 per cent. Such numbers are presumably being looked upon ruefully by the Saudis, who have expressed hope that both demand would pick up substantially this season and that oil companies would become more active buyers as destocking draws down inventories to danger levels. That stocks are down by 3.5 per cent relative to consumption can hardly be considered a perilous situation from consumers' point-of-view, especially when bearing in mind that last year's inventories, at this time, were so burdensome that it was their dumping that drew prices to the upper $20 per barrel range basis crude and to the lower 70¢ per gallon range basis heating oil.

Chart 1 shows the unprofitability of producing product from crude priced at the Saudi benchmark of $34 barrel. It illustrates the inevitability of a price reduction by OPEC when taking into account their financial requirements — which in the cases of Nigeria, Iran, Indonesia, and Venezuela are desperate — and the low level of usage. Indonesia's decision earlier this week to drop the price of its light crude by 47¢ a barrel and its heavier "Duri" crude by $1.90 per barrel was, to quote their communique, "an adjustment" that came about in response to a sharp curtailment of demand from its major buyer, Japan. As long as swing

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buyers who, like Japan, seek out the most competitive price exist, and as long as there is no unified price, (highly unlikely as we've said repeatedly, given the different ambitions of the OPEC members), downward "adjustments" will continue to be made no matter what the actual price level is until that level falls to one that meets the realities of demand.

Before offering the most likely scenario for the upcoming bear market, we will address ourselves to the continuing war between Iran and Iraq. Last month we expressed our fears that Iran could conceivably close the straits of Hormuz. Though unlikely, a closing of the straits would serve, if only temporarily, to reduce the flow of exports by as much as 8 million barrels a day. During the past four weeks, Iran successfully regained the offensive, thus making such a desperate maneuver even less likely. Iraq, financed as it is to the tune of roughly $1 billion a month by the conservative gulf states, is not likely to cut off the hand that feeds it. And the recent development of a US military presence, whose purpose it is to defend American interests in the gulf region, make this doomsday scenario even less likely.

During the past month, the price of crude has fallen to $32.50 per barrel, or by about 3 per cent basis spot, in Amsterdam. Saudi Arabia and its gulf neighbors have formed a new alliance within OPEC and have stepped up their campaign against those members selling more than their quotas at discounted offerings. The gulf states argue that their reduced production is the only thing that has maintained the $34 benchmark, and that as a result it is they who are suffering the brunt of reduced revenues. Militant members like Iran argue that the gulf states, having enjoyed prodigious revenues in the past, having small populations, and suffering less financial strain, should reduce production even further. Although they haven't expressed it as bluntly, one might presume less militant members like Nigeria, Indonesia and Venezuela implicitly agree. For their part, the gulf states feel production quotas should be based upon production levels that existed before the quotas were established. These are differences that have no easy resolution.

What will the Saudis and their gulf allies do? Thus far the Saudis have been no more than paper tigers. In order to bring dissenting states back into line the Saudis must demonstrate that they have the wherewithall to inflict punishment. A sharp increase in production accompanied by a drop in price of $10 per barrel would probably be the most effective and the least costly response because it would be the most temporary. Yet, being so radical, such a scenario is unlikely. More likely is that the Saudis will drop the price of crude by $2 per barrel or thereabouts before the upcoming OPEC meeting December 9. Such a gesture would at least demonstrate their credibility. If they do this, one can assume some conciliatory posturing by the more moderate dissenters and then, in the not-too-distant future, more downward "adjustments." One way or another the price of oil is going to suffer a collapse in the initial stages to at least the low $20 per barrel range.

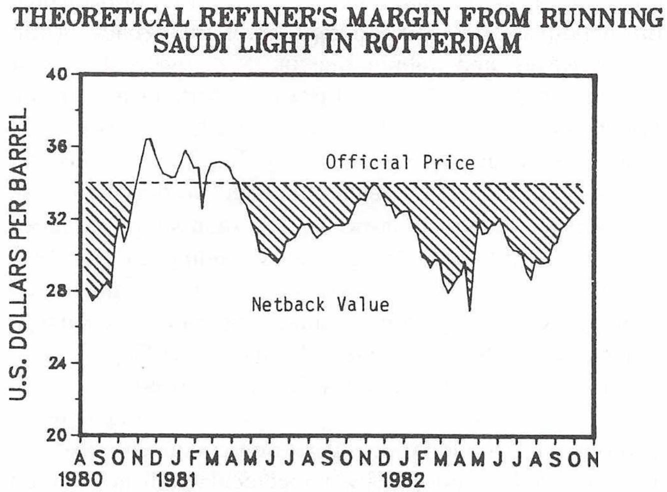
The initial decline will be triggered by Saudi Arabia's bid to recapture some of its lost markets. The second stage of the decline will be caused by producer leapfrogging. The potential for a devastating decline, however, lies with the little understood swing effect of inventory movements. The mathematics are elementary: Crude oil stocks held by energy companies (aside from growing stocks built up by the US and Japanese governments) are variously estimated at between 84 and 94 days of forward supply, with the lower figure being exceedingly conservative. (See Chart 2.) A drastic and unexpected Saudi cut in prices (more than $2 per barrel) will set off a panic reaction among these holders of supplies, convincing them that perhaps 60 days is a more optimum level of stocks. Spotty statistics indicate that, in fact, in the 60s a 60-day forward supply was considered relatively ample. Dumping and/or consuming through 24-34 days of forward supply at approximately 45 million barrels per day (mbd) yields a potential buying strike equal to 54-76 OPEC producing days. In other words, stock liquidation to more optimum levels could force energy companies to stop purchasing OPEC oil entirely for as few as 54 days and as many as 76 days, assuming OPEC's production levels of 20 mbd! Clearly, no OPEC producer will be able to withstand the impact of this inventory liquidation.

STRATEGY: *Heating oil prices still have a few cents to fall to bring them back into line with crude values. Still the distillate is from our point-of-view just a proxy for crude. Given the above discussion, we must conclude the most attractive feature of a short position remains the low level of risk as defined by the Saudi benchmark price of $34 per barrel.*

Given that US financial institutions have been heavily loaned up to the energy sector, one would expect to see the US government step in to stem the devastating decline by imposing strong import duties or even quotas. As a result, we prefer to be short the London gasoil contract rather than the NY-based heating oil contract.

We are unabashedly bearish and thus project an initial downside target of $18-$22/barrel and a 1983 year-end price of $8-$10/ barrel.

The short side of the gasoil contract (and less so the heating oil variety) will present the most exciting money-making opportunity since the Mexican peso.



Source: Platt's Oilgram Price Report

First Boston Research

Chart 1

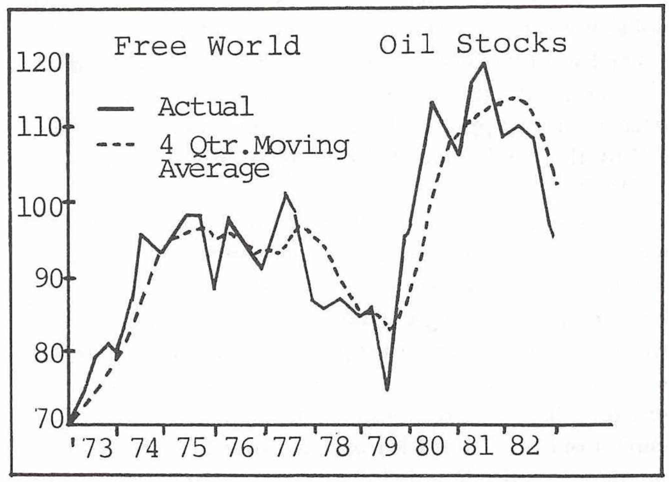


Chart 3

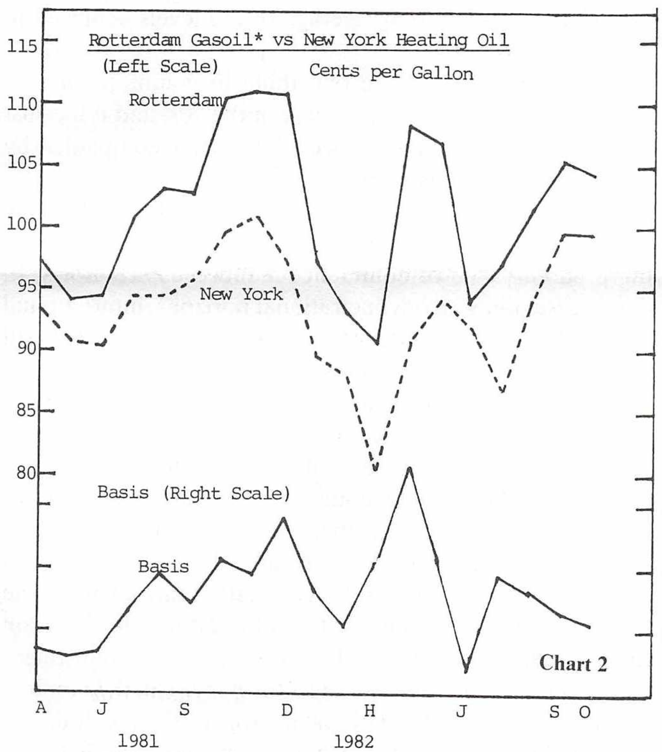
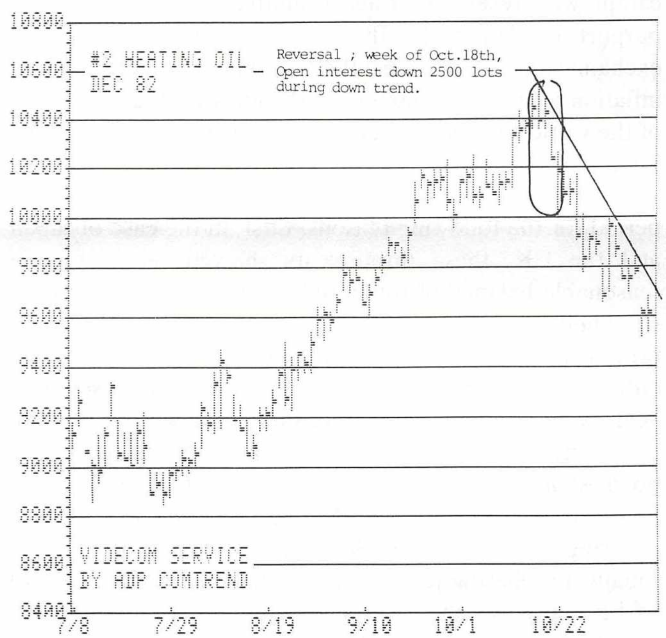


Chart 2

*London gasoil price converted from US$/tonne to US¢/gallon and adjusted by freights, insurance and financial costs.



Currency

Even while the US dollar was marching to record new highs, a great deal of reservation, nay, scepticism has been expressed about the fact that the US unit has become grossly overvalued.

It would be hard to fault those who only take a myopic view of history. After all, the trade-weighted dollar has advanced over 26 per cent since late 1980 and an even more dramatic 33 per cent against the Deutschemark and the Japanese yen.

We, for one, have ignored recent history and have been advancing a bullish view of the US dollar ever since. We argued that socially and economically Western Europe has entered a decadent phase ("Western Europe: The Declining Phase," May 31, 1981), that worldwide depression would call for reflationary policies and devaluation against the US dollar is a very convenient way to accomplish this objective ("The Eye of the Storm," June 20, 1982), and finally that the US was conducting a *tight and credible* monetary policy because it is supported by a *relatively small* fiscal deficit ("Why the US Dollar Still Reigns Supreme," September 12, 1982).

There are of course other, albeit less significant, reasons. Chief among them is disagreement over common defense and trade policies, which threatens to break up NATO. An increasingly plausible withdrawal of American troops from Western Europe, timed after a European rejection of the installation of Pershing missiles in its territory, has been responsible for an exodus of long-term capital out of Western Europe and into the US. A similar politically- and militarily-induced capital movement out of pre-World War II Europe had the effect of strongly pushing up the US dollar against Continental currencies and the British pound.

For those who still cannot be swayed to the bullish camp, we present a rather primitive set of charts that purport to depict the fluctuations of the real rate of exchange measured against the US dollar and the US rate of inflation of the three next-to-most widely traded currencies of the world: the Deutschemark, the British pound, and the Japanese yen.

In all cases, we chose the years 1956-1958 as our base period for the following reasons. First, in the case of Japan and the UK, these three years showed on average a reasonable balance of trade, indicating that the currencies were neither over- nor undervalued. West Germany, on the other hand, showed a chronic trade surplus throughout the entire post-war period, and we just felt that these three years were as good as any other three-year period. Second, the Western World was just beginning to come out of the dollar-shortage era. Two short years later, the price of gold broke away from its magic $35/oz. and touched $40/oz., ushering in a new era: dollar glut or dollar overvaluation. Finally, purchasing power parity measurements are known to be imprecise and only significant in the long run. A 23-year span should smooth out statistical imperfections in our data while giving us a better "feel" for levels of over- and undervaluation.

Starting with the Deutschemark, (Chart 4) one detects an extraordinary level of overvaluation in the 70s relative to the decade of the 60s, culminating in the fateful 1978-1979 period, years in which the expression "benign neglect of the dollar" was coined. Measuring the drop of the Deutschemark from such lofty levels can hardly be conclusive of a dollar overvaluation. If anything, the *nominal rate of exchange* of the Deutschemark could still drop another 8 to 10 per cent before it returns to the more "normal" level that prevailed in the 60s, or as much as 13 per cent before returning to our idealized 1956-1958 base year.

Turning our attention to the Japanese yen, (Chart 5) one notes again a remarkably steady real rate of exchange throughout the 1959-1971 period. Over the decade of the 70s, however, and culminating in 1978, the real rate of exchange soars by almost 50 per cent without any *strong fundamental reason*. By September of 1982, the yen's real rate of exchange had returned to 1972 levels but was still approximately 7 per cent higher than our "normal" base year.

Sterling (Chart 6) shows no less than six pronounced cycles: the difficult stop-go years leading to the 1967 devaluation; the Heath years of "growth at any cost," leading to the unsustainably high real rate of exchange reached in 1975; the Socialist disinflation (1976); and the North Sea explosion of the late 70s and early 80s.

Sterling's overvaluation, a theme we have often stressed and repeated, has led to the worst depression since the 30s, accompanied, of course, by a spectacular fall in inflation rates and long-term bond yields. By September of 1982, Sterling, in real terms, was still 30 per cent overvalued relative to our 1956-1958 base year and about 22 per cent overvalued relative to an average of the levels achieved in 1969 and 1976.

All these charts have one thing in common; the US dollar became *wildly undervalued* in the 70s, and it has just begun to return to more "normal" levels, accompanied by an *intangible economic factor called "confidence"*.

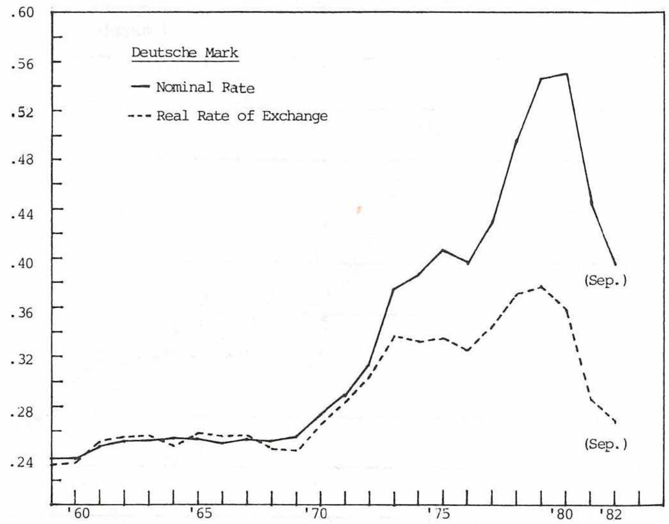
Those who point to a deterioration in the US balance of trade and/or the current account fail to take into account the predominance of confidence-induced capital flows. In due course, but well beyond rational horizons, international competitiveness will also become a factor; but first it will affect confidence — then capital flows.

There are two caveats against a simplistic interpretation of the above set of statistics. In the first place, just as the US dollar became undervalued, it could also become overvalued. This would imply a far greater upside move than implied by our September 1982 base year comparison. Second, real rates of exchange are affected by nominal exchange rates as well as relative inflation rates. Should the US rate of inflation accelerate and overtake the inflation rates in Germany, Japan and the UK, a faster readjustment will occur without necessitating a further rise in the nominal rate of exchange of the US dollar. Given the very dramatic drop in US wage rates (see Chart 7), this prospect is rather unlikely.

STRATEGY: *We continue to believe that the US dollar will strengthen in the period ahead.*

We advise switching Japanese yen short sales to Sterling, as the latter remains far more overvalued. Furthermore, weakness in oil prices should begin exercising a potent bearish influence.

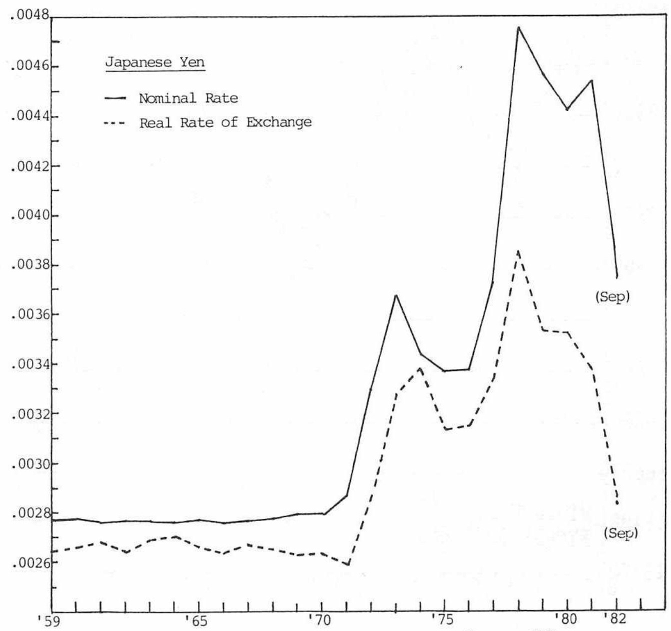
Retain short positions in the Deutschemark and the Swiss Franc. Interbank traders would be well advised to sell up to six month forward Italian lires, Norwegian kronor, Venezuelan bolivars, and Kuwaiti dinars.



Source: IFS

Nominal exchange rates adjusted by relative rates of inflation measured by wholesale prices.

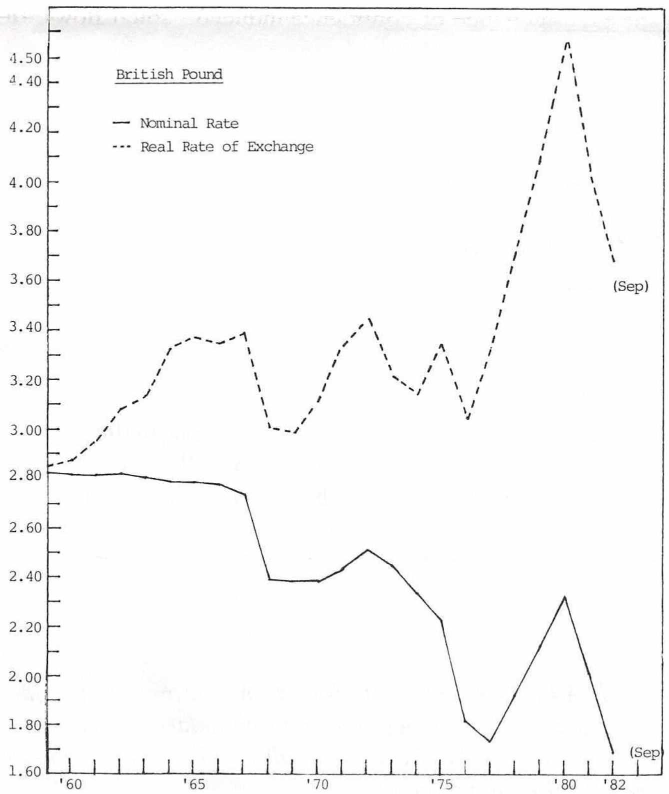
Chart 4



Source: IFS

Nominal exchange rates adjusted by relative rates of inflation measured by wholesale prices.

Chart 5



Source : IFS

Nominal exchange rates adjusted by relative rates of inflation measured by wholesale prices.

Chart 6

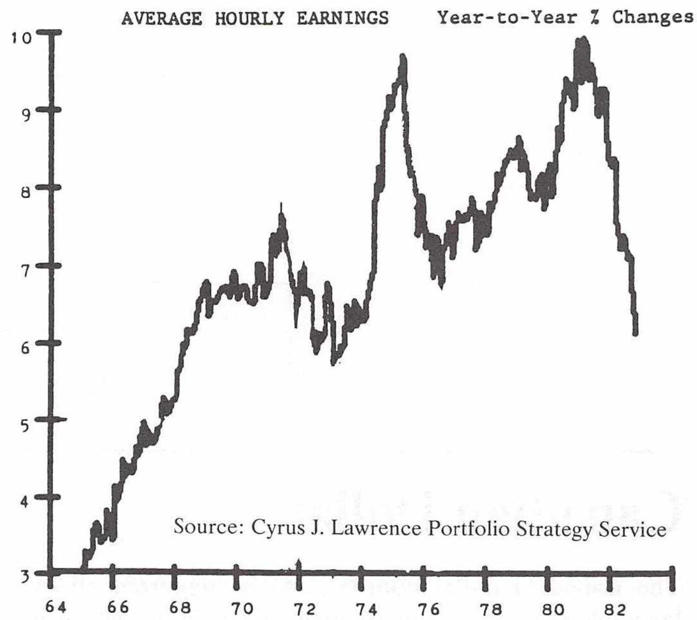
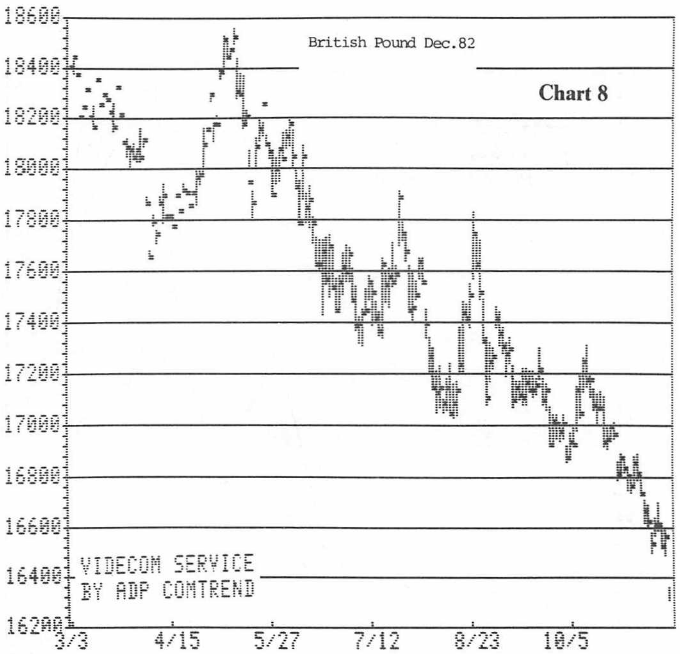
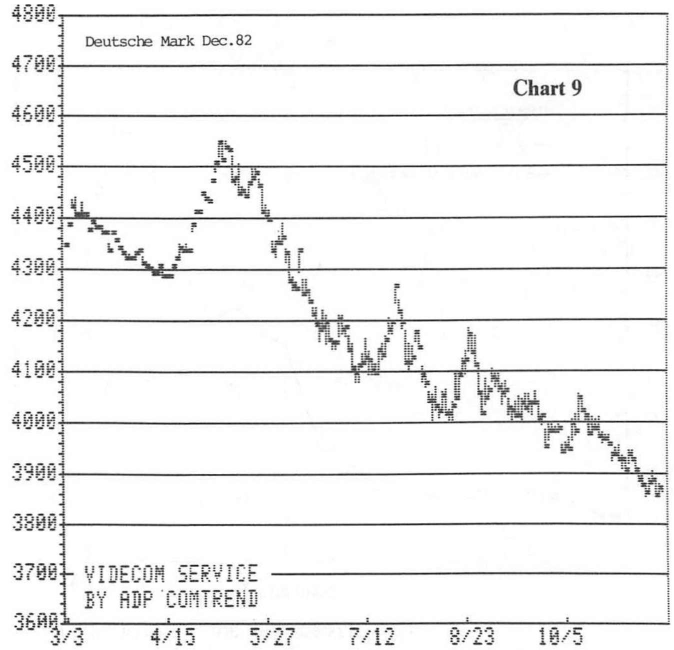
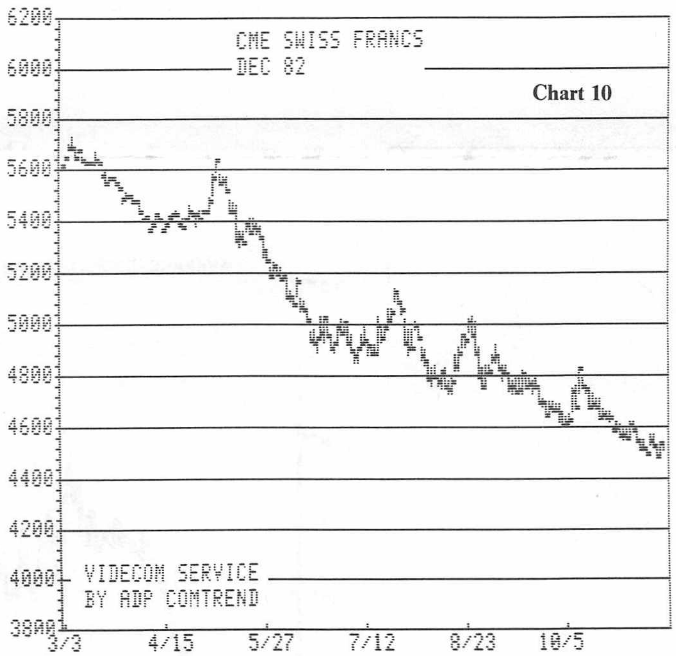


Chart 7







Canadian Dollar

The Canadian dollar continues to be underpinned by favorable interest rate differentials as well as a super-tight monetary policy (as evidenced by the zero growth rate of its adjusted monetary base throughout 1982).

Net international reserves continue to improve. As of the end of October, Canada had regained 60 per cent of the very steep $4.3 billion loss of reserves experienced in the first half of 1982.

STRATEGY: *The collision of an enormous fiscal deficit against a determined and tight monetary policy, promises to steady the Canadian dollar for yet a few more months. Remain sidelined.*

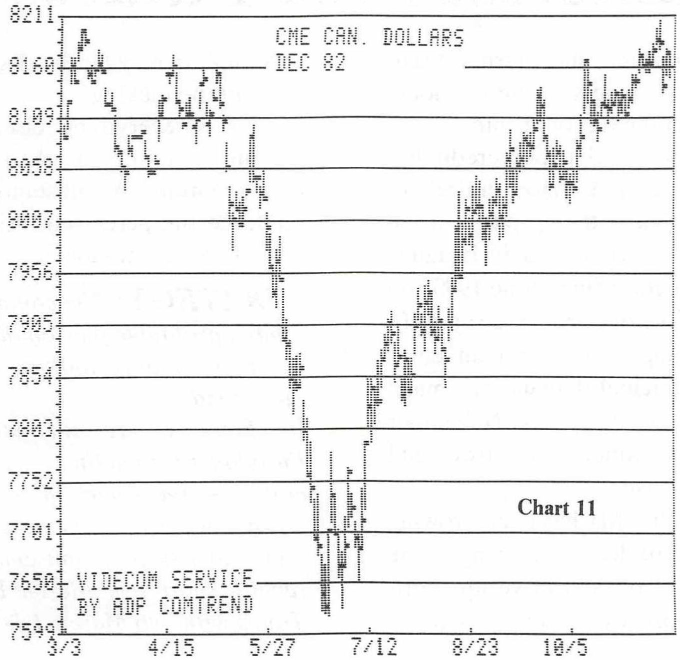


Chart 11

Precious Metals

The present climate of disinflation can hardly be called constructive to the precious metals complex. When the imminent decline in oil prices is factored in, a downright bearish view is inevitable — and sensible. Furthermore, gold continues to act out its function of (liquidating) asset of last resort: This past week, it was reported that the Brazilians shipped out to Zurich and sold over $100 million worth of bullion in a desperate attempt to raise much needed cash.

We are in the *initial* stages of a central bank gold liquidation/non-bank public gold accumulation cycle referred to in earlier issues ("Gold: The Long Cycle," February 8, 1981). This cycle has *long-term* bullish implications, as it demonstrates that gold is becoming "cheap," or undervalued, enough to be absorbed by the private sector.

Other price indicators continue to point to a yet-serious gold overvaluation, particularly the full convertibility parity (i.e., US net external liabilities divided by US gold holdings in ounces), which now stands at $265/oz.

Silver's relative strength is rather baffling, as we discussed last month, although in recent days it has begun to weaken somewhat (see Chart 12).

STRATEGY: *We are withdrawing last month's suggestion to buy gold at the $350-$375/oz. area, as we expect the decline to be severe. Moreover, we see no rush to move into gold despite any tendency for prices to become relatively more attractive.*

As for silver, an $8-$11.25/oz. range should prevail, as suggested last month.

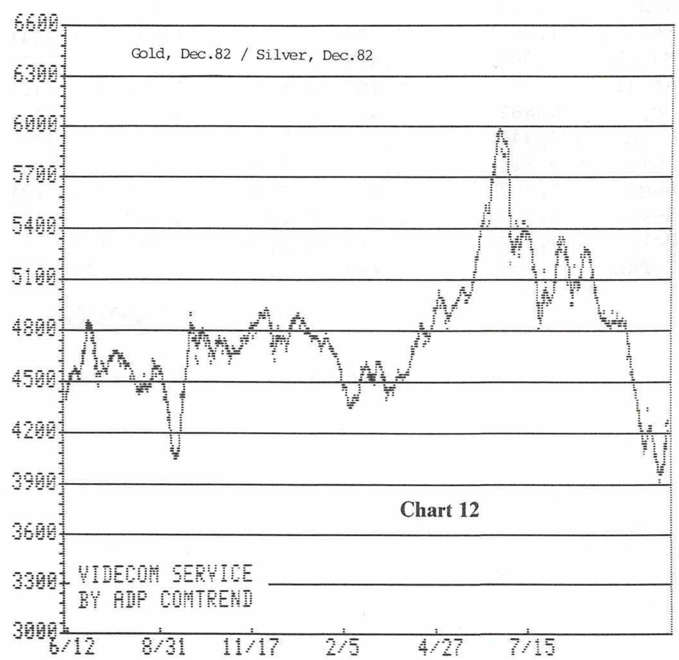


Chart 12

Interest Rate Futures

Of notable interest is the stubbornness of short-term rates to soften in the face of continued weakness in the economy and persistent talk of a new cut in the discount rate.

Demand for bank and commercial paper credit has flattened and even declined a bit, thanks almost entirely to the dramatic refunding process that is taking place in the bond market. As Chart 13 shows, corporate debt issuance for October, at 7.2 billion, is the highest since June 1980 and caps two relatively healthy months of corporate reliquification. Unfortunately, Treasury operations and an enormous pent up corporate and municipal demand has made the bond market vulnerable to a good setback. November figures for debt issuance will, consequently, be lower and short-term credit demands should rise.

When coupled with the fact that M1 has been growing exceedingly fast and well above its long-term range, one would expect the Fed to tighten a bit and drive up short-term interest rates. Friday's net borrowed reserves figure of $130 million may be the first indication that such a tightening is in the making.

As in everything else, our views on oil prices are tending to color every market, and interest rate futures are no exception. A substantial drop in oil prices should reinforce the perceived disinflationary trend, forcing long-term interest rates lower.

STRATEGY: *The combination of the above arguments spells a profitable play on the yield curve: long two T-bonds short five T-bills, looking for a substantial narrowing of the spread.*

Since we are still maintaining the long T-bill/short Eurodollar spread (in recent weeks, it has worsened considerably — see Chart 14 — as "nerves have been calmed down"), we suggest the possibility of a double play: towards a greater risk premium and a narrower yield curve; ergo, remain short five March Eurodollar and substitute long T-bills with two March T-bonds.

CORPORATE DEBT ISSUANCE
($ millions)

	1980	1981	1982
Jan.	3,711	2,442	992
Feb.	1,468	2,751	1,722 (1,394)
March	2,000	3,652	5,583 (3,667)
April	3,322	5,403 (4,603)	2,266 (1,642)
May	6,682	2,439 (2,223)	5,429 (3,892)
June	7,344	6,198 (5,300	1,932 (1,474)
July	5,214	3,239 (2,786)	3,937 (3,390)
Aug.	3,757	942 (829)	7,155 (6,212)
Sept.	2,559	2,575 (2,428)	5,597 (5,440)
Oct.	3,042	3,142 (3,142)	7,287 (7,222)
TOTAL	39,379	32,783(30,156)	41,950 (35,325)

Bondweek

Chart 13

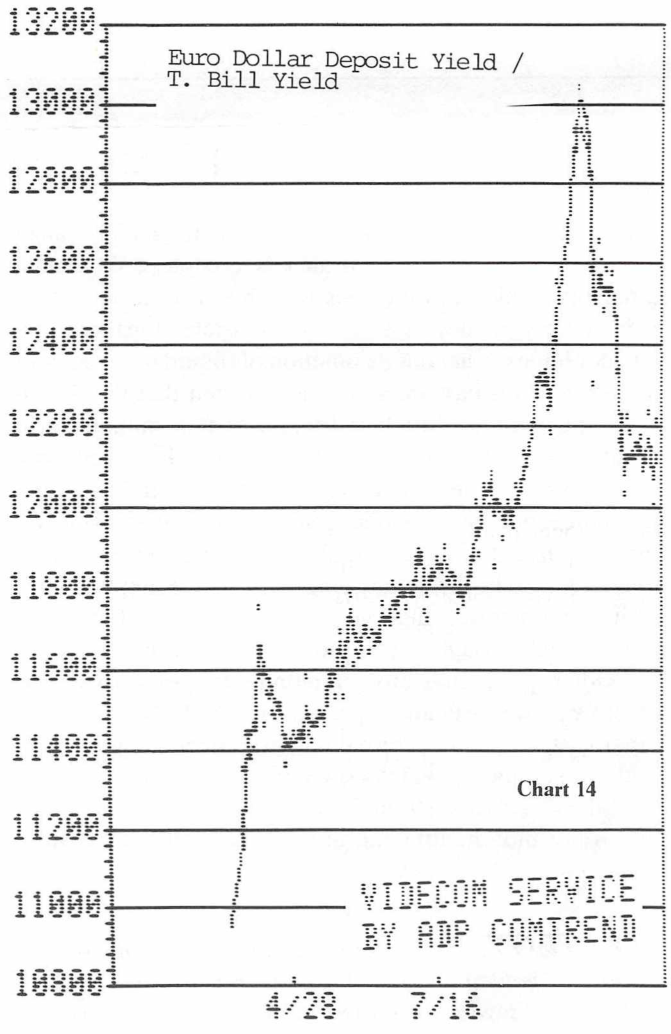


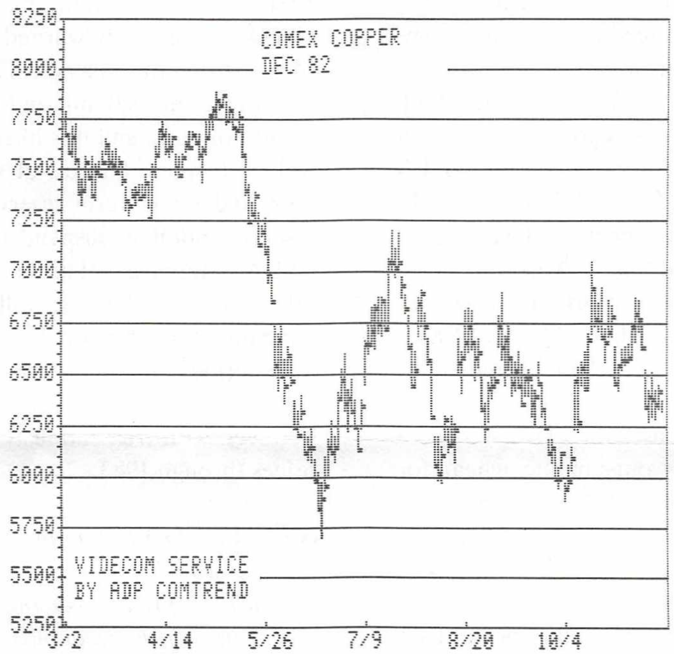
Chart 14

Copper

The metal has rarely appeared more base. At present still lacking demand, its price seems able to rise only through investment and speculative purchases; it then collapses again when anticipations of increased offtake go unrequited. One would have to conclude that the recent backwardation in London was nothing more than the result of producers' bidding up cash at a time when annual contracts are renegotiated. Combined LME and COMEX stocks, at 372,174 tonnes, are growing at better than 8 per cent on the basis of their 12-week moving average and are at their high points since 1976.

Still, the rally in the stock market does, at this point augur for an economic uptick in the near future — if only because it's estimated that households are between $200 and $400 wealthier as a result.

STRATEGY: *We remain of the opinion that new lows will not be seen and therefore advise modest, investment-type purchases, with stops at 59.00 basis cash.*



Grains

In retrospect it appears that our most important observation from last month was introduced in our finale: *"We believe Soviet wheat imports will be higher than now expected, and coarse grain imports lower, owing to respective 1982 Soviet crops, and the trends being seen in the livestock feeding industry in that nation."* On Friday, November 12, the USDA revised its estimate of the USSR's 1982-1983 July-June imports. Total imports are now forecast at 37 million metric tons (MMT), versus 40 estimated in October, 44 in September, and 1981-1982 total imports of 46 MMT. Wheat imports were revised upwards to 17 MMT (16 previously, in October, 18 in September and 19.5 in 1981-1982), while coarse grain imports, notably corn, were lowered to a forecast 19 MMT (23.0 previously, estimated in October, 25 in September, and 25.5 in 1981-1982). Soviet corn imports, at 19 MMT, would be 25 per cent below 1981-1982. These revisions followed the November 11 USDA data forecasting the 1982 USSR crop at 180 MMT, including 86 MMT of wheat, 85 MMT of corn, up from a total 170 MMT estimated last month, which included 79 MMT wheat and 82 MMT of corn. At the same time, the USDA reduced its estimate of 1981-1982 USSR grain production to 160 MMT from 175 MMT before.

The USDA notes in its November 12 report that "Soviet grain purchases from all origins for shipment in 1982-1983 presently total only 15 MMT, less than half the total at this time last year." The USSR appears to have bought about 9 MMT of wheat to date for 1982-1983, and only about 5 MMT of coarse grains.

Reasons for the lag in export sales to the USSR are numerous: Reports that the 1982 Soviet harvest was very wet, causing harvested crops to be high in moisture and thus low in storability, necessitating quick feeding of domestic crops, to be replenished later by imports; a very successful 1983 Soviet forage harvest; a much greater rise from 1981 to 1982 in Soviet coarse grain production compared with wheat production, which, because the US produces and holds more of world supplies of corn than it does of wheat, delays grain purchases from the US while the USSR scours foreign markets (much to the chagrin of US farmers); Soviet livestock feeding — while there are record numbers of poultry, hogs, and cattle, according to official Soviet statistics for state and collective farmers as of October 1, 1982, meat production is below levels of a year-ago owing to lower slaughter weights arising from lessened feeding intensity. There have also been some improvements in the efficiency of the Soviet livestock feeding and feed compounding industries in the past year or two.

To November 12, the USSR has purchased 2.45 MMT of US corn of which 0.85 MMT was reported initially on November 12. Meanwhile, they have purchased no US wheat, while they have contracted for 7.6 MMT of Canadian wheat, 1.45 MMT of French wheat, and significant amounts of Argentine wheat in addition to Argentine corn. Australia has virtually no exportable surplus for wheat sales not already contracted to India and China. Much of Canada's exportable surplus has been absorbed by long-term Chinese and Soviet (aforementioned sales of 7.6 MMT exceed minimum contracted purchases for 1982-1983 of 4.5 MMT) commitments, Argentina's outstanding wheat for export is depleted, and the USSR prefers hard wheat to the soft variety available from France's remaining allocation they hope to export to the Soviets (a total of 2.5 to 3 MMT, of which 1.45, we said, is already sold).

The recent depreciation in the Argentine peso raises the competitiveness of Argentine grain and world markets. Because Argentine exports much more corn than wheat, this harms future US corn sales more than it does future US wheat sales.

On October 21, the USDA estimated year-end 1981-1982 corn stocks at 2,365.9 million bushels, compared with their published expectations in supply and demand projections of 2,171 million. This was tremendously bearish for corn. At that time, ending stocks for 1982-1983 were raised to 3,332 million bushels. On November 12, ending stocks were forecast at 3,447 million bushels on September 30, 1983, owing to a drop in forecast exports, now at 2,150 compared with 2,250 before. The 1982 corn crop was estimated on November 10 at 8,329.8 million bushels, much as expected, and 15 million bushels higher than the October estimate. Ending stocks for wheat are now forecast at 1,461 million bushels on May 31, 1983, up 50 million from before, owing to a downward revision of forecast exports at 1,650 million bushels compared with 1,700 earlier. The Current Forecast for 1982-1983 ending stocks is 45.7 per cent higher for corn, and 25.7 per cent higher for wheat than the comparable 1981-1982 ending stocks.

The Soviet Union will have a team of experts studying US wheat beginning this week. The USDA has already indicated that there will be no problem for the Soviets with scaby wheat, which may have been a factor in delaying purchases of US wheat. We expect that following this team's analysis, there will be significant sales of US hard red winter wheat (HRW — basis Kansas City) to the USSR.

In 1983, farmers will not be able to enter wheat directly into the reserve, but must first take out a nine-month regular loan at $3.65 per bushel. Similar changes from the 1981 and 1982 programs are expected for corn. In fact, the USDA has officially warned that 1983 crop grain could be barred from the reserve. The farmer-owned reserve currently contains 920 million bushels of wheat and over 1,400 million of corn, and it is likely that by spring of 1983, there will be 1 billion bushels of wheat and 2 billion bushels of corn under long-term reserve loan programs. If the grain reserve option is suspended in 1983, compliance in the USDA's acreage set-aside program will be lower than otherwise, but plantings will be lower too, as farmers are guaranteed significantly less protection for prices over long time-periods than with the reserve option. The drop in plantings should be less than the drop in compliance, however, with tremendously bearish implications for grain prices through 1983.

STRATEGY: *Our spread recommended last month, to buy wheat/sell corn, has been successful in spite of the rise in corn prices over the past three weeks. We believe that corn chart breakouts following the lead of wheat (which, it happens, we recommended to buy at what became the bottom in wheat prices) were unjustifiable and that corn prices will fall* to or near new lows, *which are $2.14 basis December. The chart breakout ignored hugely bearish fundamentals.*

Wheat fundamentals are much more positive, however, and we believe that the lows in this market may have been seen. We now recommend outright positions of long Chicago wheat, basis March, with limit buy orders at $3.40 (we expect a correction) for half the position, and $3.30 (the correction will probably *be this big) for the other half; long Kansas City wheat, March contracts, at present levels, in expectation of Soviet purchases; short corn, March contracts, at present levels, with a target of old lows (initially). A superb way to take these positions in combination is to buy* one *Chicago wheat, buy* one *Kansas City wheat, sell* three *corn, all in the March contracts, with stops on* one-third *of the short corn positions only, at $2.60.*

Oct. 21 USDA grain stocks report/Nov. 12 USDA supply and demand projections - million bushels.

	Forecast ending stocks 1982/83	Oct.1/82	June 1/82	April 1/82	Oct.1/82	Ratio of ending stocks 82/83 / 81/82	81/82 / 80/81
Corn	3,447	2,366	5,075	5,075	1,034	1.46	2.29
All Wheat	1,461	3,010	1,163	1,557	2,734	1.26	1.18
	Sept. 1/82				Sept. 1/81		
Soybean	450	268	658	1,050	318	1.42	0.84

June - Sept. 82 usage based on these figures

	1982	1981	1982 / 1981
Corn	1,490	1,753	0.85
Wheat	963	1,050	0.92

Chart 16

Livestock

We were indeed correct in our assessment of the direction that hog prices would take in our October 17 *Comments*; however, they broke faster than expected — a possibility we mentioned. Subscribers would have been unable to sell April hogs between 54.5¢ and 56.5¢; you will, however, get your chance in the next four weeks, we believe. Seasonally, hog slaughter tapers off in the late November and December period. Based on farrowings in the second quarter of 1982, projections were for hog slaughter to be down as much as 20 per cent in the last quarter. To date, slaughter for the period has been only 10 to 14 per cent below last year. Slaughter rates are very likely to fall below the 300,000 per day mark on a regular basis towards the end of 1982, and this will lead to some price strength, particularly in the February hog contract. *But we do not expect new highs.*

The head-and-shoulders formation in hogs we pointed out last month has been completed. We believe the bull market has been broken and that hog producers must be reacting to the combination of very profitable hog prices and an excess supply of cheap corn. In fact, producers today can profitably hedge purchases of feed (corn as a proxy) and resulting sales of market-weight hogs for October 1983. We thus recommend scale-up sales of hog futures.

Our belief that cattle futures would trade in a range of 56¢ to 65¢ has proved correct. December futures sold off towards 58¢ before retracing to near 63¢ at present, while February fell as low as 57¢ and at present is near 61¢. Placements on feed for both the quarterly 13-state cattle and calves on feed report and the monthly seven-state report were heavier than expected, maintaining a result evident in many of the cattle reports in past months. The October 19 cattle reports are shown in Chart 17.

On Tuesday, November 16 the November seven-state cattle and calves on feed report will be released. We expect it will indicate continued heavy placements and will cause an immediate top in cattle futures between 61¢ and 62¢ in February through June contracts, and about 63¢ in December. Prices should bottom over the next several weeks within the trading range lows above 56¢. A seasonal rise in cattle marketings late in the fall, accompanying the first blast of cold winter air, will help to depress prices over the next few weeks. Late this winter, cattle charts will probably break out on the upside as feedlots and cattle producers feel the effects of cold winter weather.

STRATEGY: *Sell April hogs every half cent upwards from 54.5¢ to 56.5¢ for a base position of five lots. Use stops at 57.5¢ on a closing basis, which should not be executed unless the December hogs and pigs report to be released late in that month reflects a large amount of producer apathy to profitable prices. Also, sell October hogs at present levels around 47¢ with stops above 49¢. Liquidity in this month is still low.*

Sell April cattle following the November 16 report as long as any of December, February, April, or June cattle futures are not LIMIT UP *on Wednesday, November 17 or Thursday, November 18. Place stops at 62.5¢, close only, and look to take profits and to* go long *between 57¢ and 58¢, with stops on those long positions at 56.5¢, close only.*

QUARTERLY 13 -STATE AND MONTHLY 7-STATE CATTLE & CALVES ON FEED REPORT
USDA - Oct. 19/82

(Thousand Head) 13-States	1982	1981	1982/1981 %	expected
On Feed July 1	8,981	8,646	103.9	
Placements-July to Sept.	5,856	5,275	111.0	112.2
Marketings-July to Sept.	5,783	5,460	105.9	106.8
On Feed Oct. 1	8,800	8,210	107.2	107.3
7-States				
On Feed	6,817	6,289	108.4	
Placements-Sept.	2,004	1,839	109.0	107.4
Marketings-Sept.	1,585	1,454	109.0	108.4
On Feed Oct. 1	7,153	6,623	108.0	108.1

Chart 17

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