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Musings on Default

As the second major default deadline nears — Brazil's repayment of the $400 million to the Bank for International Settlements (BIS) — we sense a feeling of complacency and déjà vu that borders on the, shall we say, insane.

Doubtless, the BIS, in coordination with the International Monetary Fund (IMF) and the US Treasury, has engineered this squeeze to put Brazil on guard regarding compliance with the IMF "guidelines." Doubtless, too, this bit of showmanship will pass merely as an empty bluff, for the stakes are too high. As indicated in the Federal Reserve Bank of New York *Quarterly Review* (in an article entitled "Treasury and Federal Reserve Foreign Exchange Operations"), ". . . the Exchange Stabilization Fund (i.e., the US Treasury) has agreed to be substituted for the BIS for $500 million of the total credit facility in the *unlikely* (!) event of delayed repayment by the Central Bank of Brazil." (Emphasis added.) The BIS can also force its member central banks to take into their own books their pro rata share of the $400 million. For these reasons, it is highly unlikely that Brazil will default on July 15.

But, what if? On July 13 90-day commercial paper — high-grade, unsecured notes sold through dealers by major corporations — yielded 9.6 per cent, a mere 20 basis points more than 90-day US Treasury bills, a direct obligation of the US government. Three-month Eurodollar deposits, issued by any of a number of financial institutions deeply involved in, at best, weak Third World loans, paid a mere 100 basis points more than US Treasury bills, while domestic CDs issued in denominations of $100,000 and up (and, then, not insured by the FDIC) yielded between 10 basis points less and 30 basis points more than the aforementioned US debt instrument.

Sophisticated money managers attribute this phenomenon to "portfolio" considerations. In an Alice-in-Wonderland tone, they point to the enormous supply of US debt paper and to the need of owning a well-diversified portfolio that is studded with either rare or unusual names in the interest of properly fulfilling fiduciary duties. Diversification, in typical Harvard MBA jargon, is the way to immunize a portfolio from undue risk — even if it means choosing bank paper "backed" by loans to Poland, Nigeria, or Brazil over US government debt!

More realistically, money traders will argue that (a) foreign nations will never repudiate the debt and/or (b) the IMF program will work wonders and/or (c) the world's largest lending banks will continue playing the game of repaying themselves interest with fresh loans, and/or (d) in the worst of cases, the world's central banks and their respective governments will bail out the largest financial institutions.

These assumptions are dangerous to one's health. In the first place, they are not conceived by disinterested parties. In the second place, they do not take into account such basic human traits as fear, rivalry, greed, jealousy, and abhorrence to tutelage. In the third place, these assumptions are the product of desperate men.

So long as regulators take the unrealistic view that the debt problem will go away, there is little hope for containing a generalized banking failure. In their own words, "the problem that is before the interested financial community today is one of maintaining a reasonable flow of international credit to allow time for orderly adjustment. As for the

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future, as levels of exposure decrease over time, the program of intensified regulatory surveillance and evaluation of country exposure, additional disclosure, special reserves, rules for fee accounting, and improved international cooperation should prove sufficient to deal with build-ups of concentrations of international credit that might threaten a sound banking system." These words came from the same regulators who in 1979 put in place new examination procedures for supervising country risk in US bank portfolios and who will now admit that "in retrospect, it is clear that these procedures did not have sufficient impact to temper adequately the build-up of concentrations of credit to foreign countries that were potentially vulnerable to external debts service."

In this measured and understated tone, these bank regulators describe the greatest lending orgy that took place in half a century — after procedures were put into place! (From a joint memorandum on a Program for Improved Supervision and Regulation of International Banking prepared by the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation for the Chairman of the Committee on Banking, Housing and Urban Affairs.)

Let us get to the heart of the problem. Modern history (nineteenth and twentieth century) is *replete* with cases of sovereign defaults: Guatemala; Costa Rica; Czarist Russia; Britain; Germany; and France.

An impartial financial analyst will observe the following: (a) collectively, the 20 largest Less Developed Countries (LDCs) did not, *on the average,* show a meaningful surplus on trade over the *past* 20 years despite the relatively free and liberal world trading order that prevailed in the '60s and early '70s (see Chart 1); (b) there is little reason to believe that these LDCs will generate independently, in the next five years, enough foreign exchange to repay interest (let alone principal) on their external debt; therefore (c) the banks will have to advance the interest and, as a result, will have to increase their exposure in absolute terms; since (d) interest charges, i.e., LIBOR plus 2½ per cent plus rescheduling fees, are greater than the growth of bank credit that is contemplated by the (monetarist-oriented) central banks of the industrialized nations and also since (e) the smaller banks are continuing to break away with the concept of "fair share" in the roll-over of credits, it follows that (f) the larger money center banks will see their country exposure rise, *even in relative terms,* over the coming years, despite the help from the IMF and other financial institutions.

But there is more. This impartial financial analyst will also observe that debtor nations will see their external debts *increase* by a factor equal to the rate of interest now charged on their rescheduled loans, despite the severe austerity measures followed under the guidance of the IMF. Inevitably, he will reason, the debtor nation will realize that it stands to gain little else but honor and prestige in this entire exercise.

The dissatisfied, discontented crowds will either (a) persuade the ruling government to abandon the futile sacrifice or (b) change the ruling government. In the end, even if only *one* of the 20 largest borrowers balks, the rest will follow in relief. One need only point out that the foreign defaults of the early '30s were begun by Bolivia, a very small and insignificant debtor; soon thereafter, Peru, Chile, Brazil, Colombia, and a dozen other Latin-American countries followed suit.

Does Washington have a contingency plan in the *likely* event of a generalized default? At this time, the regulatory bodies have suggested to Congress a five-part program that includes, as its toughest provision, a system of special reserves. Under this system, should any of the problem-country loans fall into the category of "reservable credits," it would warrant an initial provision of at least 10 per cent, while additional provisions would be made in 15 per cent increments. With this reckoning, it would *appear* that the regulators have opened the door to the possibility of amortizing over 10 years (and perhaps more, at their discretion) defaulted loans, thus halting the threat of an immediate bankruptcy of the nine or ten largest US banks.

While no doubt, *over time,* these institutions will be able to generate enough income to reconstitute their capital and reserves, one wonders whether large depositors will have the patience to leave their *uninsured* deposits at these banks without receiving a substantial risk premium for their forbearance? In the competitive banking environment of the '80s, one must further wonder whether these banks, forced to pay substantially higher rates, can indeed survive and recover.

Of course, these banks could be bailed out by the Treasury or the Fed. But, will Congress approve such a bailout when they have *yet to approve a puny $8.5 billion increase in IMF quotas* because it purportedly stands for a banking bailout? Will a Democratic house not grab this rare opportunity to embarrass a Republican administration and block the bailout?

And, if all these events happened in rapid sequence, won't Washington be forced to close the doors of every bank in the US so as to gain some time to reflect on the next move? Of course, in today's highly interdependent banking environment, foreign banks would also have to close, lest they be overwhelmed by withdrawals.

Prior to lifting the banking holiday, central banks will face the painful choice: allow the large lending banks to fail and, simultaneously, provide liquidity through the discount window to otherwise solvent institutions, thus respecting the integrity of the money supply and minimizing the impact on the real economy; or, by fiat and under some obscure clause in the Depository Act, move to discount defaulted paper while retiring through open market operations any excess liquidity, unjustly helping to reallocate resources from solvent to insolvent banks but still protecting (actually, reining in) the overall level of the money supply; or, the same as above but consciously allowing a powerful one-time reflation.

Depending on the decision of the monetary authorities, interest rates and commodities will follow widely different paths. Under the first alternative, gold will become extremely erratic, rising at first (fear that the paper money system will collapse) to decline later (as the system "manages" to survive) and realign itself with its long-term purchasing-power level (see *Commodity & Currency Comments* May and June 1983 issues). Commodity prices, in general, should not be greatly affected, while interest rates on US Treasury bills and bonds should decline significantly. A wide risk-spread will open vis à vis private debt instruments: Euros, CDs and commercial paper will begin trading on a sharply differentiated basis with strong emphasis put on the issuer.

Under the second alternative, gold and commodities follow the same general path. Risk spreads, however, disappear entirely as it becomes clear that the monetary authorities stand behind every major institution and thus provide a virtual government guarantee. In due time, this "guarantee" underwrites renewed recklessness on the part of lenders.

Under the last scenario, gold, commodities, and interest rates soar and risk spreads remain extremely small.

To the extent that countries adopt different methods for handling their banking crisis, their respective foreign exchanges will fluctuate accordingly. That is, the first approach will result in a strong currency for country A if other countries adopt either of the last two approaches, but particulary the third.

In the interim, commodity prices are likely to show a slightly weakening trend, interest rates are probably reaching a near-term crest (see Chart 2 and downtrend), and the US dollar will almost certainly continue to gain ground.

STRATEGY:

Interest Rate Futures: *Accept profits on outright short September '83 Eurodollar; maintain the long September '83 T-bill/short September '83 Eurodollar spread.*

Gold: *The overall trend continues lower in spite of sporadic rallying attempts brought about by fears of default. While gold may rally on the first news of default, it is likely that the exchanges will suspend trading if a bank holiday is declared. On reopening, gold will probably resume the decline as long as the US does not create excess liquidity (see discussion, above). If short, traders should maintain stops at 450/oz., basis spot.*

Chart 1

A projection For Financing Requirements for LDC's 1983-1987, as of end of 1982

U.S.$, Billions	Gross External Debt	@ 12½% Interest	Expected Trade Balance*	Yearly Shortfall	5-Year Shortfall
Argentina	38	4.75	+ 0.57	4.18	26.82
Brazil	85.5	10.7	- 0.7	11.4	73.14
Chile	17.2	2.1	- 0.04	2.14	13.73
Colombia	10.3	1.3	+ 0.05	1.25	8.02
Ecuador	6.6	0.8	+ 0.06	0.74	4.75
Mexico	80.1	10.0	- 1.2	11.2	71.86
Peru	11.5	1.4	+ 0.04	1.36	8.73
Venezuela	29.5	3.7	+ 2.10	1.6	10.26
Indonesia	25.4	3.2	+ 1.60	1.6	10.26
S.Korea	36.0	4.5	- 1.2	5.7	36.57
Malaysia	10.4	1.3	+ 0.6	0.7	4.49
Philippines	16.6	2.1	- 0.5	2.6	16.69
Thailand	11.0	1.4	- 0.5	1.9	12.19
Algeria	16.3	2.0	+ 0.3	1.7	10.91
Egypt	19.2	2.4	- 1.1	3.5	22.46
Israel	26.7	3.3	- 1.5	4.8	28.71
Ivory Coast	9.2	1.1	+ 0.3	0.8	5.13
Morocco	10.3	1.3	- 0.4	1.7	10.91
Nigeria	9.3	1.2	+ 1.5	(0.3)	(1.925)
Turkey	22.8	2.9	- 1.1	4.0	25.67
					399.4

* Based on average trade balance, 1960-1981.

Chart 2

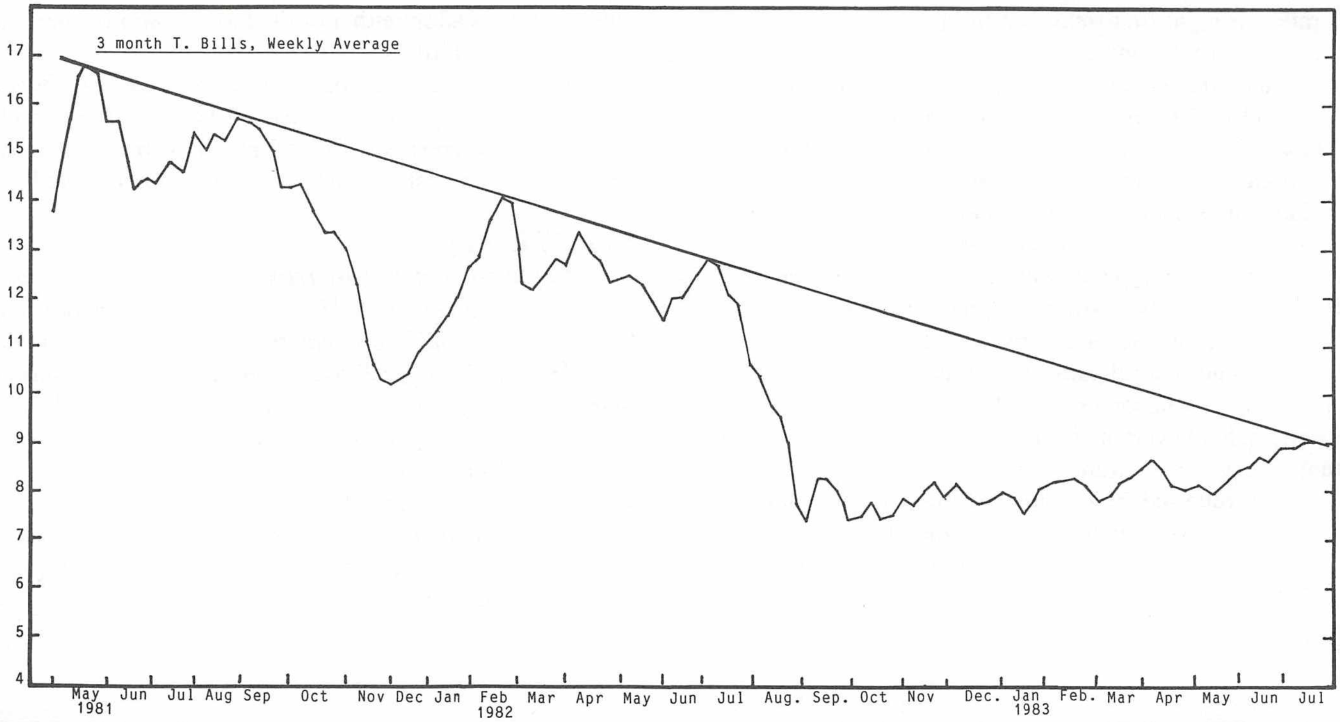


Chart 3

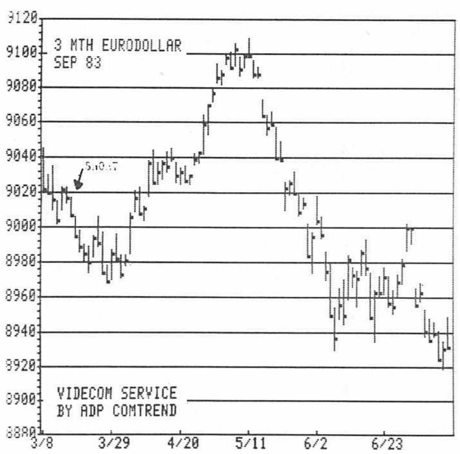


Chart 4

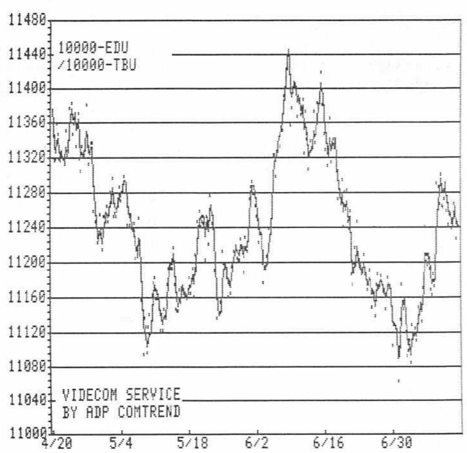
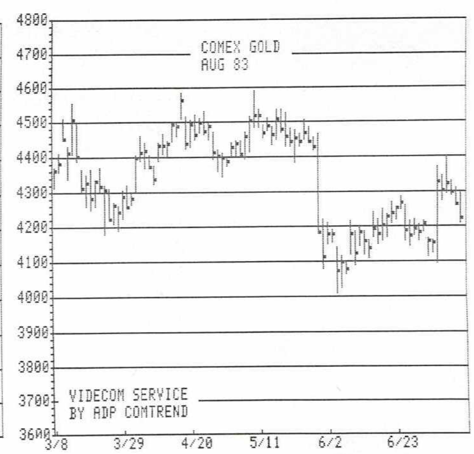


Chart 5



Currencies

STRATEGY: *Remain short September '83 French franc, September '83 Deutschemark, September '83 Swiss franc, and September '83 yen. Initiate a new short positions in Sterling with stops at 160, basis spot. Long Canadian dollar positions should be protected with stops at 80.50, basis spot.*

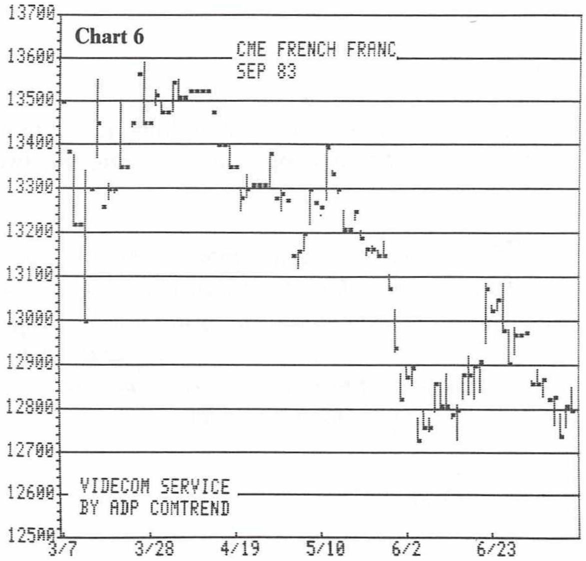


Chart 6
CME FRENCH FRANC
SEP 83
13700
13600
13500
13400
13300
13200
13100
13000
12900
12800
12700
12600
12500
VIDECOM SERVICE
BY ADP COMTREND
3/7
3/28
4/19
5/10
6/2
6/23

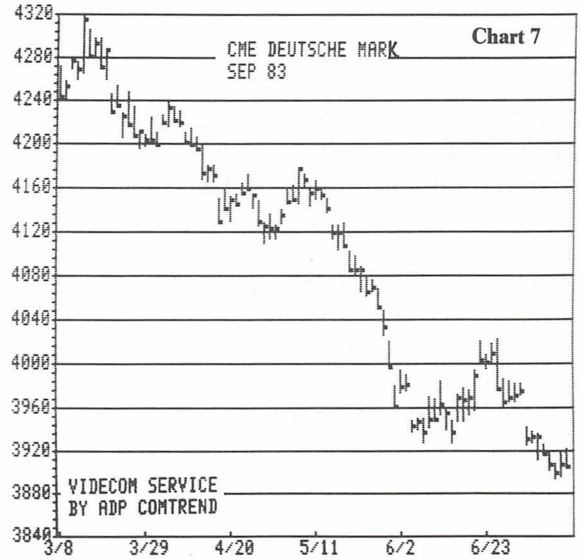


Chart 7
CME DEUTSCHE MARK
SEP 83
4320
4280
4240
4200
4160
4120
4080
4040
4000
3960
3920
3880
3840
VIDECOM SERVICE
BY ADP COMTREND
3/8
3/29
4/20
5/11
6/2
6/23

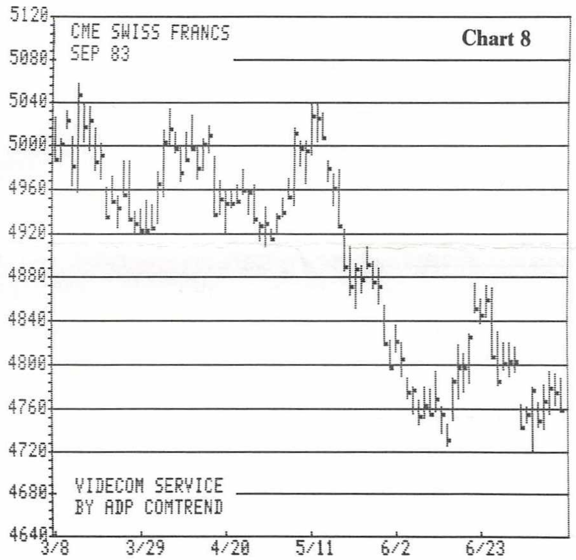


Chart 8
CME SWISS FRANCS
SEP 83
5120
5080
5040
5000
4960
4920
4880
4840
4800
4760
4720
4680
4640
VIDECOM SERVICE
BY ADP COMTREND
3/8
3/29
4/20
5/11
6/2
6/23

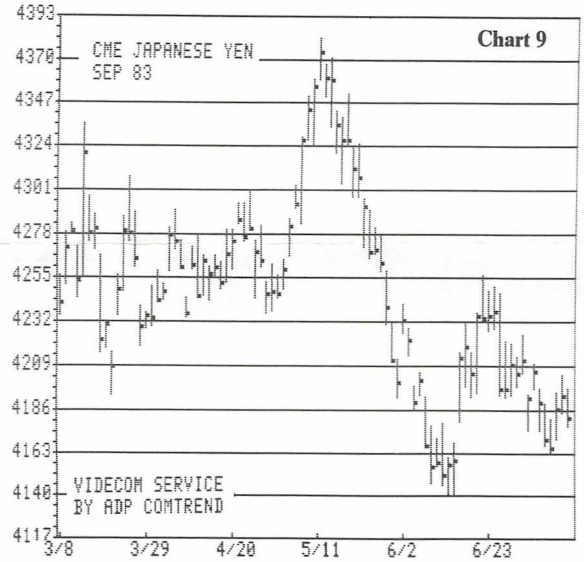


Chart 9
CME JAPANESE YEN
SEP 83
4393
4370
4347
4324
4301
4278
4255
4232
4209
4186
4163
4140
4117
VIDECOM SERVICE
BY ADP COMTREND
3/8
3/29
4/20
5/11
6/2
6/23

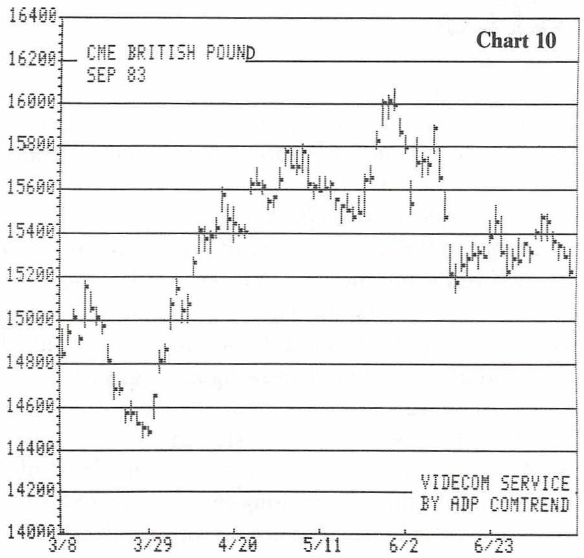


Chart 10
CME BRITISH POUND
SEP 83
16400
16200
16000
15800
15600
15400
15200
15000
14800
14600
14400
14200
14000
VIDECOM SERVICE
BY ADP COMTREND
3/8
3/29
4/20
5/11
6/2
6/23

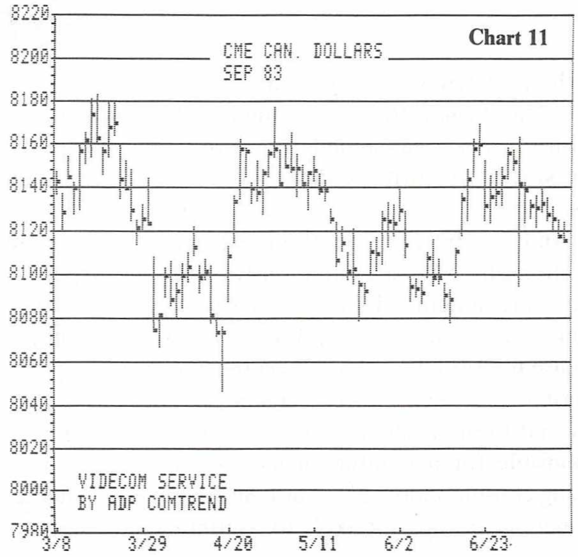


Chart 11
CME CAN. DOLLARS
SEP 83
8220
8200
8180
8160
8140
8120
8100
8080
8060
8040
8020
8000
7980
VIDECOM SERVICE
BY ADP COMTREND
3/8
3/29
4/20
5/11
6/2
6/23

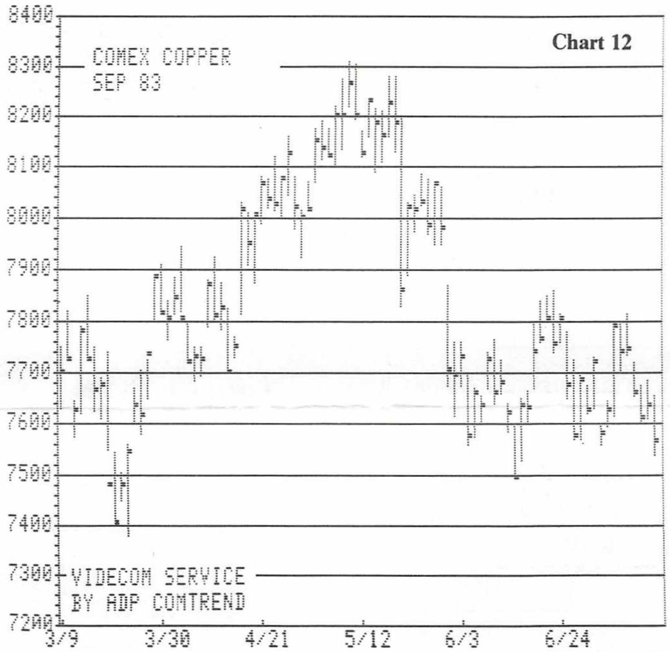
Copper

For the first time in recent memory, warehouse stocks have dropped. Combined LME and Comex stocks currently stand at 604,561 tonnes versus 651,854 tonnes last month. The drop is entirely a result of a fall of inventory on the LME.

This, as well as the strike at Phelps Dodge, and the expanding economy, are reasons to be bullish. The rising level of already near-historically high real interest rates, the softness of copper-related equities, and the prevailing firmness of the US dollar are reasons to be bearish.

The technical action since last writing is no more illuminating, with prices and open interest hugging two-month-old levels.

STRATEGY: *One of the advantages the speculator enjoys, and all too often forgets, is that unlike the dealer, producer, or user of a commodity, he is not always obliged to have a market view because he is not always obliged to trade. Being modestly yet profitably short copper, we advise taking our profit and moving to the sideline.*



Energy Futures

For the past few weeks, the market has continued to be a great deal firmer than we anticipated. The remarkably bullish consensus has spilled over to the stock market where oil producers and drillers have scored some very substantial gains.

And yet there is something extremely artificial about this strength. Almost unanimously, everyone expects that the decline in demand, begun in earnest in 1979, will come to an end in late 1983 and will reverse to a moderate increase for 1984, based solely on the assumption of a world economic recovery. This prescience has certainly caused an early end to the destocking process and has probably been responsible for a buildup of stocks (at least in terms of running consumption, or forward days supplies). Nonetheless, rational players are not likely to continue financing stock at prohibitively expensive rates when it is rather clear that stocks are relatively ample and prices are unlikely to rise.

It is noteworthy that for the four weeks ending in early June, US petroleum demand registered a 3.4 per cent decline, as recorded in the *Oil & Gas Journal,* with only gasoline and jet fuel reporting gains of 1.1 and 3.7 per cent respectively. Even while the US GNP recorded strong gains in the first two quarters of this year, the more energy intensive industries, such as automobiles, steel, nickel, aluminum, and paper were not showing any signs of a more intensive use of energy.

The bearish case for oil rests on the following assumptions: (a) oil prices, in real terms, remain almost three times higher than their long-term projected price level; (b) as a result, the trend to conservation will continue unabated, regardless of the speed of the recovery; (c) the *world's* only voluntary swing producer, Saudi Arabia, has seen its production drop from 11 million barrels per day (mbd) to about 4 mbd currently and in the process, has forsaken almost entirely its leverage, which (d) it can regain by simply dumping at full capacity and pricing its product as low as \$10-\$12 per barrel (the Saudis, being somewhat rational, should move towards this pricing policy over time); (e) the number of significant producers outside of OPEC is rising, making it ever more difficult to allocate output; (f) oil prices, denominated in foreign currency, are rising, thanks to a strong US dollar, making conservation all the more imperative.

Standard economics teaches us that price-fixers cannot control quantity, while quantity fixers cannot control prices. Chart 15 is a rather vivid example of the inability of OPEC to control the market. Technically-oriented traders may marvel at the nearly flawless *downtrend* in production. Since prices are controlled, as we have said, the quantity is free to fluctuate, and a strong case can be made for applying standard technical analysis. Line A-B indicates that OPEC production should be running at about 16¼ mbd, which coincides with reported observations (PIW and OECD). If true to pattern, line A-B indicates that OPEC production will begin turning down from these levels, reaching less than 15 mbd by the end of 1983. This extremely low level of output would put the Saudis in the financially untenable position of producing less than 2.5 mbd by the winter of 1983-84.

STRATEGY: *An extremely low-risk speculation at this moment. Short sellers are risking \$10-\$15/ton (note: short of a war in the region) and stand to make as much as \$170/ton. Add to previously-established short positions.*

Chart 13

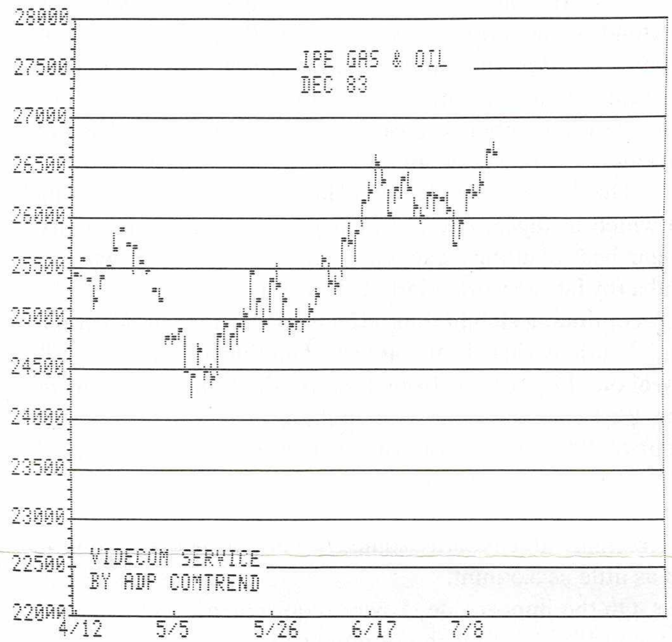


Chart 14

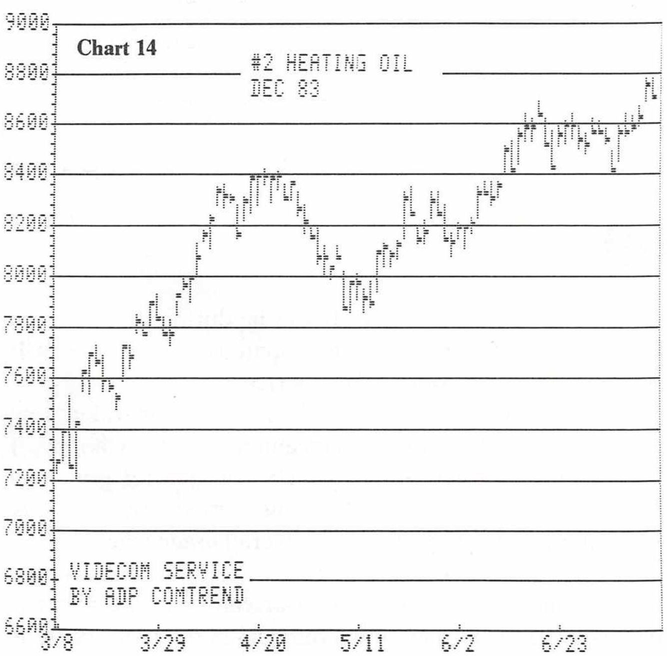
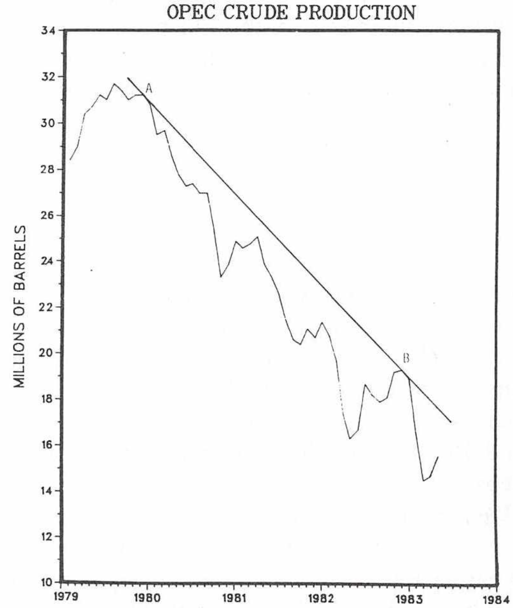


Chart 15

OPEC CRUDE PRODUCTION



Source: *Petroleum Intelligence Weekly*

Sugar

Sugar is one of those commodities with rather inelastic supply and demand, and, therefore tends to follow a long and explosive price cyclicality. Sugar now appears to have broken chart support convincingly.

The trade considers world stocks of 25 per cent as a proportion of production to be adequate. Stocks below 25 per cent are considered less than sufficient and generally portend higher prices; stocks above 30 per cent are considered a surfeit and tend to depress prices. This latter is the current situation, with stocks projected at the end of 1982-83 (September-August) roughly 40 per cent of world production, at 35 to 36 million metric tons (mmt).

The sugar market has had almost a five-month upswing in which to digest news of delayed European Community sugar beet plantings, excessive rain and damaging wind in Cuba (by far the world's largest exporter), and more recently, the continuing debilitating effects of drought in Australia and South Africa. Raw value production is slated to fall by about 14 per cent from 1982 production of 97 mmt in the 1983 calendar year. Four million metric tonnes, 4 per cent of 1982 production, of this is attributable to delayed plantings. Cuban production had been estimated to fall about 1.0 mmt from 1982 output to 8.2 mmt, but in the intervening three months, some estimates have been reduced to as little as 5.5 mmt.

On the import side, Soviet requirements will again be large in 1983-84, though not quite so large as last year's net imports of 7.09 mmt, owing to more success this year in planting and early sugar beet development. (One recently discounted report indicated Soviet sugar beet weight four times that at this time last year.)

There has certainly been strong buyer demand, leading prices higher on the news of reduced world sugar production in 1983, but in spite of this, the near-term upward price cycle appears exhausted. In fact, on rallies during the formation of the technical triangle indicated in Chart 16 there was aggressive origin selling from the Far East and other producing regions.

It will not be until the August beet test results that a better assessment of 1983 EEC production will be possible. However, since EEC production prospects sparked this four-month price advance, that too may be the news that will douse the flames of the bull market until next season.

STRATEGY: *Sell October sugar at the market and again if prices retrace towards 11 cents, with an objective of 8 cents and close only stops at 11.80.*

Chart 16

Cocoa

During the past four weeks, cocoa values collapsed from high to low by $400 per tonne, basis the near September delivery in New York. In the past three days, buoyed by talk originating from French trade sources, that the 1983-84 Ivorian crop, the world's largest, will be down by between 15 and 18 per cent, the market has staged a $100/tonne comeback.

We note that the decline occurred against a foreground almost void of substantial fundamental news. True, there were earlier reports of good pod development in the Ivory Coast, but such news is unquantifiable, especially at this stage of the growing season. It will be during the next few critical weeks, that the much-anticipated concrete news will start to find its way out of West Africa.

The demand side of the ledger has provided few surprises. The July 15 announcement by the Chocolate Manufacturers Association that US 2nd quarter grindings fell by 7.9 per cent from the same period last year was generally expected by the trade. Overall usage when including melted chocolate liquor was up 1.7 per cent. The overall increase in usage is in line with our view that the demand base will continue to grow, encouraged both by the expanding economy's effect on disposable income and by the fact that at this point in the cocoa cycle, prices are still cheap. With prices at only 40 per cent as high as the peak recorded in the '70s, there is absolutely no fear of current prices impacting upon usage.

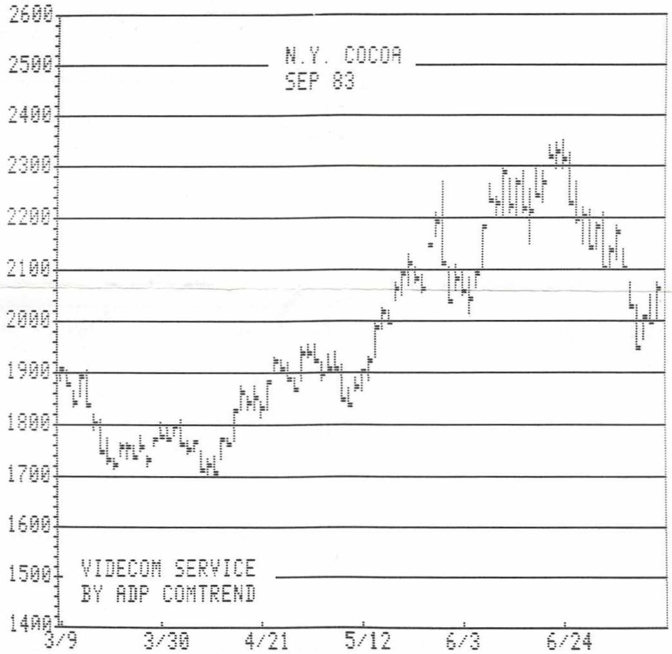
It would seem that in the absence of appropriately timely fundamental evidence, we must turn to a technical examination of the market to determine a trading strategy. We have already noted the market's decline came about in a news vacuum — a bearish phenomenon inviting the view that the top of the market represents a level at which a goodly portion of present fear regarding West Africa's availability is discounted.

The top of the market was achieved in tandem with a consensus of bullish opinions of 80 per cent-plus and a large open position. Both have fallen almost as dramatically as the market itself, indicating the marginal long position was essentially speculative and, as one would expect, eradicated.

Technically, cocoa prices broke the intermediate uptrend line cleanly. On the other hand, the correction low of 1825, a level of very important support, has held.

STRATEGY: *We are of the opinion cocoa entered into a major cyclical bull market last November. Thus, the recent washout cannot be considered a move down from a top. Having been stopped out as per last month's advice at 2050, basis September and having no strong feeling about the market's immediate direction from here, we advise assuming new investment-type positions until more information is unearthed, placing stops at 1825. Roll July deliveries in London — from which we were not stopped — into March and May 1984.*

Chart 17



Livestock

The livestock markets have been largely a trading affair for the past month, but something may be brewing to change this. Last month we indicated that we tempered our bearishness on meats; this month, we have become somewhat positive, particularly towards cattle and pork bellies.

As we mentioned last month, based on the April quarterly cattle-on-feed report, showing steers in the 700 to 899 pound range 5.1 per cent below 1982, there would be a period in July through to mid-August when feed cattle supplies will be somewhat reduced. In fact, daily cattle slaughter has fallen from the peak in late June when slaughter on some days reached 10 per cent above 1982, to levels that averaged 3.4 per cent above 1982 in the first two weeks of July, and down to the 127,000 level daily.

The quarterly USDA hog report was released June 22 and was interpreted as very bearish (see Chart 18). The market traded 100 points lower in nearby months the following day but erased that with limit-up futures in the first three futures months the next day. Futures have since retreated to make new lows in the 1983 crop months, with October and December the weakest. We still believe the situation warrants remaining aside from the market. (We covered short positions just before the hog report.) The 57.45 million hogs on farms on June 1, 1983 is 11 per cent above June 1, 1982, but still 3.8 per cent below the 59.74 million on June 1, 1981. Hog prices in the last half of 1981 ranged from averages of around 49 cents in July and August down to around 41 and 39 cents in November and December respectively. Futures prices for hogs are significantly below these 1981 levels in spite of lower hog numbers. While this is justified by projections for record-high red meat supplies in the latter half of 1983, the comparisons with 1981 warrant prudence.

Recent hog slaughter rates have been 10 per cent above 1982. Slaughter rates should ease to about 5 per cent above a year ago in the next few weeks. On days when hog slaughter fall below 285,000 to 290,000 this summer, futures prices for hogs and bellies may move upward slightly, owing to a ratchet effect as processors bid for hogs and narrow an extremely high farm-to-retail pork price spread.

Frozen pork belly supplies on July 1, to be reported July 21, should be lower than all but three or four years because of low inventories on June 1, 1983. By the end of July, belly stocks will be quite low if out movement in the second half of July improves. Out movement of frozen bellies has been about half of the 1982 rate so far in July. However, more frozen pork bellies have been removed from storage in July than any other month in 23 of the last 26 years. The recent inversion of the pork belly market (futures at a premium to cash), coupled with bacon featuring this summer, should provide the necessary incentive for good out movement of stocks.

STRATEGY: *Buy October live cattle at the market, anticipating a penetration of the three-month downside wedge. Place stops at 56 cents and liquidate long positions at our objective of 61.5 cents. Buy August pork bellies at the market. Roll long positions into February futures before August 1. Liquidate long positions in August pork bellies if (by a miracle) we reach 68 cents, and in February bellies if 65 cents is reached. Place stops at 45 cents, close only, in August, and 51 cents, close only, in February futures.*

Chart 18

June 22 USDA Hogs and Pigs Report - June 1 data. ('000 head)

	1983	1982	1983/1982 %	Expectations
All hogs and pigs	57,450	51,990	110.5	107.2
-for breeding	8,074	7,389	109.3	106.3
-for market	49,376	44,601	110.7	107.4
Mar.-May farrowings	3,478	3,014	115.4	108.0
-Jun.-Nov. intent.	6,319	5,815	108.7	105-110
Jun.-Nov. pigcrop	46,450	43,094	107.8	

June 21 USDA Cattle-on-Feed Report - June 1 data. ('000 head)

	1983	1982	1983/1982 %
On feed- May 1	7,221	7,066	102.2
Placements- May	1,843	1,853	99.5
Marketings- May	1,583	1,413	112.0
On feed- June 1	7,331	7,363	99.6

Early expectations for July 18 quarterly USDA Cattle-on-Feed report.

	1983/1982 %
Total on feed- July 1	98 - 99
Placements- April-June	97 - 101
Marketings- April-June	107 - 109

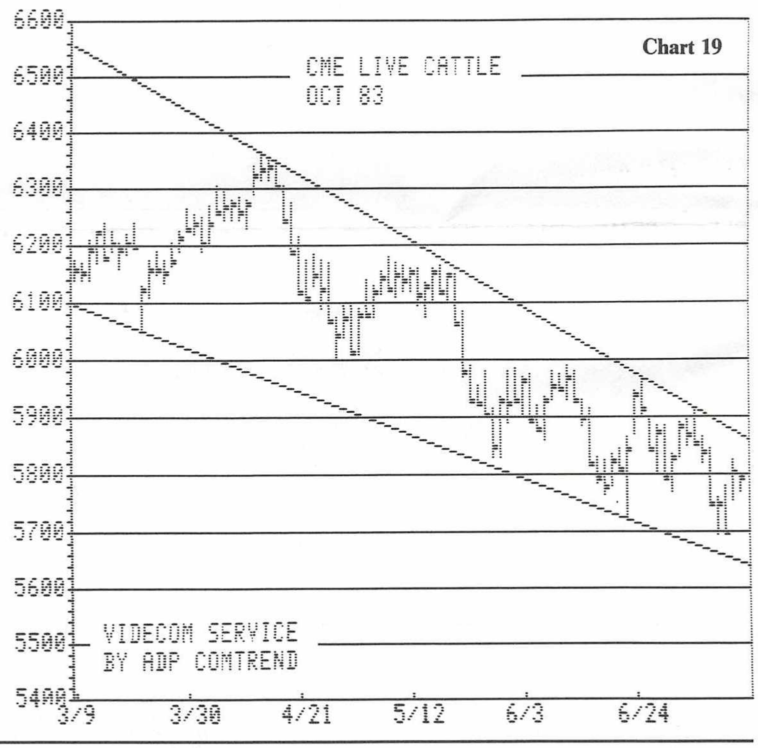


Chart 19

Grains

An abundance of reports and conflicting bullish and bearish information led to a high degree of volatility in the corn and soybean markets in recent weeks. Corn and soybeans reacted negatively to the July 12 USDA report on crop production based on July 1 conditions (see Chart 24.) However, prices again firmed substantially after this short correction.

An abrupt shift in the soybean price trend has occurred. It began with a downtrend last month caused by anticipation of shifts of acreage to soybeans and the promise of USDA price-support loan maturation, to an uptrend resulting from greater-than-expected hog numbers on farms and commensurately higher livestock feeding rates and much lower than expected soybean plantings as reported in the June 29 USDA report (See Chart 26). Limit-up soybean complex futures followed on June 30.

Recent price sensitivity is based largely on impending hot and dry spells in the US Midwest, interspersed with beneficial thundershowers. Corn prices have also been influenced, to a lesser degree, by the vagaries of the weather. Increased feeding rates, resultant lower stocks, and tight supplies of corn in the Midwest, coupled with minimal farmer marketings, have served to support corn prices, particularly old crop months.

Cumulative soybean export inspections for 1982-83 (September-August) to the latter part of June were 758 million bushels, about 5 per cent below 1982-82. Domestic crush in the same period, to the end of May, was 859 million bushels, 6 per cent above 1981-82. May soybean oil exports of 127 million pounds were about 60 per cent below April but 23 per cent *higher* than the same month in 1982. Soymeal exports in May were 458,000 tons, up 2 per cent from April but 29 per cent below May 1982.

To the latter part of June, corn export inspections for the season (October-September) totalled 1,441 million bushels, down 11 per cent from 1981-82. However, forward sales are up nearly 70 per cent. With respect to wheat, though, the prospects for the new crop season (July-June) look dire, with forward export sales of soft red winter (SRW) wheat down about 80 per cent, while hard red winter (HRW) sales are about parallel to 1982-83 new crop sales at this time last year. Total wheat sales of all classes have fallen 35 per cent from year-earlier levels, largely owing to a total dearth of Chinese SRW purchases. This arises from a continuing altercation between the US and China on textile and other trade.

Forward export sales of new crop production is a good indication of potential future price direction, notwithstanding major weather factors affecting supplies. With a record Chinese wheat crop of 76 mmt, SRW wheat sales prospects appear dim. The USDA currently estimates Soviet 1983-84 grain imports of 30 mmt, reduced from last month's 35 mmt, comprised of 18 mmt of wheat (20 before), 11 mmt of coarse grains (14 before), and 1 mmt of miscellaneous grains. The Soviet crop is still estimated by the USDA at 200 mmt, although many believe that forecast will be raised to 205 or 210 mmt.The USSR may take advantage of a good crop and continuing large imports to rebuild stocks to maintain growing livestock inventories. Protracted strength in the US dollar, however, is an offsetting factor to successful US export sales and rising grain prices.

STRATEGY: *The old saying goes: "He who sells what isn't his'n, buys its back or goes to prison." That was necessary following the June 29 acreage when short sales of soybean oil were stopped out — we sacrificed 140 points. No loss was incurred on July positions, but the effect of the report was battering. The long 1 soybean meal/short 2 soybean oil suffered as well and was stopped out with a risk of $1,800.*

Positions in September wheat were stopped out at 3.48. The short July corn/long December corn spread was attempted again but stopped out with minimal losses.

Sell September wheat at 3.62, with stops at 3.74. Cover short positions if 3.30 is reached. Sell November soybeans at 7.10 if that level is reached, with stops at 7.30, covering positions if prices retrace to 6.40.

Chart 20

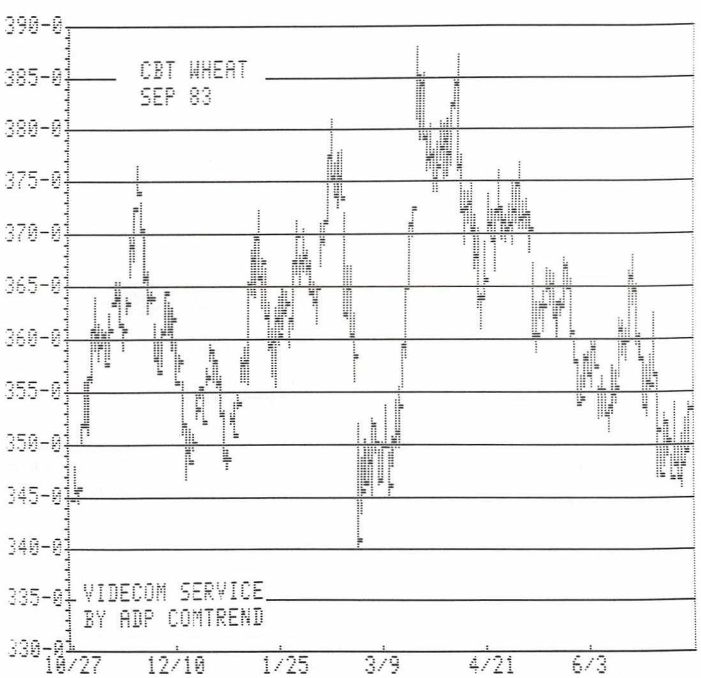
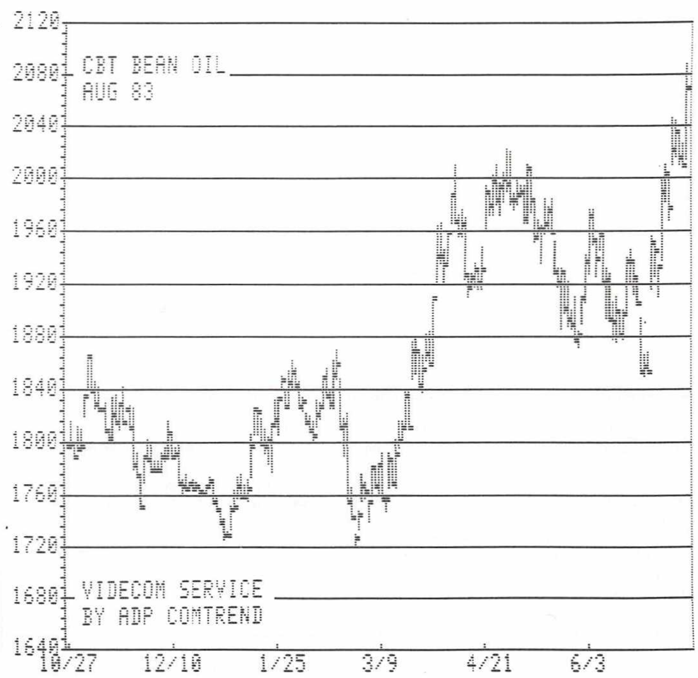


Chart 21



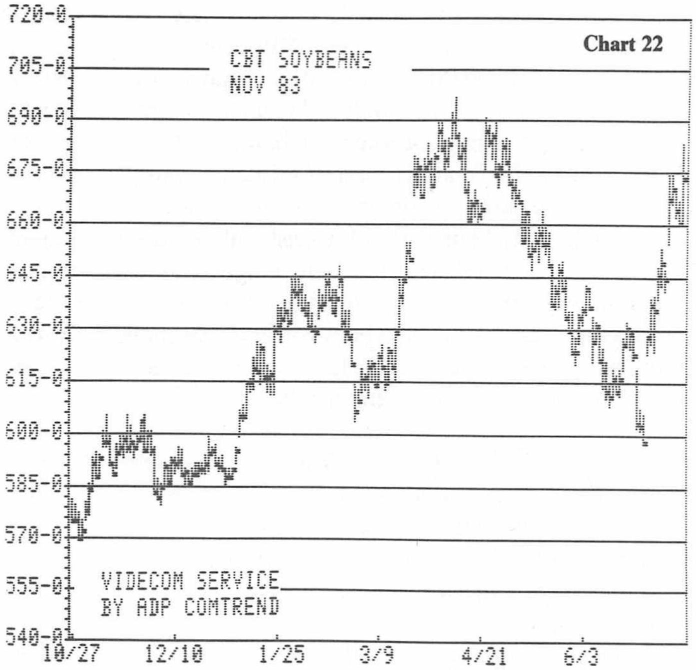


Chart 22

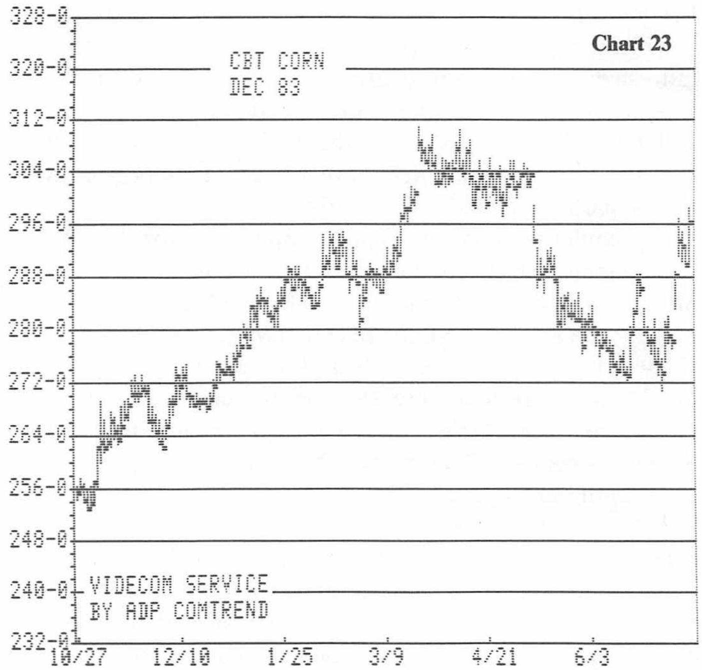


Chart 23

Chart 25

July 12 U.S. Crop Production - USDA - July 1 Conditions ('000 acres)

	Planted Acreage	Harvested Acreage	1983 Production (mln. b.)	June Est.	1982 Prod. (mln. b.)	1983/1982 %
All Wheat	76,640	61,394	2,437	2,343	2,809	86.8
Winter Wheat	62,456	47,667	1,937	1,883	2,108	91.9
Corn	60,129	52,464	6,200	6,050	8,397	73.8
Soybeans	63,345	62,183	1,990	2,075	2,277	87.4
Cotton	8,229	---	8.0*	8.4*	12.0*	66.7

*million 480-lb. bales.

Chart 24

July 13 U.S. Supply and Demand Projections - U.S.D.A. - July 1 Conditions (million bushels)

	1983/84 All Wheat	Corn	Soybeans	Cotton*	1982/83 All Wheat	Corn	Soybeans	Cotton*
Supply								
Starting Stocks	1,541	3,384	455	8.1	1,164	2,286	266	6.6
Production	2,437	6,200	1,990	8.0	2,809	8,397	2,277	12.0
Total Supply	3,981	9,585	2,445	16.1	3,980	10,684	2,543	18.7
Disappearance								
Feed	265	4,500	90**		216	4,500	88**	
Other	715	970	1,140***		712	900	1,100***	
Total Domestic	980	5,470	1,230	5.9	928	5,400	1,188	5.5
Exports	1,400	2,050	890	5.3	1,511	1,900	900	5.1
Total Disappearance	2,380	7,520	2,120	11.2	2,439	7,300	2,088	10.6
Ending Stocks	1,601	2,065	325	5.0	1,541	3,384	455	8.1

*million 480-lb bales
**seed, feed, and residual
***crushings

Chart 26

June 29 U.S. Acreage Estimated - USDA - June 1 data ('000 acres)

Planted	June Est.	May Est.	1982 plantings	1983/1982 %
All Wheat	76,640	77,376	87,277	87.8
Winter Wheat	62,465	62,981	66,351	94.1
Corn	60,129	58,812	81,909	73.4
Soybeans	63,345	65,810	72,162	87.8
Cotton	8,229.3	8,125.2	11,339.9	73.2
For Harvest				
All Wheat	61,394		78,841	77.9
Winter Wheat	47,667		58,347	81.7
Corn	52,464		73,152	71.7
Soybeans	62,183		70,783	87.9

*cotton area for harvest is not released until the August report.

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