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The Maelstrom

In recent months, the US press has climbed on the bandwagon of those who clamor for a lower dollar. Cloaked in a protectionist vestment, many financial journalists have overstepped the bounds of "Eco I" as they display an utter lack of common sense.

Quite typical is the June 3 *New York Times*' editorial, entitled "Dollar and Deficit: Both Too Strong." It begins with an impassioned plea, calculated to evoke a strong sense of sympathy for everyone but us. Just listen: "Now it's not just the French (if it were, who would care? — ed. note) who are hollering about the dollar being too strong. The West Germans (Ah! Now we should stand up and listen. — ed note) are hollering. The desperately poor third-world countries (sob, sob . . .) are hollering. So are businessmen (which ones?), politicians (are *they* people?), economists (good!) here and worldwide (did the *Times* commission a Gallup poll?) — and all for good reason (we would hope). The strong dollar hurts everywhere, and Washington doesn't seem to care."

To cram a full course of international economics into one paragraph, *The Times* goes on to explain that "the dollar is 'strong' because foreigners with money are rushing to invest it in this country. They do so mainly because interest rates here continue to be very high — and that's when the gaping Reagan deficits come into play. Big deficits create frightening expectations of renewed inflation. Without strong action against the deficits, interest rates will stay up." Maybe. The dollar is also strong because investment opportunities in the US are better than in most places, because the political climate in the US is stable, because *militarily* the US is a far safer place to live in than Western

Europe, because the US dollar was vastly oversold in the '70s, etc.

But we will accept that the large and persistent budget deficits create a liquid and marketable supply of evidences of indebtedness that are as attractive to the rest of the world as Toyotas, Betamaxes, microchips, and cobalt are to us. And we will also admit that *private* evidences of indebtedness expressed in US dollars carry substantial real rates of return to nontaxable foreign residents.

But *The Times* isn't done yet: "The resulting strength of the dollar" continues the editorial, "creates its own problems. It *drains funds from other countries* (emphasis ours) and stunts their growth potential. It adds to unemployment in the country in two ways. High dollar prices on exports hurt expanding industries. Meanwhile, lower prices for imports mean less work in domestic industries that are trying to compete at home. All this adds to pressure for protectionism *everywhere* (emphasis ours), and that would stunt growth everywhere." This paragraph is an outstanding example of popular misconception.

Begin with the phrase, "It drains funds from other countries." Under floating rates — the fairest description of the morass that's called "the international monetary system" — *funds are not drained from one country to another*: They simply change ownership. If a Japanese resident wants to purchase US dollars to take advantage of the high interest-rates prevailing in the US, he offers Japanese yen to another trader in exchange for US dollars. If the first trader is more anxious, *ex ante*, to part with his yen than the second one is to acquire them, then the Japanese yen is transacted on a downtick vis à vis the US dollar, which is another way of

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Contributors

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saying that the US dollar has risen. Since neither the US nor the Japanese authorities have intervened, it is obvious that Japan has not lost any funds to the US.

Since some of the largest trading nations of the world, including the EEC, Canada, and Japan have not shown any alarming fluctuations in their international reserves, it is clear that funds have not been drained. On the other hand, countries that maintained fixed (or semi-fixed) rates of exchange vis à vis the US dollar have experienced important outflows of currency. Here, we might name Mexico, Venezuela, Argentina, Chile, and Uruguay. We might note, however, that the outflow of currency was *totally unrelated to the level of US interest rates* (as the *Times*' editor posits), for even if the latter had been zero, these countries would have experienced severe losses of international reserves.

To support this argument, we need only look at the exorbitant real rate of interest that prevailed in these countries (with the exception of Mexico) to understand that interest-rate differentials were of no consequence. Finally, each one of these Latin American countries has either gone the entire route to floating rates or at least has introduced a "financial" exchange-rate that bears the brunt of the capital flows and eliminates the potential drain on reserves.

We might excuse *The Times* editor for being too simplistic, if not altogether misleading, were it not for his failure to point out that a strong dollar benefits other exporting nations, including France, Germany, and Third World countries. Why should they *holler*? How can a strong US dollar add to protectionist presence *everywhere* or hurt *everywhere* when in fact it makes US competitors extremely competitive? We can only conclude that the *Times*' editor uses the word "everywhere" too loosely: He means everywhere in the US. Surely, he must be aware that it is the US — not Japan — who would like to see a weaker dollar.

The honest truth is that the US dollar is *still not strong* enough. In the November '82 issue of *Commodity & Currency Comments*, we presented a set of charts that adjusted the nominal rate of exchange of the Deutschmark, Japanese yen, and British pound by their inflation differential vis à vis the US dollar. We concluded that the US dollar, in real terms, was not overvalued. In fact, it may have still been slightly *undervalued* at the time.

Subsequent events confirm our thesis (see Charts 1-5); although the nominal dollar has remained relatively firm in the past six to eight months, it has dropped slightly in real terms, particularly against the Deutschmark, the Swiss franc, and the Japanese yen. With the continuous improvement in the US rate of inflation, we would have to expect a

substantial nominal rise of the US dollar in coming months for the US dollar to regain its long-term purchasing power parity (PPP).

In fact, the bandwagon effect will probably cause the US dollar to become severely overvalued before the "top" is seen. In this connection, it is worthwhile noting that by late 1978, the US dollar had become undervalued by as much as 72 per cent from its long-run exchange/inflation equilibrium, culminating a six-year-long period of currency debauchment. The market can be expected to exaggerate the upward momentum as much as it tends to exaggerate the downward one.

Doubters of the validity of PPP adduce proof that the US dollar is already showing signs of being overvalued because its *current account* has reversed from a \$4.5 billion surplus in 1981 to an \$8.1 billion deficit in 1982. At the same time, the *trade deficit* has widened from \$27.5 billion in 1982 to \$36.3 billion in 1982. There is, however, a far simpler explanation for this apparent deterioration in the trade account: A little more than 50 per cent of the drop in US exports between 1981 and 1982 is *equally* accounted for by two countries — Canada and Mexico.

Curiously, the US dollar did not appreciate against the Canadian dollar during 1982. What did happen, however, was that the Canadian economy fell precipitously during 1982, with its real GNP down almost 5 per cent versus a US GNP fall of 1.7 per cent. As the Canadian economy contracted, its imports from the US fell 15 per cent, thus accounting for a deterioration of the US external position of approximately \$6 billion. Much the same can be said about Mexico, where a financial crisis forced an almost complete shutdown of imports. In the case of Mexico, there was no question of an overvalued US dollar: There was a plain *lack of foreign exchange*.

We are not interested in explaining away the widening US trade deficit, which in turn led to a reversal of the current account. We are merely demonstrating that there may be some more significant reasons than merely a "strong" or "high" US dollar for this deterioration.

In fact, we continue to believe, as we have for the better part of the last four-and-a-half years that the US dollar is neither too high nor too strong.

STRATEGY: *Add to existing short positions in French francs; initiate short position in September '83 yen, September '83 Deutschmark, and September '83 Swiss franc at market. Remain neutral on Sterling. Long Canadian dollar positions should be stopped at 80.50, basis spot.*

Chart 1

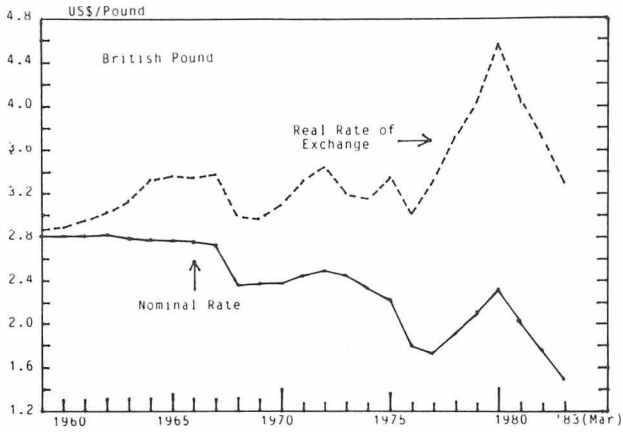


Chart 2

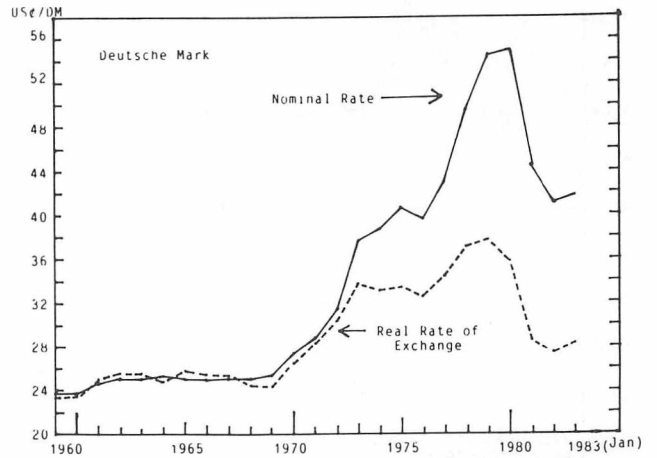


Chart 3

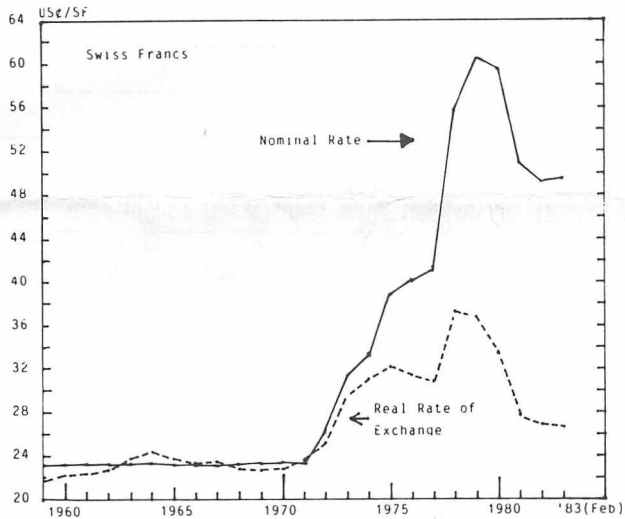


Chart 4

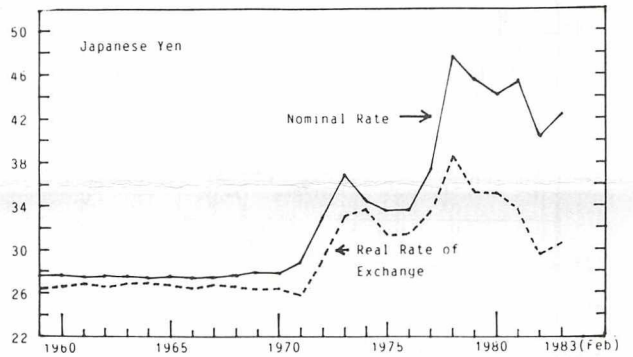


Chart 5

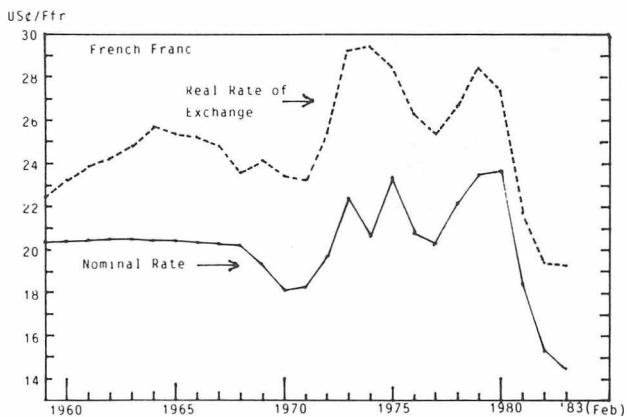
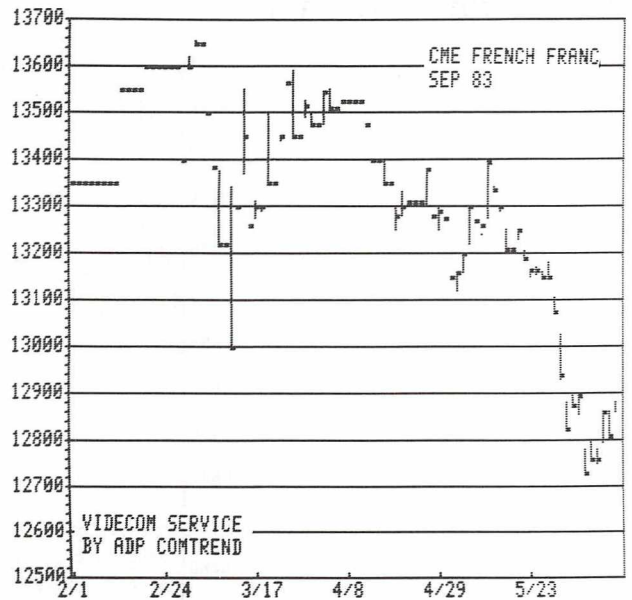
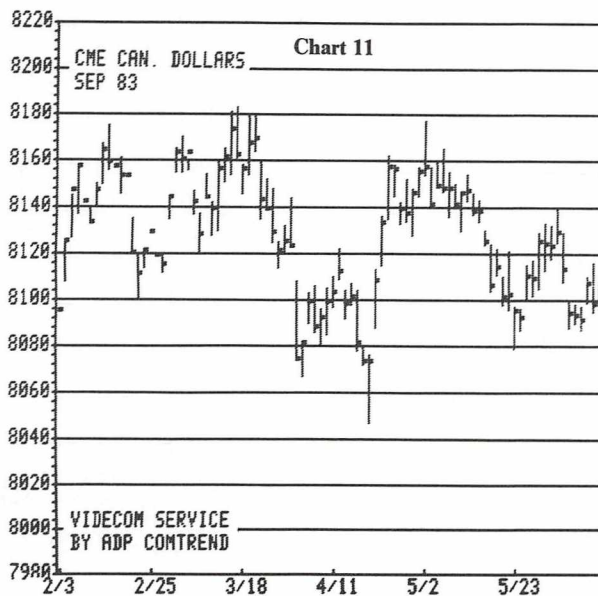
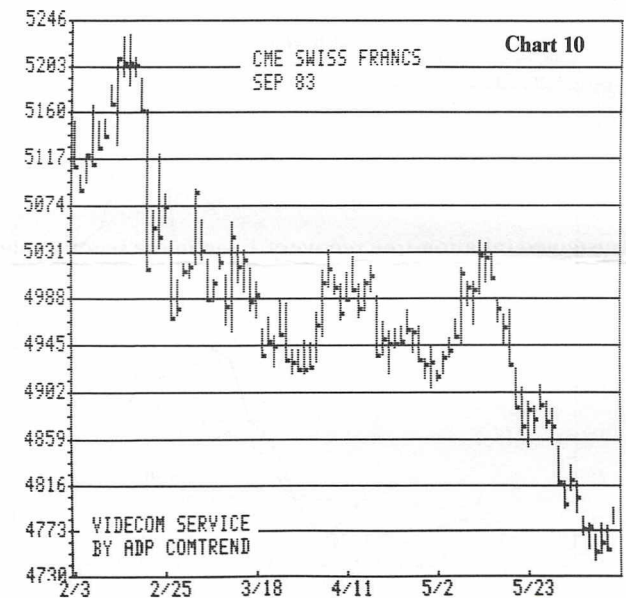
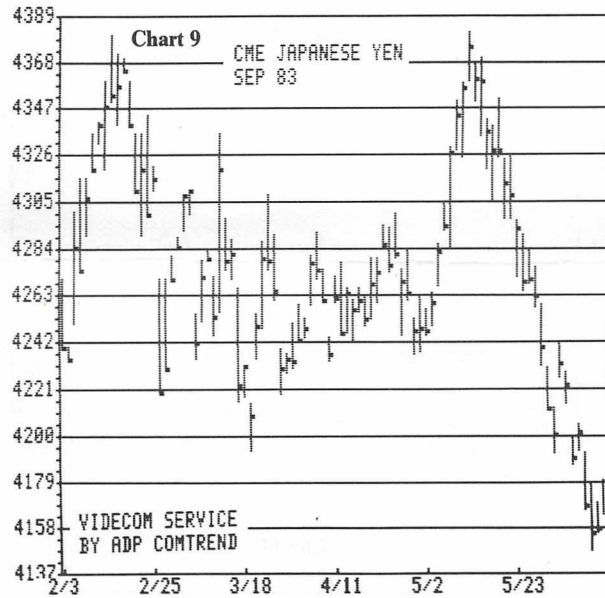
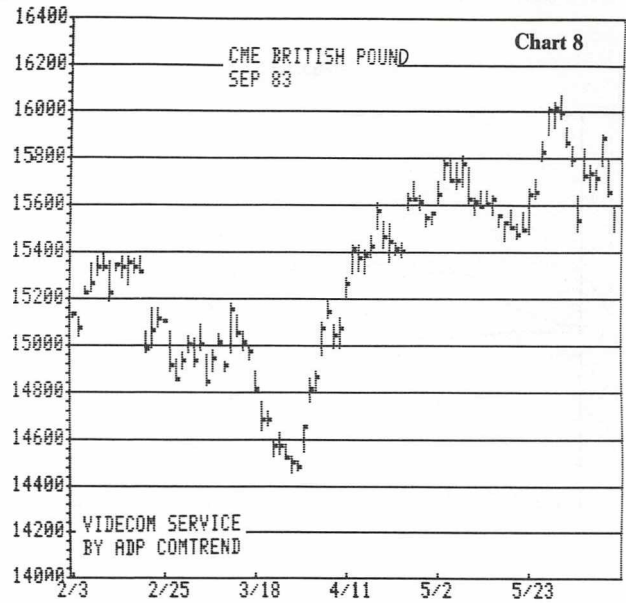
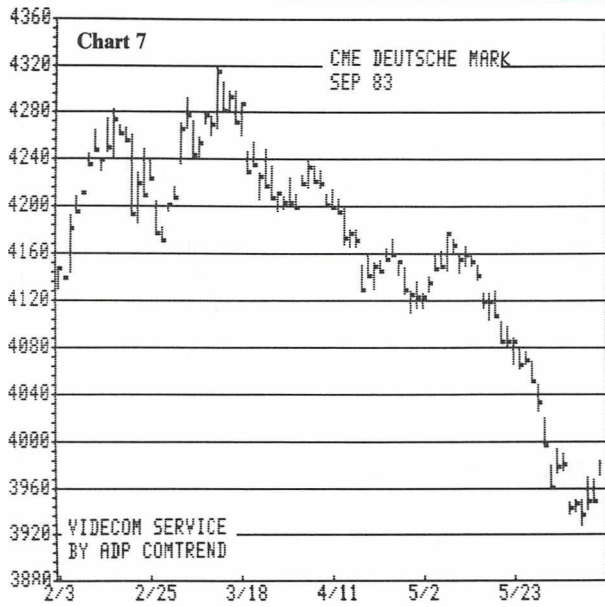


Chart 6





Interest Rate Futures

The debt market has begun punishing the Fed for being apparently too accommodative. Over the past four weeks, T-bonds dropped nearly 8 per cent, while short-term yields backed up close to 75 basis points.

Last month we discussed the concept of excess liquidity and concluded that it was excessive but maldistributed. This maldistribution of liquidity, in the end, may allow deflationary forces to gain the upper hand but, at the same time, could play havoc with interest rates (forcing them up). A better perspective can be obtained by examining two previous episodes of Fed-induced reflation: 1970 and 1975. The variable that we would want to compare is *bank credit*; i.e., the sum total of all bank loans and investments, which, in effect, is the asset side of the broad definition of money supply. In years past, we argued that bank credit was possibly the single most satisfactory measure of monetary conduct. Given the recent ado about the "Ms," we embrace this view with added respect.

In 1975, the first year of the recovery, US bank credit expanded at a remarkably modest pace of 5.3 per cent, while total loans *decreased* at an annual rate of 0.6 per cent and investments increased at an annual rate of 19.7 per cent. The modest pace of the reflation, particularly the "flatness" of bank loans, augured well for a slow and sustained inflation-free recovery. Even in the second year of the recovery (1976), bank-credit growth remained subdued. It was also a period that saw the US dollar stabilize, albeit at a low level, from its violent 1972-74 decline.

Our period (July '82-June '83), however, has a great deal more in common with the powerful reflation that just preceded and followed the Penn Central debacle of mid-1970. From June '70 to July '71, bank credit grew at an astonishing 12.2 per cent pace. Loans grew at a 7.8 per cent annual rate, while investments grew by 21.8 per cent. Interestingly, the growth in bank credit nearly paralleled the growth in adjusted Fed credit (11.3 percent) — a measure that we have utilized to measure how aggressive the Fed *really is* compared with what it *says it is*. Not surprisingly, the US dollar came under increasing pressure in mid-1971. Finally, President Nixon was forced to recant the 38-year-old promise to pay out one ounce of gold for \$35.

From July '82 to, and including, March '83, bank credit grew at an 8 per cent annual rate. However, recent Federal

reserve credit figures indicate that bank credit may have grown to the beginning of June at close to a 12 per cent pace. Loans have been growing at a 4 to 5 per cent rate; investments, at an 18 to 19 per cent pace.

In 1970-71, the Fed was not boxed into a monetarist stance. As a result, short-term rates (T bills) fell from 6.5 per cent to 3.3 per cent by early 1971, backed up to 5.4 per cent in mid-1971, and fell back to 3.4 per cent by early 1972. Today, the Fed must contend with its self-imposed constraint of not allowing M₂ to expand faster than 7 to 10 per cent annually from February/March '83.

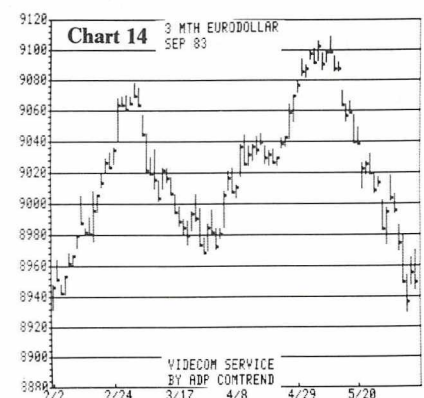
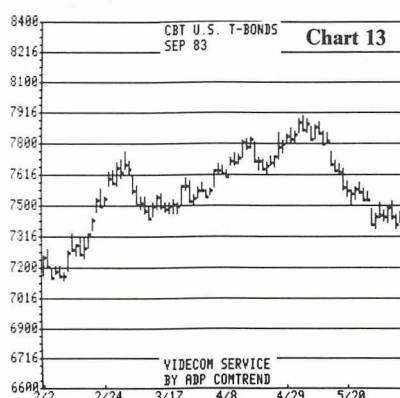
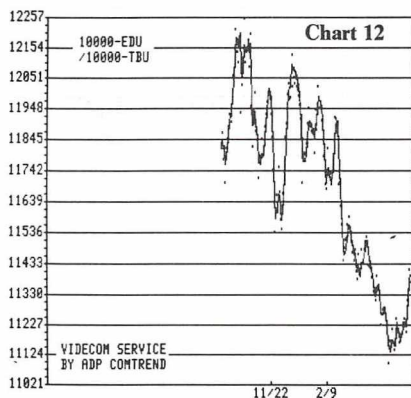
The excess liquidity of 1970-71 was well distributed: Commercial paper became salable again, there were no LDCs with debt problems, real estate had, as yet, not been abused. In fact, liquidity was *too* well distributed — its excesses spilled over into the gold and foreign-exchange markets. It was the beginning of the Great Inflation.

In 1983, the same degree of growth in liquidity could not be called excessive because many borrowers are effectively shut out of the market. A faster response would force the market, in knee-jerk reaction, to put up interest rates to suffocating levels. A slow response, a la 1975-76, would not be sufficient to reliquify a banking system that is still teetering on the edge of the precipice. The loan/deposit ratio in 1975 was at 78 per cent and declined to 70 per cent by the end of the year *as loans were being reduced*. Today, *loans are still rising* (surely Brazil can't be expected to repay principal), and the loan/deposit ratio stands at an ominous 86 per cent. Clearly, a 5 per cent growth in bank credit would bring us quite rapidly to 90 per cent and 95 per cent — if the breaking point has not already been reached.

Damned if you do and damned if you don't.

STRATEGY: Remain short September '83. Eurodollars, now beginning to show a fair profit. Although we expect a near-term bounce owing to "better" money figures this past week, we remain convinced that rates are heading dramatically higher.

Our long T-bill/short Eurodollar spread has begun to improve. We expect it to widen even further in the weeks and months ahead, as risk perceptions (and defaults) begin to surface.



Precious Metals

No sooner had we suggested last month that gold prices seemed "too high," when prices collapsed, stopping our modest long positions at 420, basis June '83.

The May '83 issue of *International Financial Statistics* by the International Monetary Fund indicates that Brazil's gold reserves plunged two million ounces in the last quarter of 1982, leaving it with just 150,000 ounces. Señor Langoni, Brazil's central bank president, said that "gold will be a very important source of foreign-exchange reserves in years to come."

In a prophetic vein, we said the *same* thing in our February 4, 1980, issue. Buttressing our argument that gold prices had begun a dramatic bear market, we said "... A narrower focus on a select group of countries supports the view that gold may become an extremely useful reserve asset in months and years to come." We then proceeded to show how Brazil, Mexico, Turkey, and Canada enjoyed very substantial gold reserves in relation to the size of their current-account deficit, the ratio being 1.2, 0.95, 2.57, and

3.0 respectively. Since that time, Brazil has reduced its holdings from 1,700,000 to 150,000 ounces, Mexico from 1,984,000 to 1,810,000 ounces, and Canada from 21,930,000 to 20,210,000 ounces. Only Turkey managed to increase its holdings, from 3,768,000 to 3,774,000 ounces.

We further stated that "using gold as an international life belt implies also a potential overhang of gold supplies so long as its price remains high in real terms." The price still remains high in real terms.

Despite apparent support at the \$400/oz. level, we believe that prices will give way and test the \$300-\$350/oz. area. Should oil prices break as we expect and/or should short-term rates skyrocket, much lower levels may yet be seen.

STRATEGY: *Remain sidelined. Aggressive traders may wish to sell August '83 Comex gold and September '83 silver at present levels, risking \$30/oz. in gold and \$1.50/oz. in silver, close only.*

Chart 15

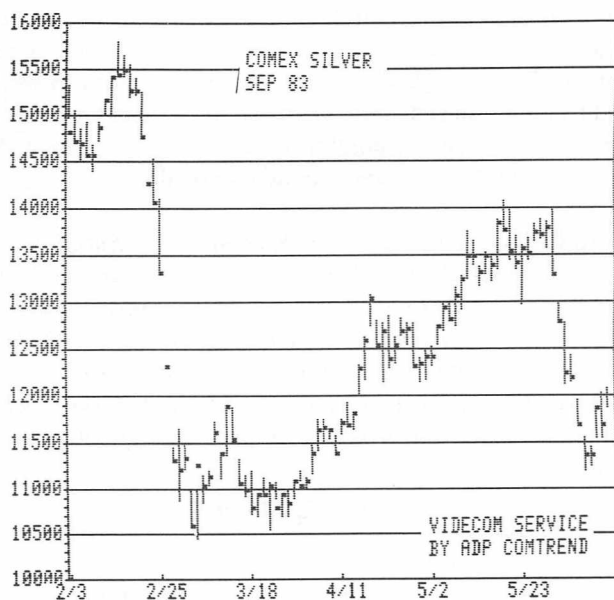
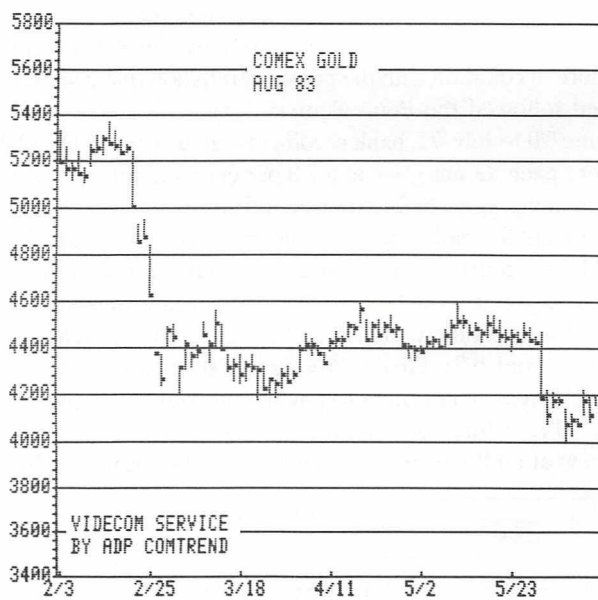


Chart 16



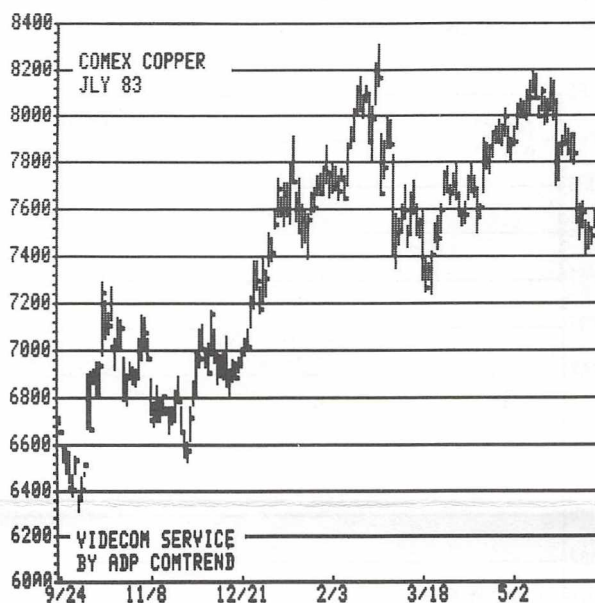
Copper

Since last writing, copper has declined as predicted — by 5.5¢ per pound. At the same time, warehouse stocks have continued to rise but, as was the case last month, at a decelerating rate. Combined Commodity Exchange (Comex) and London Metals Exchange (LME) stocks total 640,361 tonnes versus 591,805 tonnes last month. The increase on a 12-week rate of change basis is 11.08 per cent versus 12.4 per cent last month. In the past month, however, the rate of deceleration has itself tended to decelerate.

Over the period, open interest has held steady at around 101,000 lots. In our last letter we did a character of the market type study and postulated that the decline in the open interest during April-May reflected undue optimism on the part of dealers who had elected to leave unhedged the stocks growing in exchange warehouse. That being the case, the recent decline in price should have been accompanied by an increase in the outstanding commitment. That this has not occurred leaves us to conclude that last month's rise into the 81¢ level was accomplished by speculative short covering, which ultimately exhausted itself. If that speculative short covering offered an opportunity for investment longs to accept profits, then a major distribution took place, and we probably have considerably more downside left.

STRATEGY: With the bullish consensus now having dropped to a low 32 per cent, and our target — “a test of the lows of early March” — having been achieved, we advise taking at least partial profits, reinstating the full position on a close below 72.00 and lowering stops to 78.000 on the balance, basis July.

Chart 17



Energy Futures

First an Apology

Early press reports notwithstanding, Saudi Arabia's Oil Minister Ahmad Zaki Yamani survived a mild (?) cabinet shuffle that saw Information Minister Mohammed Abdu Yamani (no relative to the first) shuffled out for allowing sinister rumors to circulate (including, of course, the one that Ahmad Zaki Yamani was replaced). Rumors persist, however, that Sheikh Yamani will be promoted to adviser to the king, although it is not known if, under the circumstances, the oil position will also be changed.

Bullish pronouncements by ministers of the Organization of Petroleum Exporting Countries (OPEC) to the effect that the last quarter of 1983 will see production in the range of 17.5-18 million barrels per day (mbd) have little substance. The economic recovery aside, oil consumption continues to

slide versus comparable year-earlier data. For the week ended May 6, the *Oil & Gas Journal* reports that total US petroleum consumption is down 1.4 per cent from last year, with motor gasoline down 5.2 per cent and middle-distillates down 6.1 per cent. Also, recent American Petroleum Industry figures show that 1983 stock levels of gasoline are higher than last year, while refineries are producing at a relatively high 73.7 per cent of capacity, taking advantage of good refining margins.

Recent reports underscore the emergence of the Soviet Union as a substantial exporter of oil and oil products. Sheikh Yamani estimated Soviet sales to the West at 1.9 mbd, while OPEC energy expert Morteya Abtahi startled energy observers when he predicted that the USSR would

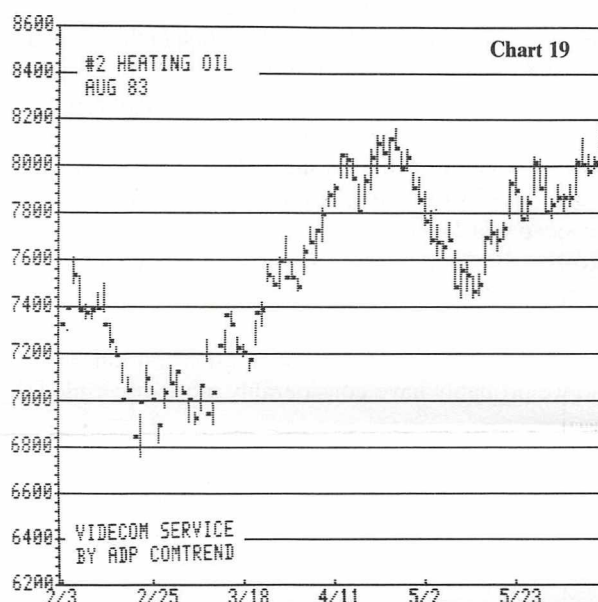
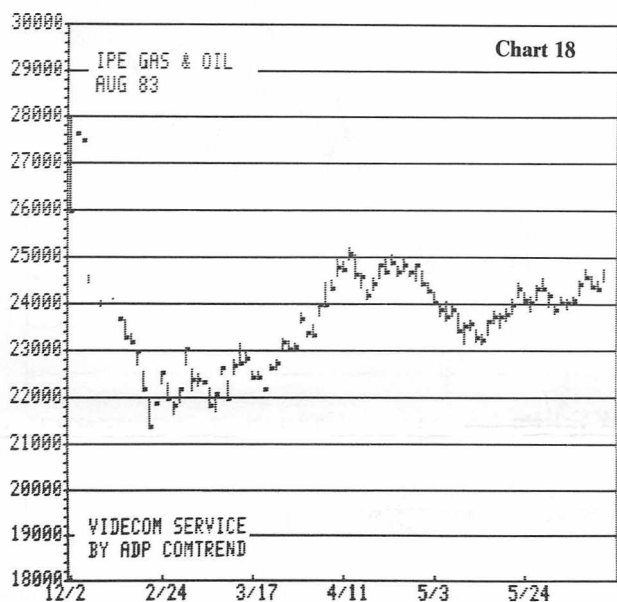
export as much as 3 mbd by 1987, owing to strong conservation efforts and gently rising production.

Canada's crude-oil exports have soared to 300,000 barrels per day (bd) from 140,000 in 1982, a direct result of a policy change that had forced Canadian producers to store light crude that was surplus to immediate domestic demand. In addition, Canadian oil imports have dropped to 175,000 bd from 285,000 bd for a total net change to the world market of minus 270,000 bd. During the week, it was disclosed that the US Strategic Petroleum Reserve (SPR) was being filled in the most recent period at a rate of 272,000 bd, up from 172,000 bd, bringing its stocks to 326.8 million barrels as at June 3.

While SPR purchases "support" the current oil market, they act as a long-term depressant by way of an overhang on the market. It is interesting to note that early Saudi resistance to the SPR has totally disappeared, a further indication that OPEC is in need of every little bit of buying.

The oil market is working against time. World stocks still represent over 100 days of forward supply despite the off-repeated cliché that oil inventory drawdowns are slowly coming to an end. In the interim, the market is still being "talked up."

STRATEGY: Remain resolutely short. The final break-up of OPEC will produce magnificent dividends.



Cocoa

Since our last issue, cocoa futures have staged a heady advance of \$300 per tonne, basis September, New York. The rise in London, despite the buoyant pound, has been even more marvelous, being £200 or, at prevailing exchange rates, \$3,140 per contract.

This latest phase in the bull market, which we've been advising you to participate in for the past six months, has come about against an equivocal news background. Of bearish import was the latest forecast from industry doyen Gill and Duffus, which raised its estimate of the current year deficit by a very modest 6,000 tonnes to 60,000 tonnes while projecting next year's crop, which begins October 1st, to be in balance. This despite the drought and brush fires that ravaged West African growing areas earlier this year.

The bullish news comes from West Africa, principally the Ivory Coast, the world's largest producer, where sources report the drought and the late start to the rainy season have delayed flowering. As a result, the mid crop, which thus far

is experiencing small pod-growth, is expected to be reduced. In addition, harvesting of the main crop should not be possible until January '84, several months later than usual. Current-year production is estimated at 387,000 tonnes.

Last month Radio Ghana offered the extremely pessimistic view that its country's 1983-84 crop would be reduced to an absurdly low 80,000 tonnes, or 100,000 less than the current crop. Given the producers bias toward promulgating a bullish market view, the forecast is not taken seriously by traders. However, what is taken seriously is the possibility that the decimated Ghanaian economy will severely inhibit the harvesting and shipping of the crop, whatever its size in the field.

The actual size of next year's world crop cannot be estimated with accuracy until the growing season is more mature. Nonetheless, that the market has elected to fear the worst rather than complacently accept those projections of amplitude suggests those bidding up prices are "in the

know," as it were, and likely to be vindicated.

From a technical point of view, it is especially pleasing to note cocoa's resilience following the generalized shake-out in commodities in the week of May 30. Indeed, cocoa is the only market that has readvanced into new high territory in this move.

A character-of-the-market analysis invites only a modicum of caution in that consensus of bullish opinion is currently below 70 per cent and open interest, (having declined in the healthy 10 per cent reaction of end May), is, at 27,731 lots, not excessive.

Neither is the price rise experienced thus far excessive when thought of in terms of where we currently are in the cocoa cycle. For example, in the first year of the last major bull market — 1974, — the average price of beans rose 68 per cent from the previous year to 64¢ per lb. Last year's

average price was 75¢ per lb. Currently, Superior Bahia beans are selling nominally at \$2,360 per tonne, or \$1.07 per pound, which is 44 per cent higher than last year's average. The average price so far this year is 92¢ per pound, or only 25 per cent higher than last year's average.

The only chart resistance to the current move is at 2200. The market's momentum suggests this area will be breached with a subsequent assault on the \$2,700-\$3,000 per tonne area probable.

STRATEGY: *Our initial target of \$2,150, basis nearest futures, has been achieved. Those who have taken partial profits should remain with their reduced position until 2200 is obviously left behind. A full line may then be reestablished. Stops at 2020, basis September, New York, and 1345, basis July London.*

Chart 20

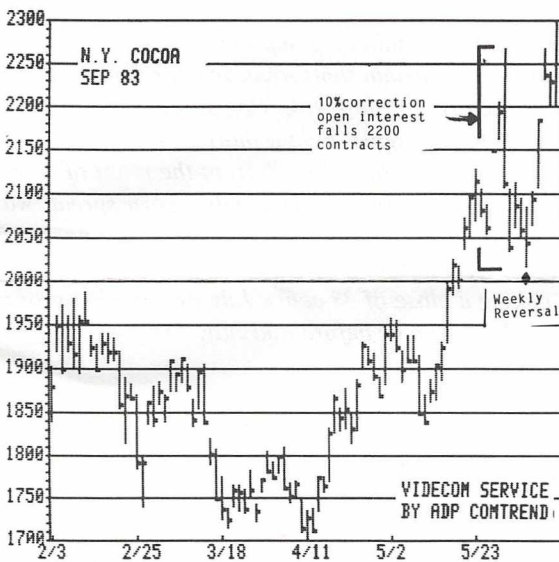
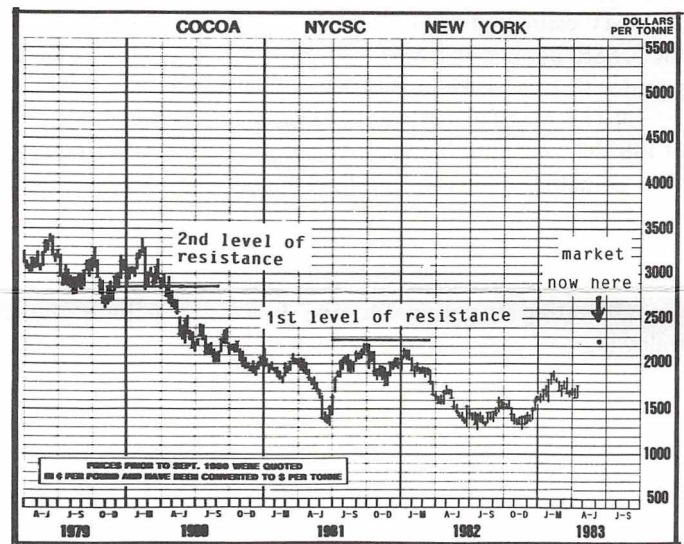


Chart 21



Reprinted from Commodity Research Bureau

Grains

The bear certainly did get out of the bag, as we thought last month! We maintain a bearish stance towards soybean oil, while we have a long-term positive outlook for wheat. July soybeans collapsed a further 25 cents since our last report, while December corn futures fell over 20 cents in that period. Wheat held up well in face of the attack by the bears, falling about 8 cents.

The main bearish factors for soybeans have been wet weather, which may cause shifts of corn and cotton acres to soybeans, and concern over redemption of soybeans under CCC loans due between now and September. A tremendous break in soymeal prices (arising from a 223.3 per cent increase of oilmills' end-of-April US soymeal stocks above 1982 levels — see Chart 22) has also weighed heavily on prices. July soyoil prices collapsed from levels of about 19.60, where we recommended selling last month, falling

below 18.60 before retracing to current levels around 19.00. As seen in Chart 23, 1982-83 season soyoil production is 8.3 per cent above 1981-82 levels, while factory consumption is only up 0.5 per cent.

Much of the reason for the strength of soyoil prices in rebounding from lower levels is attributable to estimates that India will import 1.4 million metric tons (MMT) of soybean oil (versus 1.1 MMT estimated earlier, and 1.2 MMT imported in 1982-83). The new estimate results from drought-reduced 9.72 MMT oilseed-crop estimate versus 12.0 MMT in 1982-83. Indian production of vegetable oils may fall to 2.85 MMT from 3.73 MMT in 1982-83. In the third week of May, India purchased 71,000 MT of vegetable oil, which helped strengthen soyoil prices. April soyoil exports from the US were 306 million pounds compared with 90 million in March '83 and 148 million in April '82.

Argentine vegetable oil shipments are competing strongly with US soybean oil (see Chart 24). Most of the increased Argentine shipments are in sunflower oil. Brazilian soyoil exports in 1983-84 are forecast at 0.90 MMT versus 0.86 in 1982-83. Soybean exports are estimated at 1.0 MMT (US in 1982-83) and soymeal exports at 8.0 MMT (7.8 in 1982-83). The Brazilian crop in 1983-84 is currently estimated by the trade at 14.5 MMT versus 15.4 before the harvest-delaying rains. The Brazilian corn crop was also affected, reducing the crop estimate to 22.7 MMT (USDA estimate) from 22.94 before the rains.

In other news relevant to our bullish case for wheat:

1) The USDA, on June 10, estimated the 1983-84 winter wheat crop at 1.882 billion bushels, compared with 1,911 estimated by Conrad Leslie, USDA's May 1 estimate of 1,893 million, and 2,106 million produced in 1982-83;

2) The USDA says USSR grain imports over the next three years could average about 30 MMT, compared with 34 MMT estimated for 1982-83 (see Chart 25). In 1982-83, the USSR booked 6.2 MMT of grain from the US, compared with 15.5 MMT in 1981-82;

3) The Australian Wheat Federation lowered its forecast of 1983-84 wheat production in Australia to 16.5 MMT from 17.4 estimated earlier, owing to reduced area. A crop this size would still be double the drought-battered 1982-83 crop.

4) The EEC will denature 2.7 MMT of its large wheat stocks for use as livestock feed; reducing stocks significantly.

Offsetting negative factors, however, include the following:

1) The Chinese wheat crop in 1983-84 is expected to be a record, exceeding the previous 1982-83 record of 68.42 MMT, resulting from tremendous winter grain crop weather;

2) Total 1982-83 US wheat exports were 1,400 million bushels, equal to the USDA estimate, and compared with 1,730 in 1981-82;

3) A weather forecaster said that about 95 per cent of the time when "El niño" occurs, as was the case during the past year, there are good crop yields, versus *below* normal yields 60 per cent of the time when "El niño" *does not* occur.

The premium of July corn over December should narrow. The reasons include:

1) The USDA will probably reduce its 1982-83 export forecast for corn by at least another 50 million bushels from its current estimate of 1,950;

2) Forward sellers of corn are offering 5 cents under December for new crop, much better than the normal harvest period levels of 25 to 35 cents under December.

STRATEGY: *Remain long September wheat with stops at 3.48, close only. Remain short soybean oil, rolling positions into August before mid-July, lowering stops to 19.70, basis July and 19.90 basis August. Retain short 2 soyoil/long 1 soy-meal spread, limiting risk to \$1,800 from the point of entry.*

The short July corn/long December corn spread was stopped out at 20 cents, July over, almost before positions could have been initiated. Reinstate that spread at the market, risking a close of 38 cents, July over, taking profits at 17 cents, July over, or before mid-July.

Chart 22

May 25 U.S.D.A. monthly oilmill statistics for April. - million pounds
 June 3 monthly oil/lard statistics for April.

	1983 April	1983 March	1982 April	1983 April 1982 April %
monthly soyoil production crude basis)	882.6	1,015.4	866.8	101.8
Oct. - April production	7,478.0		6,904.9	108.3
monthly soyoil consumption	796.8	866.4	743.7	107.1
Oct. - April consumption - factory use	5,570.2		5,545.1	100.5
soyoil stocks - April 30 - factory and warehouse	1,614.6	1,841.8	2,111.6	76.5
soyoil stocks - April 30 - oilmills	935.5	1,055.4	1,295.9	72.2
cotton oil production - Oct. - April	864.3		1,020.3	84.7
corn oil production - Oct. - April	550.2		486.7	113.0
monthly soymeal production - thousand short tons	1,871.8	2,176.5	1,863.5	100.4
Oct. - April soymeal prod. - thousand short tons	16,144.1		15,099.2	106.9
soymeal stocks - thousand short tons	322.2	306.4	144.3	223.3

Source: U.S. Census Bureau

	1982/83	1981/82	1982/83 1981/82 %
world edible oil production	45,779	40,579	112.8

Chart 23

May 10 - U.S.D.A. world grain production estimate
 - initial 1983/84 -- million metric tonnes.

	1983/84	1982/83	1981/82	1983/84 1982/83 %
wheat	477.9	479.3	448.6	99.7
coarse grains	743.7	781.5	765.0	95.2
total grains*	1,645.6	1,677.5	1,626.3	98.1
total oilmeals	177.8	181.4	170.0	98.0
soybeans	-----	95.9	86.2	----
cotton (million 480-lb. bales)	66.8	67.7	70.9	98.7

Source: U.S.D.A.

Chart 24

Argentina - vegetable oil shipments - Metric Tonnes

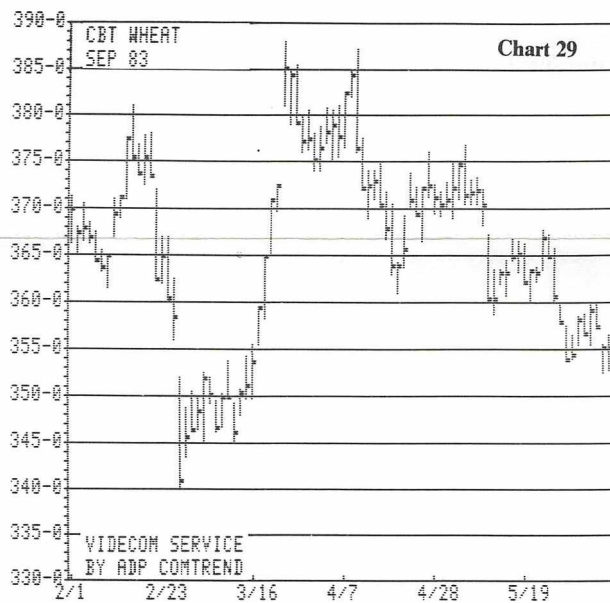
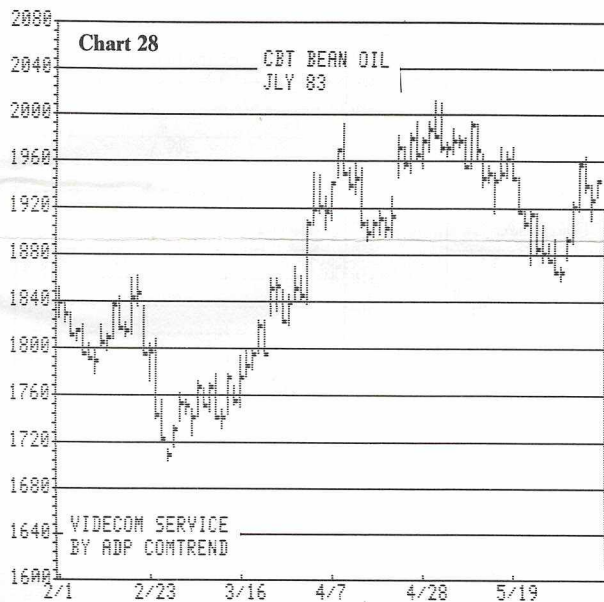
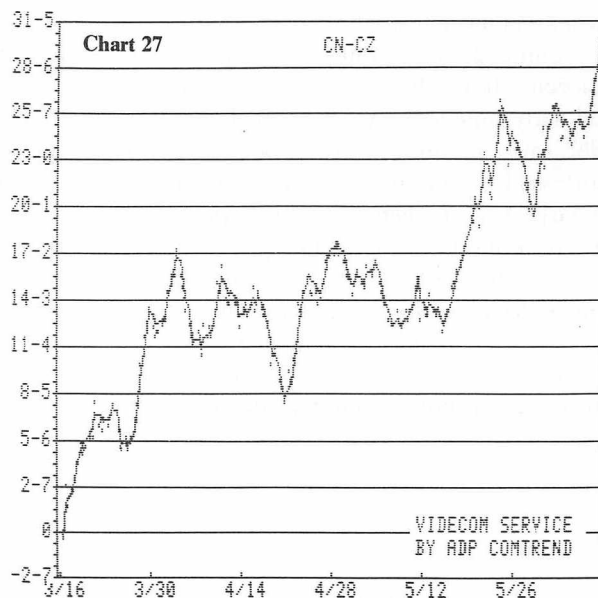
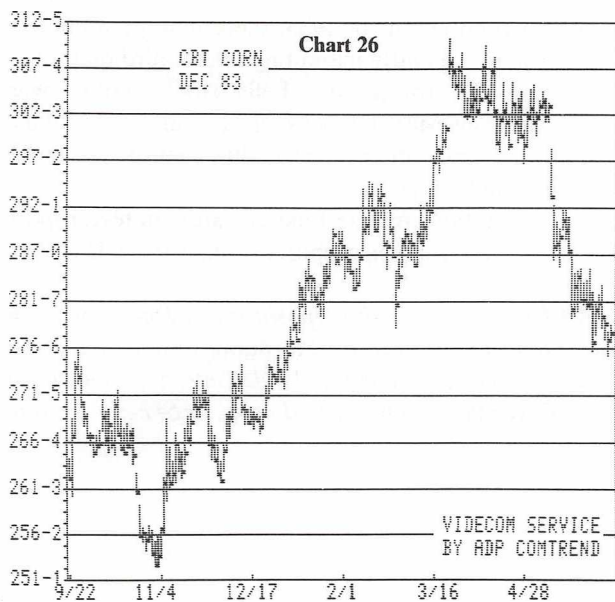
	1983	1982	1983 1982 %
April shipments	155,991	95,649	163.1
Jan.-Apr. shipments	398,087	233,215	170.7

Chart 25

main world wheat importing nations - projected imports.

	1983/84	1982/83
U.S.S.R.	19.0	21.0*
China	12.0	13.0
India	2.5	4.0
E. Europe	4.0	4.3

* record-high Soviet wheat imports



Livestock

We have tempered our bearishness on the meat sector for the immediate future. With regard to hogs, we are approaching the quarterly USDA hogs and pigs report on June 22; while we expect no evidence of early liquidation of gilts for breeding, we feel that for the time being, hog prices have discounted the bearish factors. The monthly seven-state cattle-on-feed report will be issued June 15. The fall in fed cattle prices and lower demand for feeders, resulting in lower feeder cattle prices at a time when feed costs are *falling*, are likely evidence of lower placements in May. This would serve to support cattle futures prices. An unknown variable is possible placements arising from withdrawal of

nonfed heavy-weight cattle from wheat pastures associated with the Payment-in-kind (PIK) program.

In the past several days, hog slaughter has fallen to levels at or below a year ago, from some days when slaughter was 7 per cent above a year ago. Also, sow slaughter in the most recent report on May 27, was 4.6 to 4.7 per cent of total hog slaughter, versus 4.2 to 4.4 per cent in the 1982 weeks, with 1982 being in a liquidation phase at that time.

Wilson Foods workers *did* vote to strike on June 7 at many of its US plants; this, although a bearish factor, was discounted before the vote. Only if the strike lasts several

weeks will more bearishness develop from this situation.

Cattle slaughter rates have, on some days, reached 8 per cent above 1982 levels on a daily basis, with late May and early June slaughter averaging about 5 per cent above 1982 on a monthly basis. Based on the April quarterly cattle-on-feed report, there will be a period in July through to early August when fed cattle supplies will be somewhat low, resulting in strengthening prices in August futures. In recent years, June futures premiums of 1 to 8 cents over August have been seen. The recent 4-cent premium is not excessive for a normal year, particularly in view of the seasonal peak in slaughter steer and heifer numbers in the third quarter, notwithstanding the seasonal fourth-quarter

peak in beef production. In 1983, there may be a contra-seasonal drop in fed cattle marketing in the third quarter.

The May 20 frozen pork belly stocks report was neutral, indicating May 1 stocks of 53.6 million pounds, compared with expectations of 52.7 million and May 1, 1982 stocks of 66.1 million pounds.

The expectations for the June 15 cattle-on-feed report and the June 22 hogs-and-pigs report are indicated in Chart 30.

STRATEGY: Cover short positions in December hog futures with 6 cent profits. Most positions in June live cattle have been liquidated profitably and rolled into August at above 6.4 cents. Cover short positions at 61 cents, or 64 cents on stop.

Chart 30

EARLY EXPECTATIONS

June 15 USDA monthly 7 - state cattle on feed report.

	June 1983	June 1982 %*
total on feed June 1	98-100	
placements during May	88-95	
marketings during May	110-113	

June 22 USDA quarterly hogs and pigs report.

	June 1/82	March 1/83	June 1/83	June 1/82 %*
total hogs and pigs	51,990	41,640	106-109	
breeding inventory	7,389	5,913	106-110	
market hogs	44,601	35,727	106-111	

* expectations

Chart 31

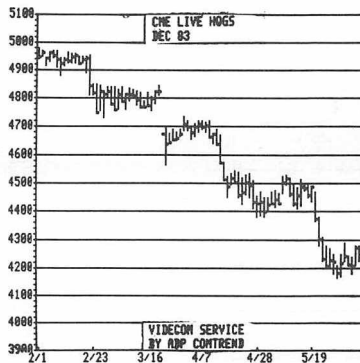
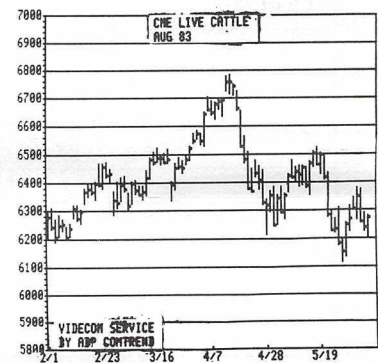


Chart 32



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