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COMMODITY & CURRENCY COMMENTS

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Seisachtheia (or Shaking Off the Burdens)

The wages of April 1983 can't be paid now but will be owed to you . . .
— *announcement sent to the workers of the city of Liége, Belgium*

The city's real problem is its accumulated debt . . . You don't get rid of that with austerity measures. To get rid of that debt, the entire city work force would have to work for free until the year 2050 . . .
— *a Liége, Belgium spokesman*

It happened before. Not just 50 years ago, but 2500 years ago, in Athens, Greece. Solon, known as one of the Seven Wise Men of Greece, was made a sole ruler with dictatorial powers to remedy the distress caused by high rates of interest and the introduction of coined money.

Solon's economic reforms, called *Seisachtheia* (shaking-off-of-the-burden), cancelled all debts on land, freed enslaved debtors, used state funds to redeem those enslaved debtors who had been sold abroad, and forbade borrowing on the security of a person.

According to E. Groseclose (*Money and Man*, 4th ed.), "The constitutionality of the Seisachtheia was widely questioned, but it was not challenged, and it solved overnight the problem of the poor debtors, the *thêtes*, tenants, and small proprietors. But of course it shattered the credit structure of Athenian economy. Deprived of the security behind their assets, and with obligations of their own to meet, the landlords and the money lenders were thrown into practical bankruptcy.

"In solution of this problem, the crumbling financial edifice, Solon provided a partial moratorium by means of a debasement of the currency to the extent of 27 per cent. . . . "

Although there is some doubt about the efficacy of Solon's measures, Groseclose concludes that "the permanence of the reforms, and the reviving prosperity of Athens, are evidence, however, substantiating Solon's report, and testifying to the general soundness of his program."

Two thousand five hundred years later we face a similar problem. The extraordinarily high level of indebtedness of less-developed nations makes it impossible for them to even service interest payments, let alone principal. They are being offered new loans to help repay interest with the result that the burden of the debt grows progressively larger. In similar situations, but for much smaller amounts, lenders (banks) have made a commercial decision to share the losses of their near-bankrupt clients. And so, loans to Chrysler, International Harvester, Massey-Ferguson, REITS, Telefunken, Carrian have been or are being converted into equity in the hope of salvaging a fraction of the original commitment.

No such creative thinking has taken place in the case of "sovereign loans" to LDCs. Either the mere thought of partial pardon (as opposed to the usurious rescheduling of debt) is too terrible to entertain or lenders have gone on a flight of fantasy from which, to put it mildly, they will inevitably be rudely awakened.

The resolution of this debt problem is the most central and pressing issue of the '80s. If not handled correctly, it will throw the Western economies into chaos. In some instances, governments will come to the rescue of their financial institutions, nationalizing the credit system; in others, tax-

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payers will be called upon to pay for the misuse of their deposits, through an increase in the already immense burden of taxation and/or through a destruction of the purchasing power of their funds and/or through the mere destruction of their deposits above insured levels.

In all cases, default will complicate even further the free flow of goods across borders as litigation, revanchism, and autarky affect debtor/creditor relations. Standards of living that already began to decline in the late '70s will continue to do so well into the new decade. Talk of economic recovery will fill the air every few months, but in retrospect, "recoveries" will be seen as mere bounces off a declining slope, stimulated by an occasional spurt of much-needed restocking.

It must not be this way. But it might take a Solon to show us the way.

Interest Rate Futures

Growth of Federal Reserve Credit has accelerated to a virtual explosion with the latest three-month annual rate of increase of 20 per cent per annum.

Clearly, targeting Fed Funds at 8½-9 per cent must result, as we explained last month, in accelerating money growth. Is it possible, as some wish to contend, that the demand for money is also growing exponentially and that therefore the pace of supply does not matter?

Let us examine the evidence. From the third quarter of 1982 to the present, M1 rose at a 15.4 per cent annual rate of growth, while the CRB futures index, a very sensitive inflation barometer, rose at an annual rate of 7.9 per cent. In effect, relative to this inflation barometer, the demand for money could be said to have increased at an annual rate of approximately 7½ per cent, thus offsetting to some extent the enormous increase in supply. Under similar recessionary conditions in 1975-76, money supply expanded at an annual rate of 13.2 per cent, while the CRB futures index reacted upwards by only 4½ per cent, effectively slowed down by an increase in the demand for money.

On the surface, thus far, one could argue that the Fed has not been quite as irresponsible as it appears. The problem is, however, that the market is not likely to accommodate the Fed's expectations of a two-year respite period, knowing well in advance that sizeable increases in the supply of money will *eventually* cause velocity to increase (as the public tries to get rid of expanding fiat money balances). In effect, the behavior of the demand for money *could become* perverse with the course of time: Decreasing money supply breeds decreasing velocity (IIQ 1980-IQ 1983), while increasing money supply *may* breed increasing velocity almost instantly.

Since the Fed has no way to judge a priori when the demand for money begins to decrease (or, in other words, when velocity is about to increase), it must begin to worry — if it hasn't already — about the implications of a 20 per cent annualized increase of its supply of credit. The minutes of the Federal Open Market Committee (FOMC), which cover the key FOMC meeting held on February 8 and 9 to set the 1983 monetary targets, reveal a deep split among the 12-member committee. From the four dissenting governors, two wanted more weight given to M1 — which they felt was already free of distortions — while two wanted narrower monetary targets.

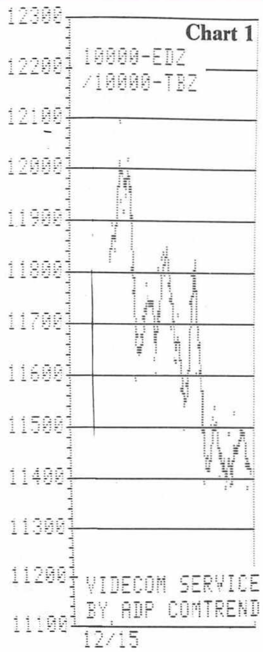
While the majority of governors may prevail for yet a few more months, it is clear that short-term money rates are unlikely to fall further. Long rates, on the other hand, may yet continue to fall as the investment community and the public are seduced by the artificial progress made against inflation. The resumption of double-digit inflation awaits a change in the demand for money (or a continuation of the present 20 per cent per annum growth in money supply) and it may be conditioned to change a great deal sooner than most conventional thinkers expect.

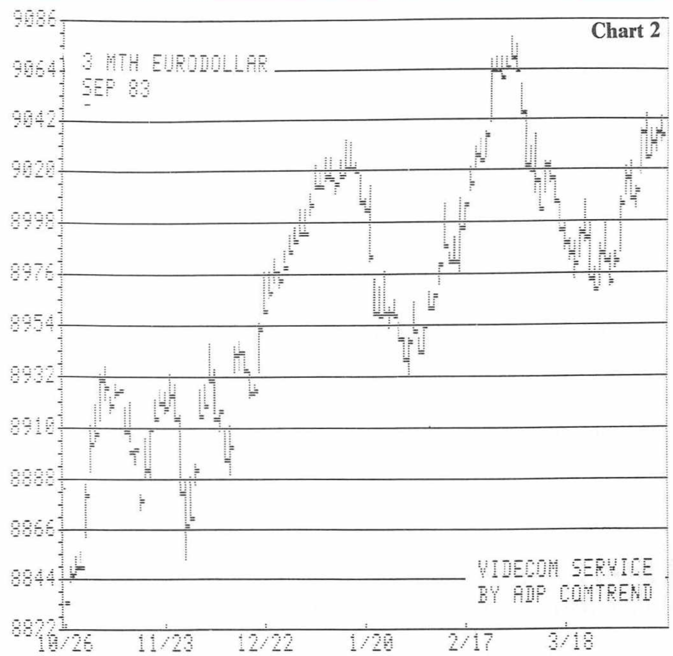
The untrammeled growth of unregulated banking, and the hard line taken by the FDIC and banking supervisors, almost guarantee that (a) banking failures will accelerate and that (b) only the under-$100,000 deposits will get protection. As large depositors begin to fold their mega deposits into insurable deposits and interbank flow of funds intensifies, bank deposits will begin to pay higher relative rates, thus widening our favorite Eurodollar/T-bill spread.

The first IMF bailout of the large money-center banks brought Euro-deposits down from 50 per cent (basis three-month cash) to the present ridiculously low 15 per cent premium over T-bill rates.

STRATEGY: *Once again, a spread of short 7 December Eurodollars/long 8 December T-bills is in order. It is a low-risk trade with a great deal of upside potential.*

Remain outright short September '83 Eurodollars with stops at 91.25. With some patience, the payoff could be huge.





Currencies

Sterling

Last month we moderated significantly our bearish position on Sterling. Citing an unusually constructive public sector borrowing requirement, the maintenance of some semblance of monetarism, and above all, an undiminished political will to "see it through," we reasoned that Sterling's only relative weakness was its association with oil.

As the allure of oil began to fade, bringing alongside the inevitable downward readjustment of its real rate of exchange, the Bank of England faced the choice of either reinforcing an already very severe domestic deflation or allowing Sterling to depreciate in the foreign-exchange market. Given the extraordinary downward rigidity of wages, the Bank was quite wise in choosing the latter course and, as a result, only entered the market sporadically merely to smooth out daily fluctuations.

Paradoxically, the lack of systematic support removes the atmosphere of crisis, even as Sterling moved to new all-time lows. Furthermore, as international reserves are not being frivolously wasted in the pursuit of maintaining a higher-than-needed real rate of exchange, the Bank of England *reserves the option of stepping in with considerable resources at any point it chooses*, thus keeping the bears from becoming too aggressive.

Renewed weakness in oil (see "Energy Futures") could derail Sterling's recent recovery. But as long as domestic credit expansion remains moderate, the prospect for much lower levels is not in the cards. In other words, Sterling in real terms may be approaching the lower end of its dollar parity. As soon as the market deflates Sterling from whatever glamour it imputed to it by virtue of oil in the 1978-81 period, it will represent a good buy. Where that level may be is too soon to tell.

STRATEGY: *Last month we advised covering half of all short positions (then at 149.00 and later as low as 144.80, basis June), placing stops at 1.56, basis spot, for the balance. Chart 4 indicates that the breakout of a long-term downtrend beginning in late 1981 stands at 1.61. Accordingly, cover all positions should the market move above 1.6100, basis June '83.*

DM, SF, Japanese Yen, French Franc

While the US dollar has remained relatively unaffected, some significant crosscurrents are taking place inside (and just outside) the EMS.

For starters, the French franc remains at the top of its intervention level vis à vis the Deutschemark, no doubt buoyed by some lingering shortcovering and hopes that the new austerity plan will do the trick of turning the yawning current account. We doubt the Socialists can turn the tide and expect the franc to leave the European Monetary System in the very near future. Forward discounts are extremely reasonable at this time.

In the second place, the Swiss franc has managed to recover somewhat vis à vis the DM and now stands at 83.50 SF per DM (see Chart 5). We continue to favor the Swissie.

As a final point of interest, we note that the US dollar has not lost any ground in the past few weeks despite the Fed's very aggressive easy-money policy — an indication, perhaps, that there exists a well synchronized, *worldwide* move to reflation. Even more importantly, as discussed in previous issues, in times of uncertainty the worldwide demand for US dollars — whether for transaction, precautionary, or safety purposes — soars. The US printing presses may be merely satisfying the "money" needs of wealthy Latin Americans, Southeast Asians or even East-Europeans.

STRATEGY: *Remain short the French franc, placing stops at 14.20, basis June '83. Maintain long SF/short DM spread.*

Avoid outright positions in either the DM or the yen until an upside breakout occurs, i.e., 43.00, basis June '83 yen and 43.60, basis June '83 DM.

Canadian Dollar

A surprising nonmonetary selloff of the Canadian dollar late in March caused the Monetary Authorities to lose US$108 million in reserves.

Monetary policy continues extremely tight as the adjusted monetary base hovers around $16.3 billion, practically unchanged since mid-1981. Business loan demand also remains extremely subdued with negative monthly rates since the beginning of 1983 — an indication of the extreme low level of economic activity and the high degree of caution exercised by the lenders.

The nonmonetary origin of the drop in the Canadian dollar can be explained by the announcement of a new federal budget set for April 19. Suggestions that the government was prepared to see a substantially lower dollar as a complement to a very activist fiscal policy were being heard frequently — especially before each weekend for the past four weeks. We doubt the Bank of Canada is willing to trade its successful stabilization efforts for a cheap and temporary shot at reviving the economy.

STRATEGY: *We were stopped out at 81.25 as per last month's suggestion. Reenter on the long side, placing stops at 80.35, basis June, close only.*

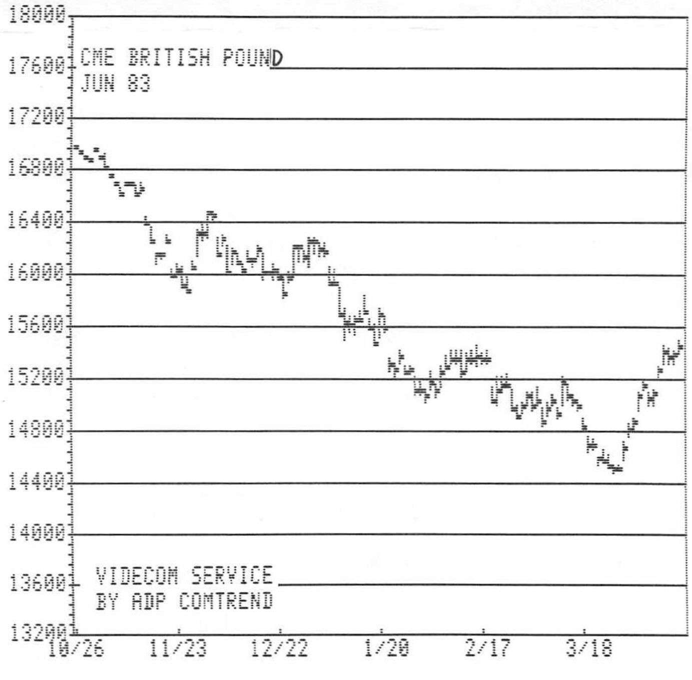


Chart 3

Reprinted from Commodity Chart Service, Commodity Research Bureau

Chart 4

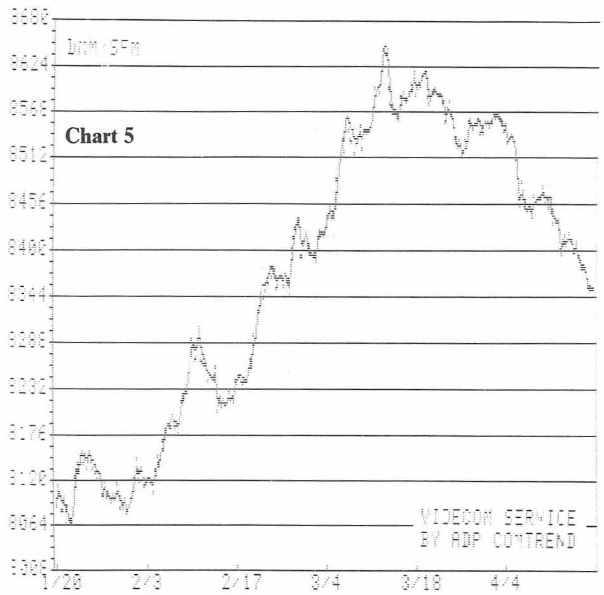
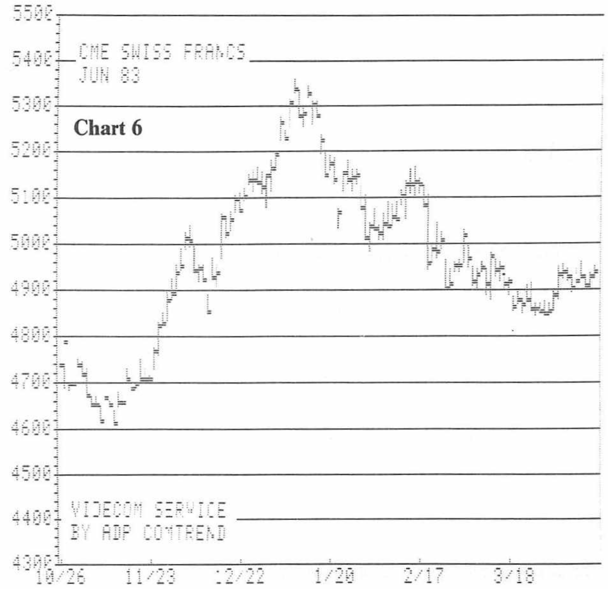


Chart 5



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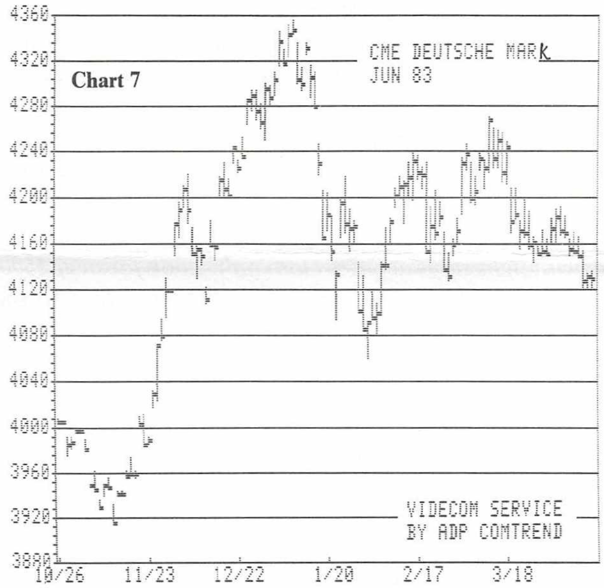
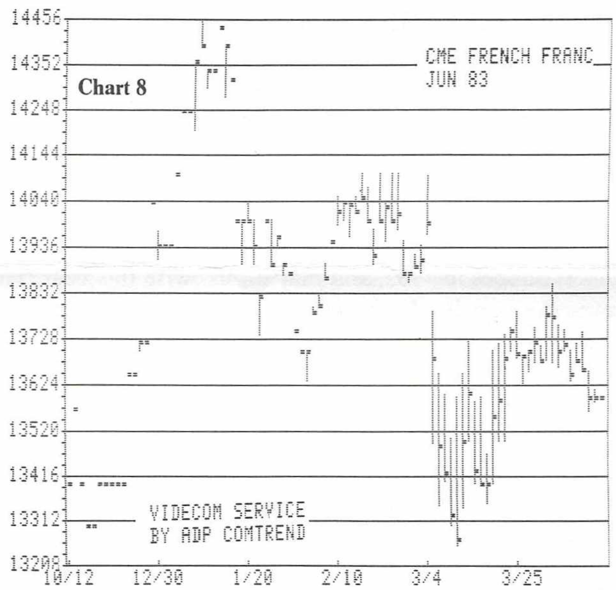


Chart 7



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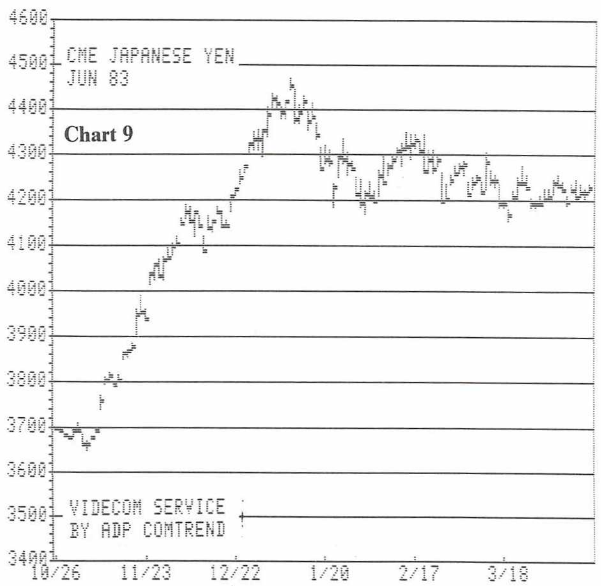


Chart 9

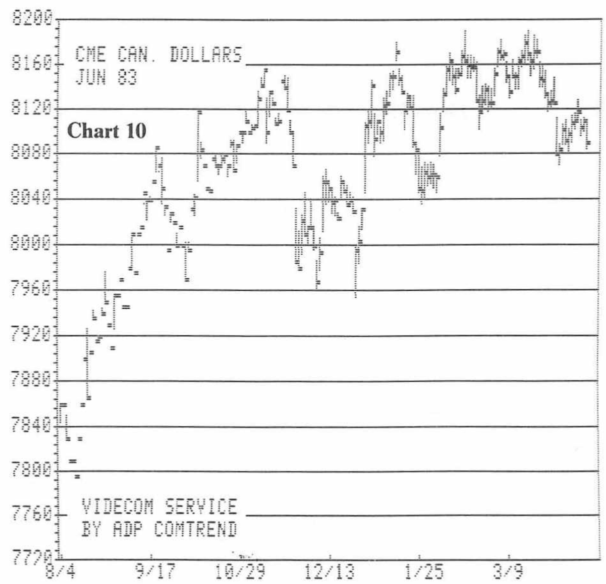


Chart 10

Gold

In the last month the Comex gold open interest dropped a further 21,893 contracts, to 93,001 as of April 14. This is the lowest in several years. *Nobody is left in this market.*

The longs who were not forced out of the late February collapse have become discouraged by the subsequent whipsaws as well as the gradual erosion and testing of the lows that occurred in the last half of March. Meanwhile, the traders who have made money in the gold market in 1983 have in the aggregate been the short sellers, so we should try to consider the action from their viewpoint.

Many of the shorts were probably hedging inventories for future mine production. They have been covering, leaving themselves unprotected against further declines while also preventing the market from going to new lows.

Additional evidence that gold is not likely to fall below $400 is furnished by March Krugerrand sales, which rose by 135 per cent over February.

In a March report, bullion dealer I. Aron & Co. expects a tight supply situation in 1983. They estimate the supply from mines and exports from centrally-planned economies will be 40.7 million ounces, up almost 3 per cent. Industrial and jewelry demand is expected to be up 12 per cent at 31.3 million ounces. Central banks were net purchasers of one million ounces in 1982, and may do likewise this year. This leaves the supply of new gold available to investors at 8.4 million ounces. Comparable figures during the last bull market: 16.1 million oz. in 1978; 22.3 million in 1979; and 16.5 million in 1980.

Speculators will again be drawn into the gold market. The need for inflation hedges is obvious. The Fed's reflation continues, and faster price increases in 1984 are now already inevitable. (Anyone who is short gold or long bonds in the belief that falling oil prices will prevent future inflation will in due course receive a lesson in economics.)

Federal Reserve Board Chairman Paul Volcker's recent testimony before Congress suggests he will continue to reflate until the US economy has entered a strong recovery. Germany and other countries are also reflating — witness the strength in the dollar despite accelerating money growth.

Because of rising protectionism and the disastrous misallocation of capital represented by huge government deficits and Third World bailout loans, the world economy doesn't function as well as it should. The launching of a recovery this time around will require an especially high degree of monetary stimulation. And this will lead to record levels of inflation.

Investors also look to gold for safety. As we discussed last month, gold is the only form of money that is not someone else's debt, so it is obvious that the debt will not be paid back. The current efforts by banking regulators to require much greater disclosure of problem loans by banks, and to introduce an element of risk to large depositors, can only be bullish for gold.

The risk factors: As always, rising interest rates or falling oil prices. (No one ever said commodities trading was easy.)

STRATEGY: *Buy June gold at below $445, on dips if possible, with tight stops at $420, close only. Look for over $500, but be prepared to sell sooner or raise stops close to the market if the open interest rises to a more normal 115,000 contracts. With the current low levels of open interest, the risk of another wave of liquidation is relatively low.*

As shown by the chart of the gold/silver ratio, silver has dramatically outperformed gold. We have a long-standing preference for gold, but one cannot ignore a trend. Unfortunately, risking silver's recent lows now costs $12,000 a contract. Look to buy July silver only on a pullback to the $11.50 level, risking $10.

Chart 11

Chart 12

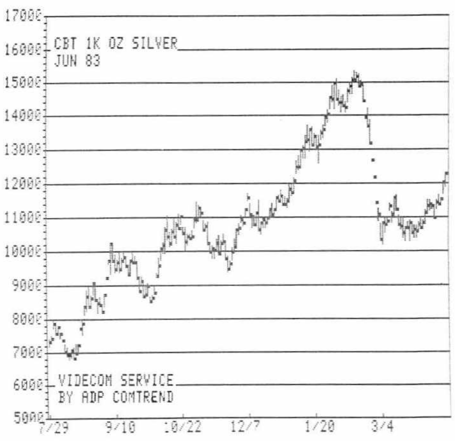
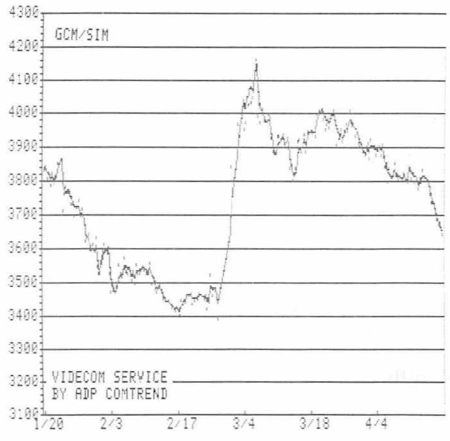


Chart 13



Copper

Since last writing, copper prices have demonstrated a persistent stubbornness, refusing either to advance or decline from the current trading range of 72-76, basis May. From a technical point of view, that the market rebounded smartly from a single close below the 72.00 level — a close that invited strong suggestion of yet another leg down — is nutritious fodder for the bulls.

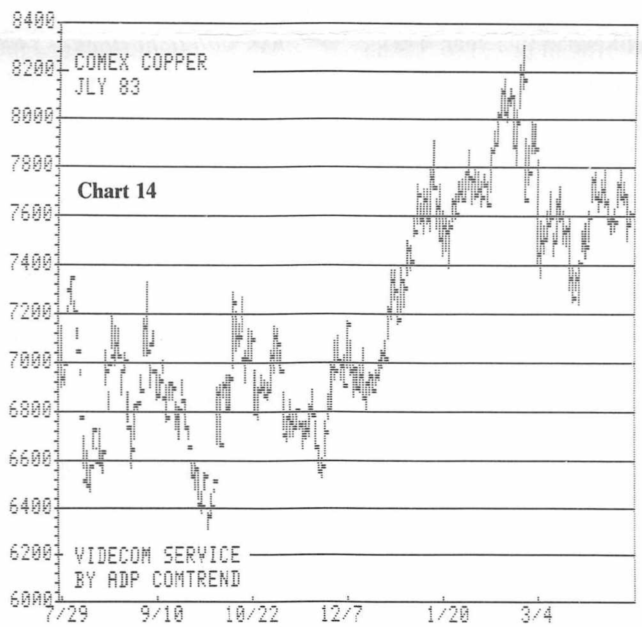
There is a strong skeleton buttressing the copper market. This is becoming ever more evident as the price holds in the face of generally bearish news. The day before yesterday Kenecott, in somewhat of a surprise move, reached agreement with the United Mine workers, thus obviating speculation of a nationwide strike when contracts expire June 30. Today — Friday, April 15 — the market has rebounded towards Wednesday levels. Combined Comex and LME stocks continue to increase — now for 28 consecutive weeks — and currently stand at 591,769 tonnes versus 576,469 tonnes as of last writing, and 310,045 tonnes at this time last year.

It is noteworthy that the 12-week moving average of stock increases has been consistently decelerating since the beginning of January, when it peaked at +52.4 per cent. By February, stocks were increasing over a 12-week period at 32.52 per cent, by March at +23.4 per cent, and by April at +15.03 per cent.

Open interest, while holding at around 116,000 lots since last writing, remains huge. We remain of the opinion that the large open interest indicates that selling pressure coming from dealers hedging warehoused stocks is being readily absorbed by investors. Comex stocks expressed in terms of open interest stand at 21.3 per cent compared with 20.7 per cent last month, 19.8 per cent the beginning of this year, 24 per cent at this time last year, and a recent all-time high of 44.4 per cent recorded in mid-1977.

A low ratio indicates that should longs demand delivery, prices would have to rise to induce more available stocks, while a high ratio suggests the converse. The present, relatively low ratio confirms that warehouse stocks, though apparently burdensome, are for the time being at least, well held.

STRATEGY: *We would remain long, rolling May into July with stops at 71.50 on close. The market is likely to find the 85¢ area by summer's end.*



Energy Futures

The last four weeks reminded bears that even the most obvious bear market gets punctured, from time to time, by rallies.

Those counter-trend reactions were fuelled primarily by the short covering of weak sellers impressed by tough speeches and the formidable front of agreement and mutual cooperation displayed by OPEC, Mexico, and the UK.

Telltale signs of the rout experienced by the nervous bears can be found in the open interest figures. In the US heating oil contract open interest built up rather dramatically in the period from February 4 through February 23, a period encompassing first OPEC's disarray and then its \$29/barrel agreement. Amidst a growing chorus of expert opinion that the agreement would fall apart as soon as the ink had dried, (unsophisticated) latecomer bears increased their short position by 5000 contracts, recording an approximate 25 per cent (!) increase on existing positions. In the UK gasoil contract, a very similar occurrence was taking place: Open interest was increasing 1500 contracts, representing a similar percentage increment.

Prices bottomed February 22 and began a laborious uptrend, which culminated on March 24 with the market bettering, for the first time, the high point of the "bear trap" (see Chart 15). By then, the shorts had been savagely slaughtered and their positions cut back nearly 4000 contracts in New York (80 per cent of the original total) and 2500 contracts in London (more than the original total, implying a reduction in the short position of even the most stalwart bears). By early April, the rout had been complete: Open interest in New York had declined to just below the opening level of the "bear trap" period.

The week ending April 15 marked the top of the post-agreement rally. In classical technical fashion, prices had retraced to the broken support levels of late 1982 and early 1983 before plunging back rather quickly and, in the process, forming solid weekly downside reversals. Reflecting similar conditions, the Spot Bonny Light went from a \$30.10/barrel offer (*above* Nigeria's official price) to \$29.85 traded and \$29.70 bid. The weak and unsophisticated shorts had been badly mauled; the inevitable forces of supply and demand were about to reassert themselves.

In the fundamental background, one should take note of the rapidly deteriorating state of Saudi finances. Revenues for the year just ended were anticipated to total \$90.8 billion. Instead, a dramatic fall in oil exports, from 9.1 million barrels per day to 5.6 mbd, cut revenues to \$70.6 billion, forcing an equally dramatic drop in spending, to \$70.4 billion from an original budget of \$90.7 billion. Significantly, the Saudis are rather confident that the oil market has been stabilized and are projecting revenues of \$65.2 billion for 1983-84, which assumes exports of 6.1 mbd at \$29/barrel. Consequently, they have approved a spending budget of \$75.4 billion and expect a \$10.2 billion deficit that can handily be covered out of investment income generated from reserves estimated to total \$140 billion.

The above figures provide the bears with an enormous amount of ammunition. Consider: The Saudis are currently producing at a rate somewhere between 2-3 mbd in an effort to stabilize the market. This low level of production is *in spite* of some good short covering by operators, a disciplined team effort on the part of the other OPEC members, and the tail-end of a stronger seasonal need.

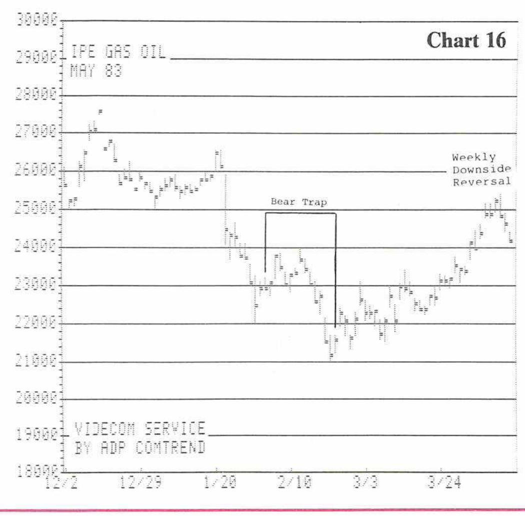
The Saudis will have to reduce their exports to less than 2 mbd and perhaps to zero. This will be the result over the next few months as seasonal needs are reduced and cracks begin to appear in the cash-starved front made up by the likes of Nigeria (reserves equal to one month of imports), Indonesia (which just resorted to a whopping 27 per cent rupiah devaluation), Venezuela (unable to stop massive capital outflows even with a three-tier foreign exchange market), and Mexico (right now and until ? in complete submission to its creditors who require cash flow).

But, will they countenance to run down their reserves by \$50 billion in one single year in the same national sense to which we Westerners are accustomed when it is clear that these moneys do not belong to the nation, but rather to a wealthy group of princes? The answer is surely, no. It would be better to produce 10-12 mbd (full capacity) at a mere \$15/barrel and balance the budget. And regain lost markets. And regain price/volume leadership. And bankrupt Iran. And hope that price elasticity will revive flagging world demand.

The Saudis have no alternative. They are now disappearing as a factor, let alone a major factor, in the oil market equation. They are about to lose 40 per cent of their apparent reserves in one year. Finally, they are losing the war against the enthusiastic and ideologically committed Iranians.

They will raise output and lower prices very soon.

STRATEGY: *Add to currently established short positions. This is the most logical bear market in history. We are still targeting \$8-\$10/barrel by year end.*



Cocoa

Since last writing, the market has been subject to a fairly consistent barrage of apparently bearish news. First, on the supply side, Gill & Duffus, the noted industry statisticians, announced in their second estimate of the current 1982-83 crop year, that the production deficit, which they had put at 78,000 tonnes in their first estimate at the end of December, would be lowered to 54,000 tonnes. This came as a surprise to the market, since during the first quarter, cocoa headlines were dominated for the most part with news of crop problems arising out of the Harmattan wind that caused brush fires and — one would have thought — substantially greater damage to West African crop than would have been allowed for in Gill & Duffus' first estimate.

(After Gill & Duffus made public its second forecast, Ivory Coast, the world's largest cocoa producer disputed the firm's calculation of its crop, saying that in fact crop damage had been considerably more extensive than projected. Ivory Coast however declined to specify the amount by which Gill & Duffus actually overestimated its crop.)

Further bearish news emerged from Brazil where crop damage earlier this year from drought was clearly overestimated. Origin selling from Brazil has consistently weighted on values during the past months. Consumption data were, as generally anticipated, less than encouraging. Data, which were published by chocolate manufacturers, covering first-quarter usage in the major consumption nations (during the past week), showed the West German grind up 1.2 per cent, UK grindings down 21.75 per cent, and US grindings down 3.9 per cent. Total usage in the US when taking into account melted chocolate and melted liquor, was up 3.5 per cent against expectations of an increase of 5 per cent.

A tape-reader's observation of the market's response to the news summarized above leaves us feeling confident of our bullish bias. As expectations of the Gill & Duffus estimate emerged, the market softened but could not, despite help from the aforementioned origin-selling from Brazil, violate the critical 1670 support level, basis July. And after the grindings figures for the UK and the US were announced today — April 15 — which were both beneath expectations, albeit only modestly, the market started its single largest one-day advance since early February. It broke above the 1780 resistance level, basis July, and through the downtrend line that had encouraged a majority of analysts to define this as a bear market.

Technically then, cocoa is in fine shape. With this spate of bearish fundamental news behind, the market will now have to wait for more careful scrutiny of the current deficit and, more importantly, for prospects for next year's crop, which begins at the end of September.

As we stated in our *Comments* of mid-February, we are of the opinion that cocoa is in the earliest stage of a major cyclical turn. The five-year bear market that ended in November of last year has affected elasticity such that production will not recover but, more likely, will decline in coming seasons as consumption increases. Thinking of the market in these extremely long-range terms leaves us ascribing little importance to the minor fluctuations of usage reported by chocolate manufacturers last week. That consumption, on balance, is up over last year is in keeping with our scenario and is the only significant fact.

STRATEGY: *Having such a long range view of the market leaves us in a difficult position as traders. Shall we advise readers and customers to hold long positions through the next five-year cycle, liquidating only the rollover into deferred delivery months — a ludicrous posture for commodity traders? No. But the possibility, even the likelihood, exists that we are now in the incohate state of a major bull market and the speculator should bear this in mind.*

During the last cocoa cycle, prices rose by 12 times. At this point prudence restrains us to maintain an initial target of 2050, basis July, with stops at 1670 on close only.

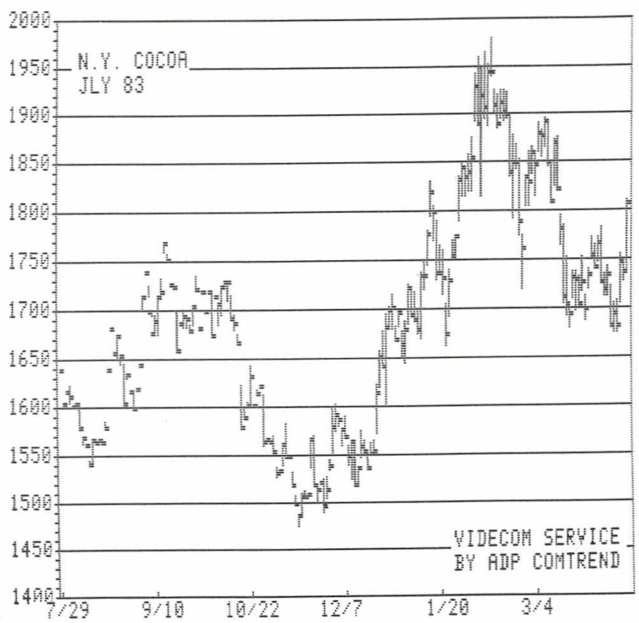


Chart 17

Grains

Prophetically, as we wrote in our last *Comments*, the markets for wheat, corn, and soybeans were subjected to abrupt shifts in prices in the shadow of the March 22 report on participation in the various USDA acreage reduction programs. The results of that report are indicated in Chart 18. On March 23, wheat prices advanced by 12¢, corn by 8¢, and soybeans by 25¢. From March 22 to the highs encountered to this date, Chicago wheat and corn both rose by 16¢, while soybeans rocketed up 47¢ in the July futures.

Since then, however, wheat prices have fallen to below the March 22 level, corn prices are only 6¢ above those on that date, and soybeans, strongest of the three, are still up 13¢ from March 22. In the intervening period, we have had a very large distribution, from which prices have retreated at the lack of sufficient additional bullish news.

From Chart 18 we can see that the USDA estimated in its March 22 report that there would be a 37 per cent reduction in planted corn acreage, and a 33 per cent drop in planted wheat acreage. The survey mentioned in last month's *Comments* by the Federal Intermediate Credit Bank of Omaha was extremely close to the mark, estimating 38 per cent and 30 per cent, respectively, for the drop in 1983 planted acreage for corn and wheat.

A Dekalb report released March 16 estimated a reduction in corn planted acreage of 28 per cent (versus 15 per cent in the USDA's February 1 planting intentions) and a drop of 8 per cent in planted acreage of soybean (versus 5 per cent in the February 1 USDA report). The Dekalb estimate of corn plantings seemed hard to believe at the time, but in light of the March 22 USDA report, it was a large overestimate.

Of prime concern at this time is what crop will be planted on those acres not enrolled in any USDA programs: 19.6 million acres of unenrolled corn base acreage, 12.5 million of unenrolled wheat base acreage, and about 6 million acres of soybeans planted in 1982 which apparently won't be planted in 1983 (some of which cannot be planted to any crop as it is on land that has traditionally been double-cropped with wheat in Southeastern US states; that land now being taken out of production by USDA programs which necessitated conservation tillage, i.e., no harvested crop).

In some areas, alternatives are possible: corn vs. soybeans in the Midwest; soybeans vs. wheat in the Southeast; soybeans vs. cotton in the South; wheat vs. corn in many areas. Changes in planting intentions since February will result in significant shifts from one crop to another in some areas. For example, because corn acreage will be reduced so much in 1983, many farmers may plant corn on unenrolled acreage to benefit from rising prices; secondly, the soybean-corn price ratio still favors planting of corn (soybeans: corn<2.3:1).

In addition those participating in the regular 20 per cent (10 per cent paid; 10 per cent required) acreage set-aside programs for wheat and corn suffer no penalty for changing their minds (3.3 million acres corn acreage, 6.3 million acres of wheat acreage), and conceivably could plant now. Similarly, the cotton-soybean price ratio currently makes cotton look potentially more profitable. May 10 is the first actual USDA sampling of planted acreage being commenced.

The USDA has been calculating the amount of grain needed for payment-in-kind purposes. Our humble analysis would indicate that approximately 2,300 million bushels corn and 690 million bushels of wheat will be required from all sources for PIK entitlement (if shown otherwise, we would stand corrected). The USDA's means to obtain PIK entitlement grain, in order of preference include the following: current and future 1983 CCC-owned stocks; farmer-owned reserve (FOR) loan and regular loan grain of the respective participating farmer; grain grown by the respective participating farmer in 1983 and eligible for USDA loan; other farmers' 1983 crop grain eligible for USDA loan; open-market purchases. US Agriculture Secretary John Block has made assurances that there will be adequate stocks of CCC-owned and FOR grain to meet PIK requirements.

It has been of interest to us for several weeks that a problem would develop if the following situation were to occur: Farmer A, who previously has not participated in USDA programs and therefore has no grain under loan, *does participate* in the 1983 PIK program and is entitled to grain from the USDA; farmer B, who previously participated in USDA programs and therefore has grain under loan, *does not participate* in 1983 loan programs but wishes to retrieve his previous year's reserve loan grain from the program when (hypothetically) the "trigger-release" price of $3.15 (in the case of 1981 reserve) is reached, and to sell it at market prices some time in the future, repaying the loan plus any accrued interest. Who, if a shortfall occurs in supplies, gets this grain? Incidentally, we only perceive this to be a problem if *cash* corn prices suddenly rise above $3.50 per bushel.

In an apparent attempt to avoid such problems, the USDA offered two alternatives to farmers with grain under loan in the period April 4-15:

(1) Farmers with grain under regular or reserve loan may liquidate these loans (principal plus accrued interest) and turn title for the grain over to the CCC. In this case, farmers do not receive any more than the original loan rate in effect, with no return for inflation or unsubsidized storage. All such offers will be accepted by the USDA.

(2) Farmers submit bids indicating how many bushels of non-PIK grain they would require from the CCC to induce them to relinquish title to their grain under regular or reserve loan, as in case (1).

If reserve loan grain is turned over to the CCC, incentive payment grain from the bid system becomes immediately available to the farmer and thus increases free stocks in the 1982-83 season ending September 30. If regular nine-month corn grain is turned over to the CCC, it would not become available as bid-system PIK grain until the new crop year, thus not increasing free stocks.

As more and more alternatives are made available to farmers, the complication breeds, and the possibilities become endless.

In summary, we present Chart 19, which shows the most recent USDA supply and demand projections for 1982-83 and 1983-84.

Note: All estimates with regard to corn acreage and PIK assume participation in the program in the same proportion as base acreage for corn (84 per cent) and sorghum (16 per cent) out of combined corn/sorghum figures from the USDA report.

STRATEGY: *Liquidate long positions in March '84 corn at 3.13* or *3.02 stop. Liquidate long positions in September CBT wheat at 3.80 or 3.62 stop. For the long 1 KC wheat, long 1 CBT wheat/short 2 CBT corn, liquidate all but the long 1 Kansas City wheat position. Forward sales of soft red winter (basis Chicago) wheat are a horrendous 60 per cent below a year ago, owing to embargoed Chinese purchases and strong EEC competition, while sales of hard red winter wheat are progressing well, with greater PIK participation rates for the latter. Raise stops on long positions in KC wheat to 3.80, basis September.*

Liquidate long position in July soybean meal at 193 or 183 stop. Liquidate long 1 July soy meal/short 1 July soy oil spread; competition from the expected 14.9 million metric ton Brazilian crop is expected to reduce the profitability of long positions in the meal section of the complex.

Look to replace long positions in September wheat at 3.58 with stops at 3.48. Buy July corn on dips to 3.06 and again at 3.00 with sell stops at 2.92, close only. *Buy July soybeans on dips to 6.35 and again at 6.20 with sell stops at 6.05,* close only.

Chart 18 USDA ACREAGE REDUCTION PROGRAM PARTICIPATION (million acres)

	Corn	% of base	Wheat	% of base
acreage base	84.5	100.0	98.0	100.0
enrolled acreage	65.9	78.0	78.3	86.2
unenrolled acreage	19.6	22.0	12.5	13.8
set - aside acreage	32.9	38.9	32.0	35.2
planted acreage	51.6	61.1	58.8	64.8
10% required/10% paid acreage set-aside program				
enrolled acreage	16.5		31.7	
set-aside acreage (20% of enrollment)	3.3	3.9	6.3	6.9
10-30% additional acreage set aside option (PIK)				
enrolled acreage	37.9		38.9	
set-aside acreage	18.2*	21.5	18.0**	19.8
Whole-base acreage set-aside (PIK)				
enrolled acreage	11.5		7.7	
set-aside acreage (100%)	11.5	13.6	7.7	8.5

	CORN	WHEAT	SOYBEANS
1983 estimated planted acreage	51.6	58.8	66.0
1982 planted acreage	81.9	87.3	72.2***
1983/1982 (%)	63.0%	67.4%	91.5%
1983 estimated harvest acreage (non USDA) (after "slippage")	50-51.5	58	64.5

* acreage 14.4%rate of participation $\frac{(18.2}{(37.9}$ x full 30 percent rate)

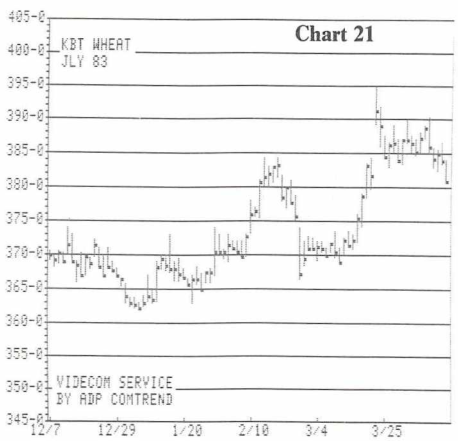
** acreage 13.9%rate of participation $\frac{(18.0}{(38.9}$ x full 30 percent rate)

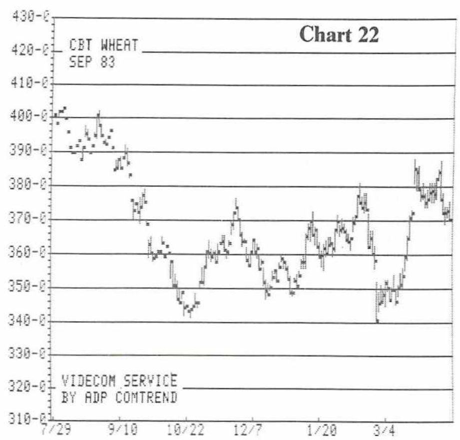
***non USDA estimate

USDA SUPPLY AND DEMAND PROJECTIONS -- April 12

	Wheat 1983/84	Wheat 1982/83	Corn 1983/84	Corn 1982/83	Soybeans 1983/84	Soybeans 1982/83
Supply						
starting stocks	1,582	1,164	3,484	2,286	375	266
production	2,265	2,809	5,640	8,397	2,100	2,277
total supply	3,850	3,977	9,125	10,684	2,475	2,543
Disappearance						
domestic - feed	200	165	4,150	4,300	1,135	1,130-crushings
- other	710	705	950	900	90	88-other
exports	1,500	1,525	2,100	2,000	970	950-exports
total disappearance	2,410	2,395	7,200	7,200	2,195	2,168
ending stocks	1,140	1,582	1,925	3,484	280	375

Chart 19





Livestock

As we expected, but by a much greater degree, hog producers have entered a strong expansionary phase, sending hog prices into a major downtrend. All facets of the report, indicated in Chart 23, were at or above the range of expectations. The pig crop, at 10 per cent above year-ago levels, was probably most surprising and most damaging to summer and fall hog prices. This report was one of the few spring reports to show an increase in hog numbers over December levels of the previous year. As a result, some of the traditional summer strength may be eroded, but we would advise being wary of a rally.

We recommended last month to buy July pork bellies using stops at 76¢. In despair, we saw these levels triggered in a rally the day of the report. The subsequent crash in prices generated by the bearish pig crop report, even though the belly storage report was interpreted as neutral with March 1 stocks of 33.6 million pounds, stopped us out below 72¢, most likely near 71¢.

The temporary levelling in the uptrend in cattle futures at the time of last month's writing, in combination with open interest figures, encouraged us to jump the gun on selling June cattle around 66.5¢. The extenuating circumstance of muddy feedlots in the Western US, causing death losses and reduced weight grains, has prolonged the reduction in daily slaughter numbers and total weekly beef production.

We were stopped out at 68¢. However, in the most recent week, beef production surpassed year-ago levels by 7 per cent, likely indicating a return to more normal production levels. At present, a renewed weakening in the uptrend, combined with bearish open interest, would lead us to again expect a drop in live cattle futures some time in the near future.

STRATEGY: *Lower stops on short positions in December hogs (all positions now rolled into December) to 46¢ from 48.5¢. Resell at 47¢ and again at 48¢.*

In an attempt to avoid selling an uptrend before it has definitively broken, we would sell June cattle using stops at 68.80, placing buy stops at 71.20, stop close only.

Chart 23 USDA QUARTERLY HOGS & PIGS REPORT -- March 21 - March 1 data

Source U.S.D.A.	1983	1982	1983/1982 %	Expected
all hogs and pigs on farms	41,640	40,610	102.5	97.0(94-100)
kept for breeding	5,913	5,578	106.0	101.0(97-104)
kept for market	35,727	35,032	102.0	96.6(93-101)
under 60 lb.	13,598	12,755	106.6	101.4(100-104)
60 - 119 lb.	8,909	8,764	101.7	94.1(90- 98)
120 - 179 lb.	7,677	7,815	98.2	93.8(91- 97)
over 180 lb.	5,543	5,698	97.3	92.2(89- 97)
farrowing intentions - Mar - May	2,582	2,391	108.0	101.7(97-105)
Jun - Aug	2,348	2,199	106.8	104.1(101-107)
pig crop - Dec - Feb.	15,468	14,059	110.0	101.3(97-104)

Chart 24 USDA CATTLE & CALVES FEED REPORT

	1983	1982	1983/1982 %	Expected
March 14 monthly report-on feed - Feb 1	8,052	7,055	114.1	
placements - Feb	1,179	1,320	89.3	96.5
marketings - Feb	1,506	1,413	106.6	107.1
on feed - Mar 1	7,604	6,869	110.7	112.0

April 18 quarterly report expectations		Expected
	- 13 state	
placements - Jan - Mar		91.1 (87-94)
marketings - Jan - Mar		106.4 (104-109)
on feed - Apr 1		103.9 (100-109)
	- 7 state	
placements - Mar		83.6 (75-90)
marketings - Mar		105.3 (102-108)
on feed - Apr 1		104.3 (97-108)

Source U.S.D.A.

Chart 25

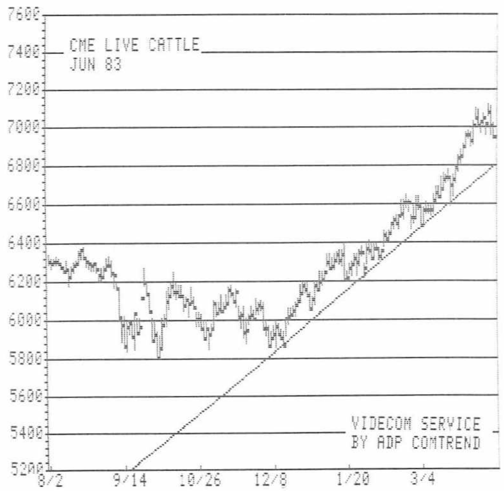
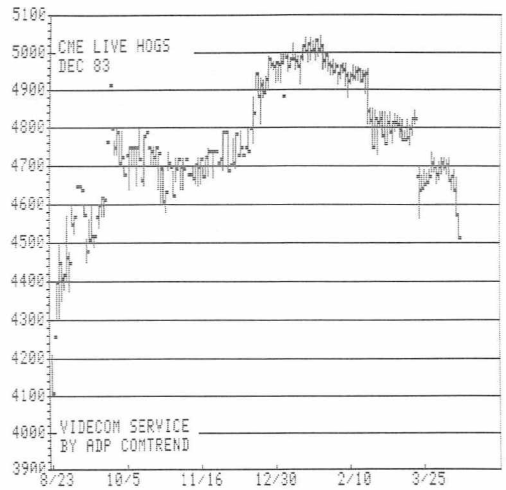


Chart 26



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