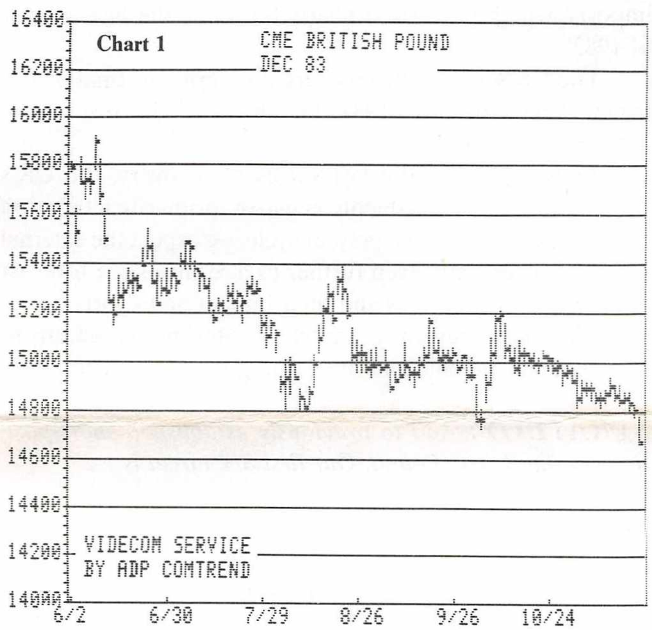
FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc. Volume 4, No. 11 November 20, 1983

Maggie's luck is running out



In March 1983 we advised covering Sterling short positions despite our belief that long term, the British unit would straddle the $1 mark. In July of this year and again last month we advised reentering the short side of Sterling as an attractive short-selling alternative to the deutschemark. From July to the present Sterling marked time, forming a massive descending triangle that by definition would have to be resolved on the downside. Late last Friday, Sterling plunged through the support zone represented by the 147.50 level. It is about to initiate a new and significant leg down that should provide us with an excellent profit opportunity.

First a note on the fundamentals. The Thatcher conservative miracle has been nothing more than a touch of extraordinary good luck summarized in no more than three words: North Sea Oil. F. J. Atkinson, S. J. Brooks, and S. G. F. Hall, writing for the *National Institute Economic Review* in May of this year have already shown that without North Sea oil, and assuming unchanged monetary and fiscal policies, Britain's unemployment would have been 700,000 higher(!), inflation would have been 1 percentage point higher, and national output would have been 5% lower. The authors admit that the lack of confidence in the foreign exchange markets may well have forced the government to resort to severe deflationary policies (as in 1976). Surely, such policies would have caused output and employment to collapse à la Mexico and forced the conservative Thatcher government to make a U-turn and reflate wildly in the subsequent period.

In order to assess the impact of North Sea Oil on the *UK's policies*, we need not go any further than discovering that from 1978 to 1982, Britain's wealth in the ground increased by no less than £200 billion! Moreover, this one-time wealth effect was being constantly revalued in line with better-than-expected recoveries and soaring oil prices. Furthermore, as Chart 2 shows, direct tax revenues increased from £500 million to £7.7 billion in the 1982-83 budget, allowing the UK to enjoy the lowest Public Sector Borrowing Requirement (PSBR) ratio to Gross Domestic Product in the industrialized world (about 2.75%). In the "without oil" simulation, Atkinson calculates the PSBR for the 1982 financial year at £25.4 billion, allowing, of course, for direct and indirect influences on GDP, and a far cry from the historical £9.0 billion actually obtained. Last but not least, the UK's balance of trade swung briefly to the plus side by late 1977 and then more spectacularly by early 1980, remaining there until early 1983. For the first time since World War II, UK policy makers were able to formulate policy without any external constraints.

In the fortuitous 1977-83 period, Sterling tracked almost exactly the course of the UK's balance of trade, rising and falling with the ebbs and flows of its newly-acquired oil wealth. With formidable prescience Sterling weakened steadily

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vis à vis the deutschemark (a better gauge of its trade-weighted value than the first plumetting and then soaring US dollar) from late 1976 to late 1978 (see Chart 3) as the UK's balance of trade strengthened (as a result of fledgling oil exports) and then weakened (due to a combination of booming imports and stagnating oil prices and production). Eventually, Sterling rose and peaked *coincidentally* with the record quarterly surplus achieved in the fourth quarter of 1980 and the first quarter of 1981. Once again, the foreign exchange markets called the turn: Despite a new spurt in favorable balance of trade readings in late 1982, Sterling was already anticipating the new era. The oil wealth had been thoroughly discounted; worse yet, given the predictability of proven oil reserves and production into the early '90s and the mediocre prospects for oil in the near and medium term, Sterling had lost its glamour.

What is remarkable is the absence of a Thatcher factor to explicate the modestly successful 1979-83 period. Favorable terms of trade — not sensible policies — were responsible for the enlightened interlude; in short, luck rather than brains and willpower.

In recent months, the carefully constructed facade of conservatism has begun to give way. First, inexplicably, government spending has been overshooting the target set last March, with October showing a 16% increase over last year. For the full year, the PSBR is now expected to total £12 rather than the original £10 billion. *Overshooting* in the 1983-84 year is likely to come in at £4 billion, assuming that oil prices remain at present levels — an extremely doubtful assumption. With a more pessimistic oil scenario, the PSBR could easily swell by another £1½-£2½ billion. Secondly, monetary policy remains extremely expansive. For the past four quarters, M_1 has been growing at 17.2%, 9.5%, 15.3%, and 8.5% while M_3 has been increasing at 12.2%, 8.1%, 14.6%, and 8.4% (three-month growth at annual rates), hardly a semblance of restraint. During October, M_3 grew at an astounding 20% annual rate of growth. Here, too, monetary targets have been overshot, leading one to wonder about the so-called Thatcher conservatism. Monetary ease and fiscal profligacy have fuelled a veritable consumption boom: retail *volume* for the July-September '83 period exceeds the comparable period last year by 5.5%, while industrial output struggles along with a 2% gain. The difference is made up by imports, which have risen nearly 8% since the last quarter of 1982.

The UK's economic recovery is entering its final phase, having begun in early 1981, far ahead of the rest of the industrialized world.

As is typical in the last stages of recovery, the UK's balance of trade turns deeply negative, primarily a function of soaring imports. In the present cycle, we expect the external sector to deteriorate even further as a result of our forecast of much lower oil prices and their impact on exports.

The petro-currency status of Sterling is about to boomerang. The chickens are coming home to roost.

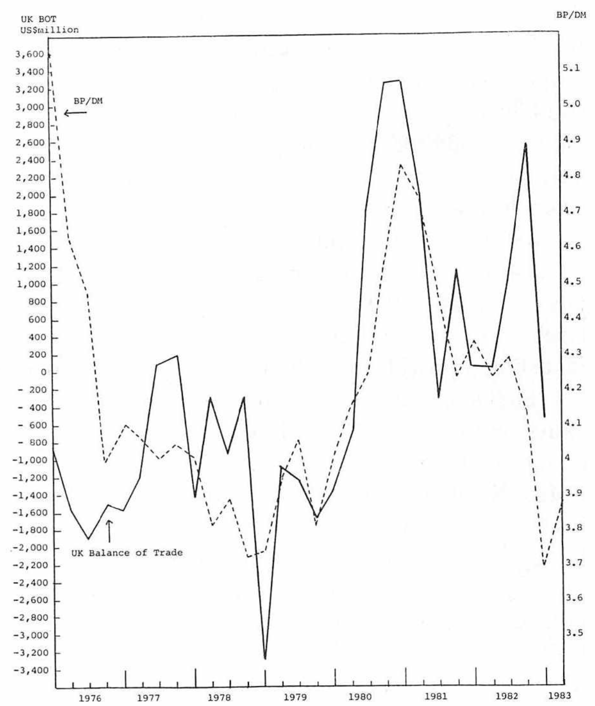
STRATEGY: *Add to previously established short positions in the British Pound. Our first $/£ target is 1.25.*

Chart 2

North Sea Oil	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 (estimate)
Production:							
Volume, million tonnes	16.6	41.4	59.6	79.6	81.4	90.5	105
Value, £ billion	0.9	2.4	3.2	6.8	9.5	12.7	14.6
Government Revenues, £ billion	0.08	0.2	0.5	2.3	3.8	6.4	7.7
General Government Expenditure £ million	59,339	63,635	74,427	89,468	108,002	119,493	132,247
Public Sector Borrowing Requirement, £ million	8,523	5,597	9,224	9,915	13,211	8,744	9,066

Sources: CSO Financial Statistics, National Institute Economic Review

Chart 3



Currencies

DM, SF, Yen, French franc

A recently released study by the Federal Reserve Board of New York points out that US exports to Latin America will have fallen, by the end of 1983, to $24 billion, a 40% slump from the 1981 peak of $39 billion. As pointed out in a previous issue, this decline in exports to Latin America (and Canada, as well) goes a long way to explain the deterioration in the US balance of trade. That it had little to do with the strength of the dollar and a great deal to do with Latin American debt problems is attested to by the fact that US exports to Latin America fell 22% in 1982, just slightly more than the 19% fall in *total exports* to the region in that year.

We continue to be aggressive dollar bulls and expect the dollar to climb at least 10%-15% between now and late January '84. Blow off or topping off characteristics, discussed at length in our August issue (*Comments*, August 11, 1983) are nowhere to be seen; if anything, a feeling of extreme complacency has set in with most operators believing that a "range," albeit a fairly wide one, has been established in the 2.55-2.75 area. As always, a new surprise is looming.

STRATEGY: *Short positions in deutschemark, Swiss franc, and Japanese yen were reinstated, as per our last issue, on stops below 38.25, 47.35, and 42.80, basis December '83 respectively. Remain short with stops at the October highs. When necessary, roll over to March '84 positions.*

Canadian dollar

The continuous buildup of international reserves indicates that the Bank of Canada is targetting the exchange rate, allowing for a slightly declining "ceiling," now possibly around 81¢. It remains to be seen where the lower end of the range is, once speculative selling reinforces the recent downtrend.

The country's balance of trade continues to make good reading, now showing an annual C$18 billion surplus. The economic recovery is proceeding, albeit sluggishly and at a slower pace than the one taking place in the US. Deep "structural" problems (a euphemism for uncontrolled spending) are threatening to widen the budget deficit beyond an already intolerable 8% of Gross National Product. Looming ominously and unexpectedly is the chaotic budgetary impact of another drop in international oil prices. In the meantime, however, funding is proceeding satisfactorily given the extraordinary paucity of private credit demands and the relatively high private savings ratio. Of course, one can hardly overdo a "good" thing: Public debt cannot continue to grow at 20%-25% per annum indefinitely.

STRATEGY: *We remain friendly to the Canadian dollar and therefore would not want to establish short positions, despite the apparent downtrend. Hedgers may remain long; speculators should turn their attention to the European currencies discussed above.*

Chart 4

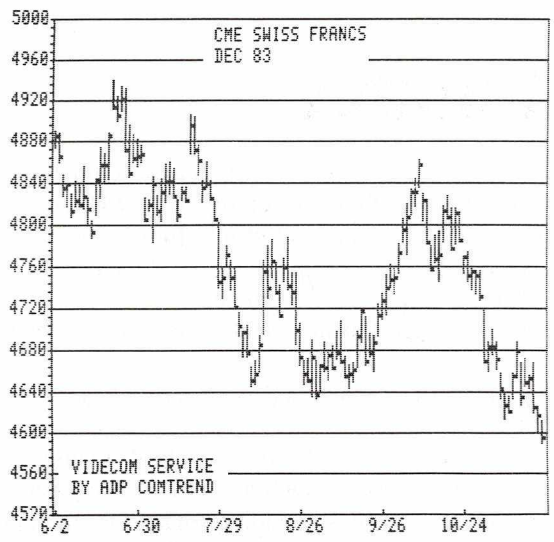


Chart 5

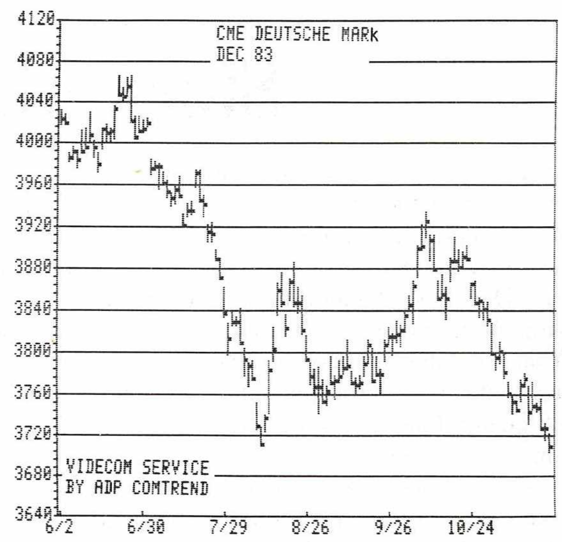


Chart 6

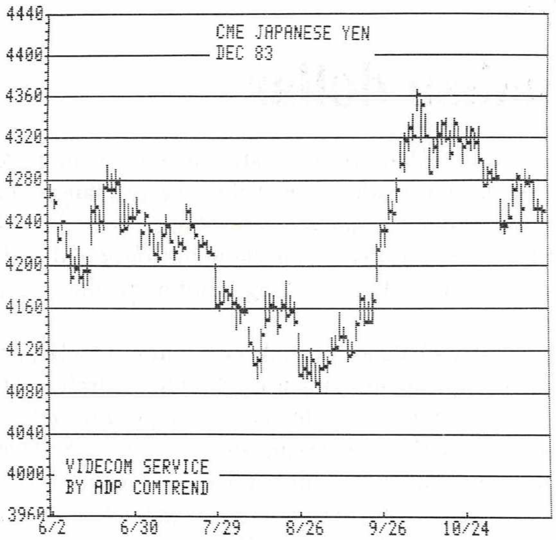


Chart 7

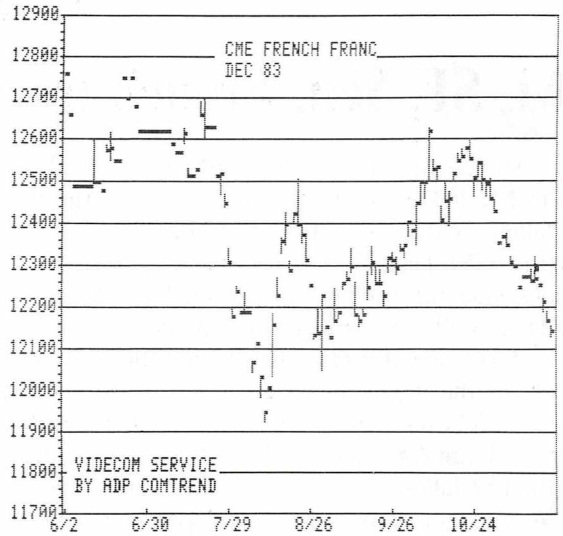
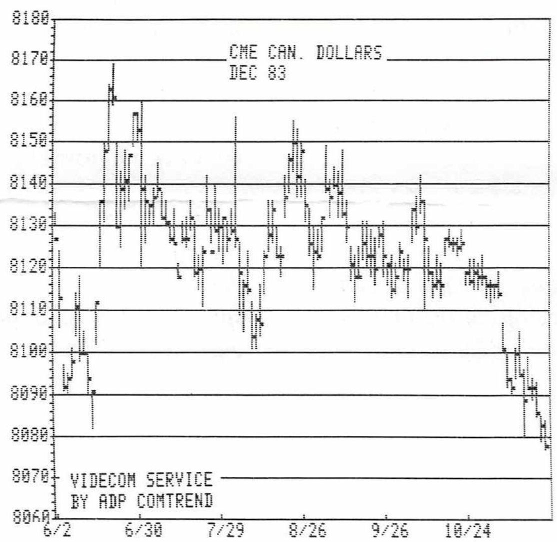


Chart 8



Stock Market Futures

Narrow but rotating leadership continues to sustain this market. Once again, the bears are growing scarcer as *Investor's Intelligence* reports that barely 13.7% of advisory services think the end of the world is coming. Supporting this view, December '83 S&P futures command an incredible 161-point premium over the cash index.

What is holding up this overvalued market, selling at an earnings yield 32% lower than the yields obtainable on triple-A quality long-term corporate bonds? An extraordinary amount of *liquidity* confined to and concentrated in relatively "safe" investment areas; the illiquidity of the LDCs and domestic energy producers has, so to speak, unleashed a relatively excessive amount of liquidity towards cyclical and technological publicly-traded companies. Initial public offerings total, so far this year, $11 billion, an amount equal to all such offerings from 1960 to 1982. Leveraged buy-outs, a concept that seems to defy the laws of financial gravity, bring out an insatiable amount of *unsecured* credit from the largest institutional lenders and banks in the country.

Liquidity will be soaked up as soon as industry reaches a level of economic activity that requires increasing financing. Furthermore, the cancerous spread of "dead" loans (a result of capitalizing interest to LDCs and energy producers) will do its part to absorb excess liquidity. We have found that the rate of growth of bank investments (bank purchases of government and corporate securities as opposed to loans) acts as a fair proxy for liquidity. Annualized rates of growth of approximately 20% or more have coincided with dramatic upturns in the stock market; decelerations to annual growth rates of 5% or less (and, of course, actual declines) have spelled trouble, at least since 1966, the start of the inflationary era. Charts 11 and 12 shows an obvious deceleration of bank investment in the June to August '83 period, from an annualized 12.1% in the immediately prior two-month period and 21.4% in the IIIQ 82 — IIQ 83 period to a mere 7.2%. Of course, the deceleration may stop at a still respectable 7%-10% annualized rate of growth, sufficient to keep the bull market intact, and we may be grasping at straws . . . .

What keeps us doggedly bearish, however, is the extraordinary lack of breadth evidenced by this market, measured in terms of net new highs or in terms of the advance/decline line. It should also be noted that *like the 1973 top*, the more speculative over-the-counter and AMEX stocks have been in a severe declining phase that has already lasted six months and gives no sign of ending. Clearly, the public has been had; it is now the turn of the professional.

STRATEGY: *While not discounting a year-end rally that could take the Dow and the S&P 500 to new highs, we believe the die has been cast. Retain short positions with stops at 175.00, basis the cash S&P 500 index.*

Chart 9

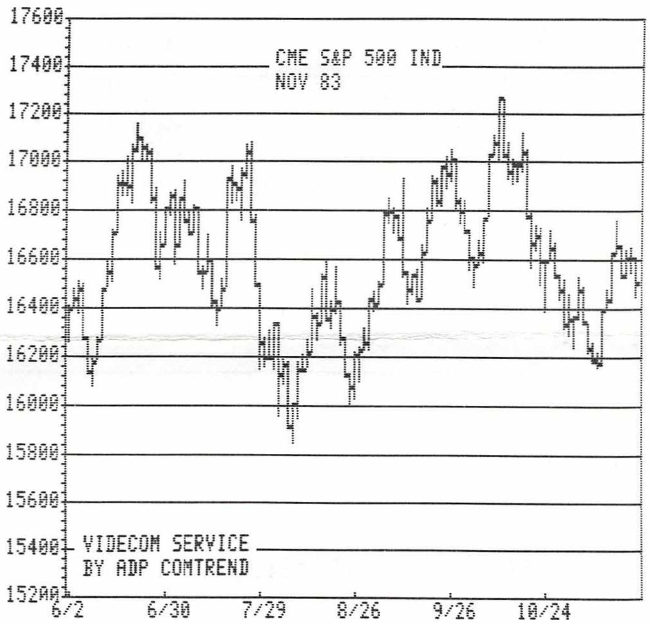


Chart 10

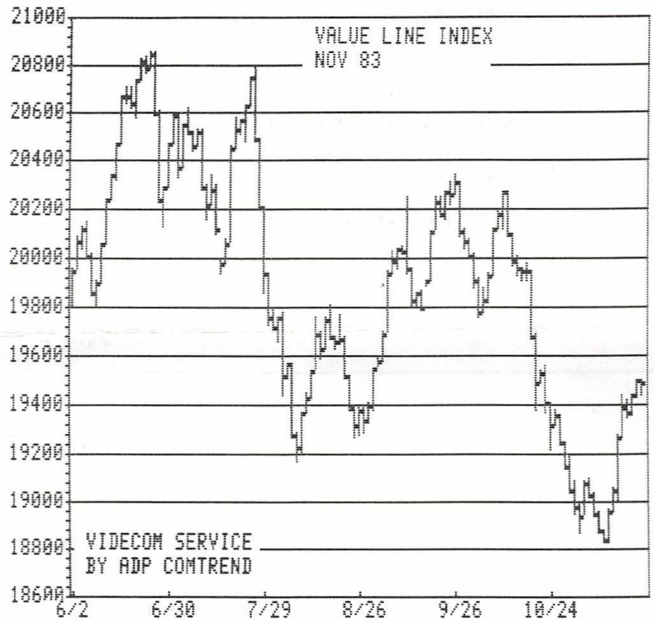


Chart 11

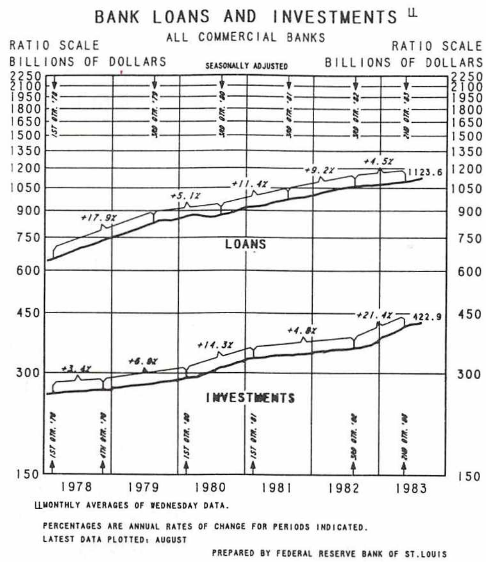


Chart 12

TOTAL INVESTMENTS
COMPOUNDED ANNUAL RATES OF CHANGE

TERMINAL MONTH	INITIAL MONTH 1-82	2-82	3-82	4-82	5-82	6-82	7-82	8-82	9-82	10-82	11-82	12-82	1-83	2-83	3-83	4-83	5-83	6-83	7-83	BILLIONS OF DOLLARS
2-82	5.7																			347.8
3-82	3.3	1.0																		348.1
4-82	5.9	6.0	11.2																	351.2
5-82	5.0	4.8	6.7	2.4																351.9
6-82	4.3	3.9	4.9	1.9	1.4															352.3
7-82	4.0	3.6	4.3	2.1	1.9	2.4														353.0
8-82	4.6	4.5	5.2	3.7	4.2	5.6	8.8													355.5
9-82	4.5	4.3	4.9	3.7	4.0	4.9	6.1	3.4												356.5
10-82	5.4	5.4	6.0	5.2	5.8	6.9	8.4	8.2	13.2											360.2
11-82	5.8	5.8	6.4	5.8	6.3	7.4	8.7	8.6	11.3	9.4										362.9
12-82	7.8	8.0	8.8	8.5	9.4	10.8	12.5	13.5	17.0	19.0	29.5									370.8
1-83	10.9	11.3	12.4	12.6	13.9	15.8	18.2	20.2	24.8	28.9	39.9	51.2								383.8
2-83	11.2	11.7	12.7	12.8	14.1	15.8	17.8	19.4	22.8	25.4	31.2	32.1	15.4							388.4
3-83	11.8	12.3	13.3	13.5	14.7	16.3	18.1	19.5	22.5	24.4	28.5	28.1	17.9	20.6						394.5
4-83	12.7	13.2	14.2	14.4	15.6	17.1	18.9	20.2	22.8	24.5	27.8	27.3	20.2	22.8	25.0					401.9
5-83	13.9	14.5	15.5	15.8	17.0	18.6	20.3	21.7	24.1	25.8	28.8	28.6	23.5	26.4	29.4	33.9				411.8
6-83	14.2	14.8	15.8	16.1	17.2	18.6	20.2	21.5	23.6	25.0	27.4	27.1	22.7	24.6	26.0	26.6	19.6			418.0
7-83	13.7	14.2	15.1	15.3	16.3	17.5	18.9	19.9	21.6	22.6	24.4	23.7	19.6	20.4	20.4	18.9	12.1	5.0		419.7
8-83	13.5	13.9	14.7	15.0	15.8	16.9	18.1	19.0	20.5	21.2	22.6	21.8	18.1	18.6	18.2	16.5	11.2	7.2	9.5	422.9P
	1-82	2-82	3-82	4-82	5-82	6-82	7-82	8-82	9-82	10-82	11-82	12-82	1-83	2-83	3-83	4-83	5-83	6-83	7-83	

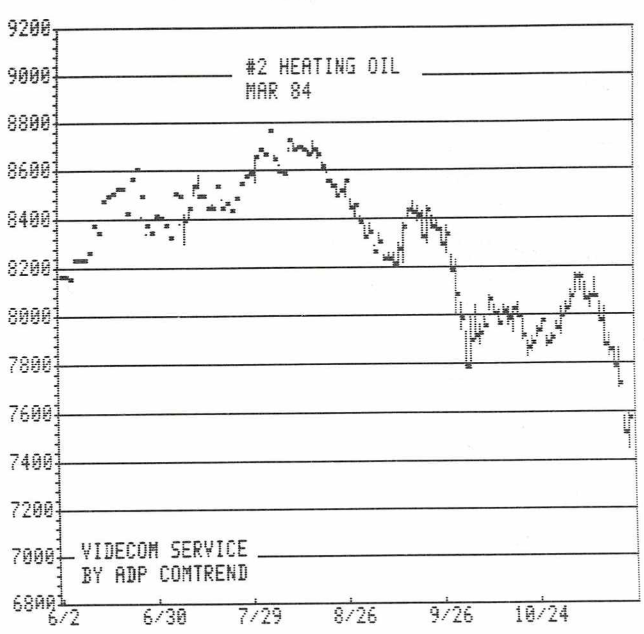
INITIAL MONTH

P- PRELIMINARY

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
SEPTEMBER 20, 1983

Energy Futures

Chart 13



$28 and counting . . .

Buffeted by excessive supplies, the spot market in crude has begun to crack: over the past few weeks, Arabian light, North Sea (Forties), and African Bonny Light have traded between $1 and $1.50/barrel *below* official quotes. Attesting to the extraordinary weakness of the market, informed sources indicate that Nigeria and Iran have been *short* of their allocated quota by as much as 300,000 barrels per day (bd) each.

It remains to be seen how long before either of these individualistic member states decides to abandon OPEC's official price benchmark and adjust prices to maximize output. Thus far, only tiny Qatar has broken ranks by giving undisguised discounts of up to $1 per barrel. While it has been selling 350,000 bd in recent weeks, 50,000 above its allocated March '83 quota, it has been known to have wanted to balance the budget by moving production to 420,000 bd.

Total OPEC production is now sliding towards its self-imposed ceiling of 17.5 million barrels per day (mbd) after having overproduced by a *minimum* of 1 mbd for close to four months. Given present stock levels, the continued strength of the US dollar, and the extremely frail worldwide recovery, OPEC's output would have to plunge to as low as 13.5 mbd in the first quarter of 1984 if it is to maintain its $29/barrel price.

In our view, such an act of abstention is highly improbable. In the first place, the Saudis will realize, sooner or later, that Iran has been and is the main beneficiary of the Saudi's price-fixing effort. While Iran's output has risen from an average (post-Shah) low of 1.5 mbd to approximately 2.6 mbd in the 3rd quarter of 1983, the Saudis have seen their production decrease from 10 mbd to 5.5 mbd in the same period. What is worse, Iran is now producing close to 90% of its maximum capacity while the Saudis are producing at less than 45% of maximum. Since Saudi Arabia is the swing producer, it stands to reason that most of the drop in OPEC output required to bring about an equilibrium level of 13.5 mbd would fall on them. Will they allow themselves to bring production down to a mere 1.0-2.0 mbd, well below its arch-enemy's undisturbed quota? Clearly, the answer must be no.

OPEC's room to maneuver continues to narrow: The UK's North Sea output is slated to increase by 200,000 bd in 1984, the Soviet Union is reexporting as much as 600,000 bd of crude acquired in exchange for arms from Libya, Iraq, and Iran (and not reported as sales by the latter), refining margins have come under severe pressure once again, after a brief period of respite in the May through mid-September period, threatening to precipitate a new bout of inventory liquidation.

Earlier this year, (*Comments*, March 16, 1983) we projected an $8-$10/barrel price for spot oil before year end. In view of the few remaining weeks left in the year, it would be foolhardy to reiterate such a forecast. It would, however, not be impossible for prices to drop $4-$7/barrel by *year end*, as a prelude to a free-fall in the January-March 1984 quarter. A change in the Gulf States' official thinking may have been implied by Qatar's oil minister when he said (on November 8): "the $29/barrel price is rather high, judging by market conditions."

STRATEGY: *We continue to favor short positions in heating oil over London gasoil futures. Be that as it may, we urge maintaining an aggressive short position in* all *energy futures.*

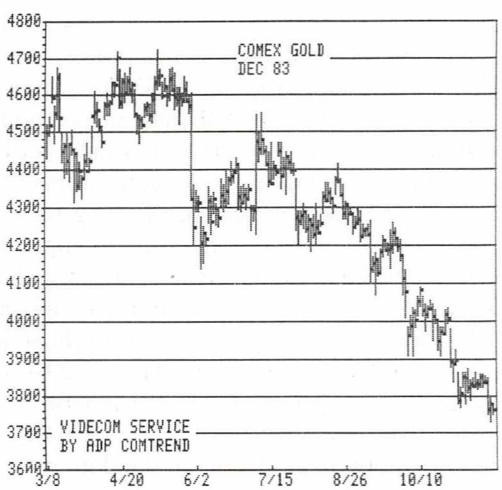
Precious Metals

Public bargain-hunting has arrested, temporarily, the swift decline in precious metals. Sales of South African Krugerrands are a good proxy for public interest. In September sales totalled 275,000 ounces world-wide, while last month, as bullion decisively broke the $400/oz. mark, sales soared to 379,000 ounces. Econometricians would delight in knowing that the 10% drop in gold prices that occurred in the first 10 months of 1983 found a 39% increase in Krugerrand sales, to 3.9 million ounces. In Japan, the results have been even more dramatic: Gold imports, in October, soared to 580,000 ounces from 275,000 ounces in September.

In past issues we have pointed out that historically, gold enters a bottom area *when the public is a net buyer and central banks are net sellers.* International Monetary Fund statistics indicate that just such a phenomenon has been taking place since the third quarter of 1981 when central bank holdings totalled 955.08 million ounces. At last count (July '83), these holdings had been reduced to 945.96 million ounces. *Should this process accelerate*, we will know we are in the latter stages of the bear market. For now, we remain steadfastly bearish.

STRATEGY: *Remain short; roll over to February '84 gold and March '84 silver. Lower gold stops to $401/oz. basis nearby COMEX, and silver stops to 9.25 basis* nearby *COMEX, all close only.*

Chart 14



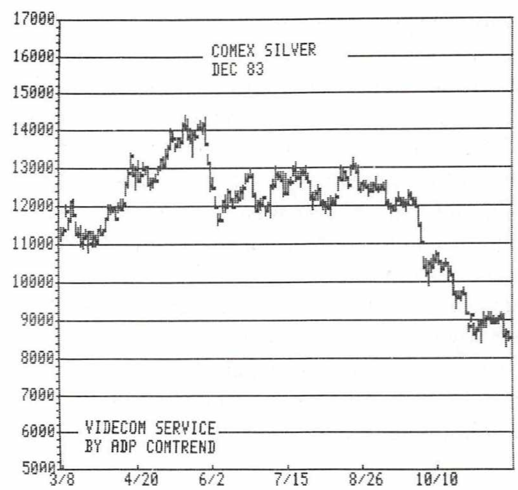
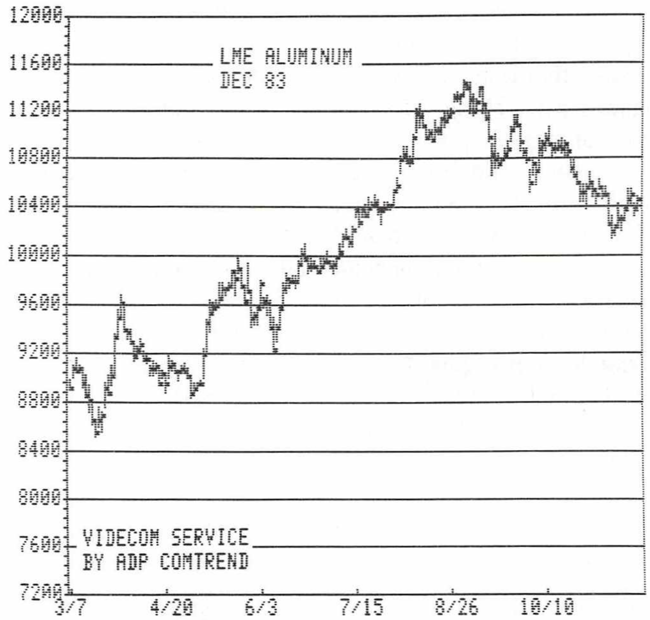


Chart 15

Base Metals

Chart 16



The downtrend in aluminum prices continues inside a well-defined downward channel.

Underscoring the strong demand for metal, Reynolds Metals Co. said it will restart some of its highest-cost smelting capacity. A bullish sign with bearish (more supply) implications....

STRATEGY: *Profitable positions acquired via 3-6 month puts should be protected with stops at £1060/tonne, basis the three-month LME contract.*

Grains

To continue in the same vein as last month, export sales and bookings in 1983-84 remain ahead of 1982-83 at this time, with the exception of wheat. Since our last report, however, the margin by which export commitments to November 11 exceed the year-ago levels in the case of corn and soybeans has narrowed substantially: For corn, commitments exceed last year's level by 36.2%, versus a gigantic 453% to October 13, 1983, compared with the year earlier (the corn season begins October 1); similarly, for soybeans, commitments are only 10.7% ahead of 1982-83 rates, as against 67% when October figures are compared for 1983-84 versus 1982-83 (the soybean season begins September 1).

It was this progression we posited last month; and it is this that has led to the failure of grain prices to sustain the summer bull market — despite a 138.4 million bushel reduction in USDA forecast corn production to 4,121.0 million bushels (mb) reported November 10 from 4,259.4 mb estimated in October. The positive nature of the corn figure was offset by a minor increase in soybean production, to an estimated 1,536.5 mb from 1,517.0 estimated in October. In fact, on November 11, corn prices finished 2¢ to 5¢ lower, while soybeans dropped over 22¢ in the nearby contracts. Clearly, the market was expecting a larger fall in corn production, even though the current estimate of 1983 crop corn is a whopping 50.9% below the respective 1982 figure.

The most recent USDA supply and demand projections indicate a prospective fall in 1983-84 ending stocks of corn to only 512 mb, or about 7.6% of forecast annual usage, a tight but bearable situation. Soybean carryover is now expected to be 140 mb, up from 120 estimated in October but still only 7.8% of annual disappearance. Both corn and soybean carryover levels are a far cry from the huge 1982-83 carryover levels. *Still, the market falls.*

The market now concentrates on demand factors, which cannot be sustained at early season rates. As we have indicated, the early season spurt in demand is attributable to "must have" consumers. The "weaker hands," less profitable users of corn and soybeans are forced to turn to alternative inputs, or to halt production. It is these "weaker hands" consumers who will come out of hiding later in the season as we see the extent to which corn and soybean demand is curtailed. So far, though, disappearance has been large. June to September corn feeding was 1,043 mb, 38% more than the 1982 period, owing to larger livestock numbers combined with poor summer grazing conditions. Wheat feeding in the same period rose to an unprecedented level, 46% above the 1982 period, as a result of substitution of wheat for high-priced corn. The 1983-84 wheat feeding estimate has been raised to 350 mb by the USDA, 66% higher than 1982-83.

Southern hemisphere production prospects for soybeans are excellent, with Brazilian plantings now estimated 7% to 8% above 1982-83, and the crop estimated preliminarily at upwards of 15.5 million metric tons (mmt). Southern hemisphere and Soviet coarse grain crops are expected to be much above 1982-83.

The Soviet grain production estimate by the USDA remains the same at 200 mmt but is comprised of 80 mmt of wheat (85 previously and 86 in 1982-83) and 108 mmt of coarse grains (103 previously and 86 in 1982-83). Subsequently, the wheat import estimate was raised 1.0 mmt to 18, while the coarse grain import estimate was lowered 1.0 mmt to 10.

Soviet wheat supplies in 1983-84 are expected to be the smallest since the disastrous 1975 crop year.

Still, world wheat prices remain on the defensive, as exportable supplies world-wide are huge. The EEC continues attempts to increase market share. Support is very close at hand, though, as the payment-in-kind (PIK) sign-up for wheat acreage set-aside to the end of February promises to be good.

STRATEGY: *Those who followed our advice on the new hotline should have reinstituted short positions in corn just below 3.60, basis December. Enter stops at 3.60, close only, with a target of 3.25, basis December. Earlier positions were stopped out very profitably at 3.50 per last month's recommendation. Short positions in soybean oil from above 30¢, as recommended last month should be maintained. Lower stops to 29¢, close only, with a target of 24¢, basis December. Shift December positions to March before expiry.*

Long July wheat/short July corn spreads should have been stopped at par. We don't like to flog a dead horse, but we will be watching this spread closely for sign of a bottom. Historically, the current situation has no precedent; however, we feel that stops must be respected. The likely cause of a major turnaround in this spread will be large sign-up in the 1984 wheat acreage set-aside programs.

The long 1 March soymeal/short 2 March soyoil should be showing profits of about $3,000 per unit. Risk $1,500 from the current equity of this position; otherwise maintain the position.

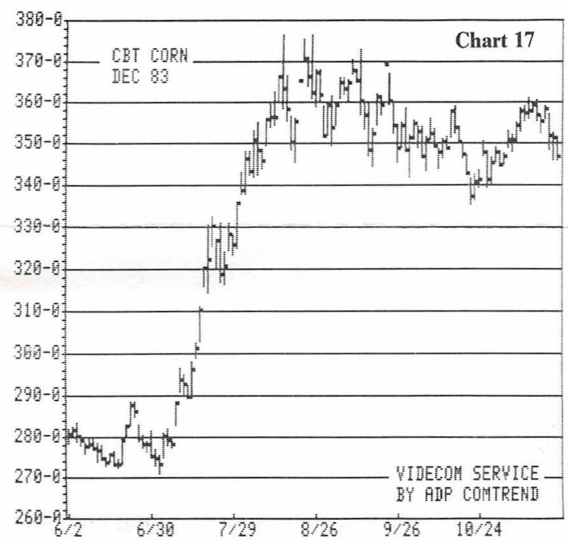


Chart 17

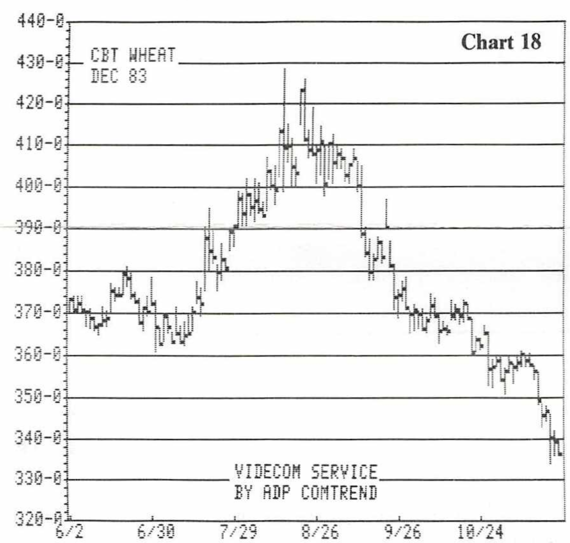
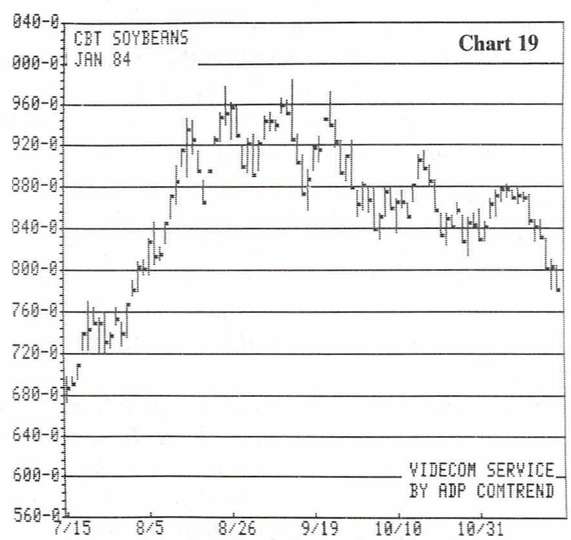


Chart 18



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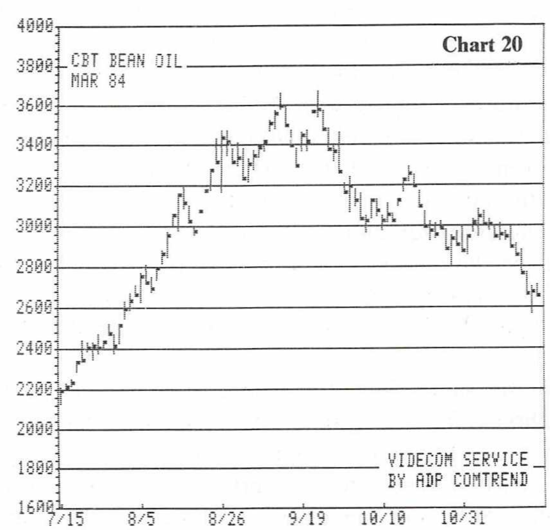
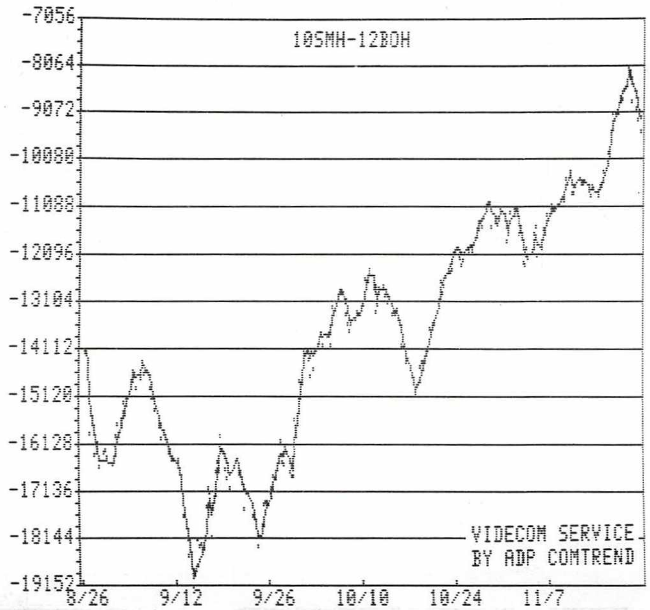


Chart 20

Chart 21



Livestock

Cattle prices in the past month easily survived the bearishness of US dairy price support reduction legislation. This, combined with a positive cattle and calves on feed report (see Chart 25) has substantiated our grounds for a bull market in live cattle prices. Long positions in feeder cattle have benefitted from a double play, owing to rising slaughter cattle futures coupled with falling grain prices; feedlot operators tend to bid feeder cattle prices to a level at which break-even occurs — that is, where the cost of all inputs equals the sale price of the product.

Long-term liquidation of breeding inventories is evident given the number of cattle on feed on November 1 at 5.6% less than a year ago. This trend yields promise for much higher beef cattle prices from the second half of 1984 onward.

At the same time, the extent of hog breeding feed liquidation is less quantifiable. Sow slaughter has fallen as a proportion of total hog slaughter from the peak during the summer, when sows often comprised 7% or more of total slaughter. Still, sow slaughter continues at "liquidation" levels, but not at a rate that will bring breeding inventories below late 1982 levels for some time. Such an event would be necessary to sustain a long-term improvement in hog prices. One bullish case, not provable until the December quarterly USDA hog report, is based on the hypothesis that 1983 services farrowings fell well below expectations as a result of very hot weather. We would tend to disagree, owing to the modern improvements in housing for swine.

STRATEGY: *Remain long June cattle, raising stops 3¢ to 64.5¢, close only. Retain long positions in August feeder cattle, raising stops to 64.5¢. Spreads of long August feeder cattle/short August live cattle, instituted at about 140 or better, premium the feeders, should be retained, risking even money.*

Long December hogs/short April hogs spreads may have been stopped out, depending on entry level. It was recommended November 10 on the new hotline that such positions be replaced; these spreads will now be showing small profits and should be maintained, risking a differential of 5¢.

Chart 22

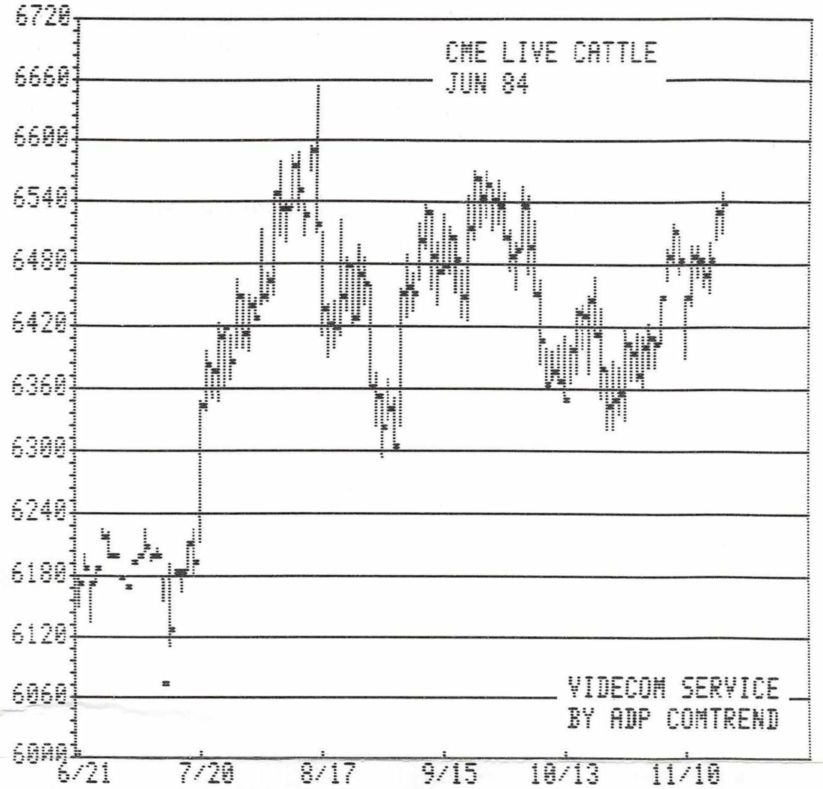


Chart 23

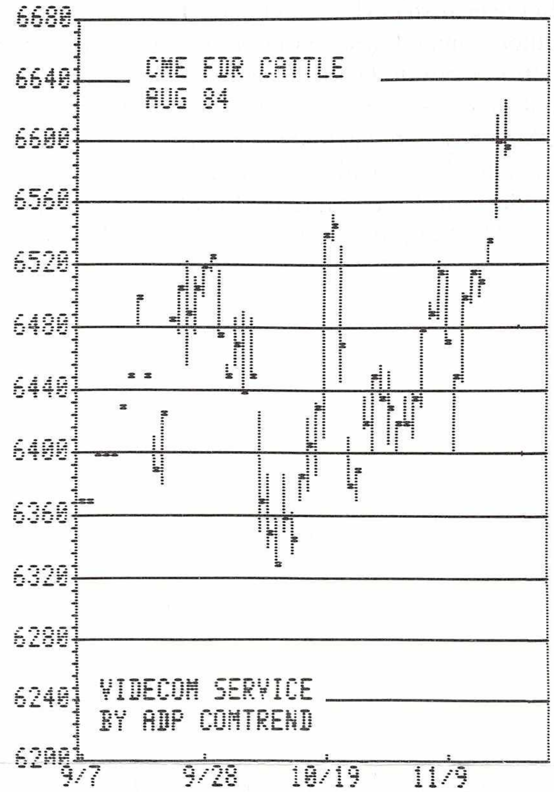


Chart 24

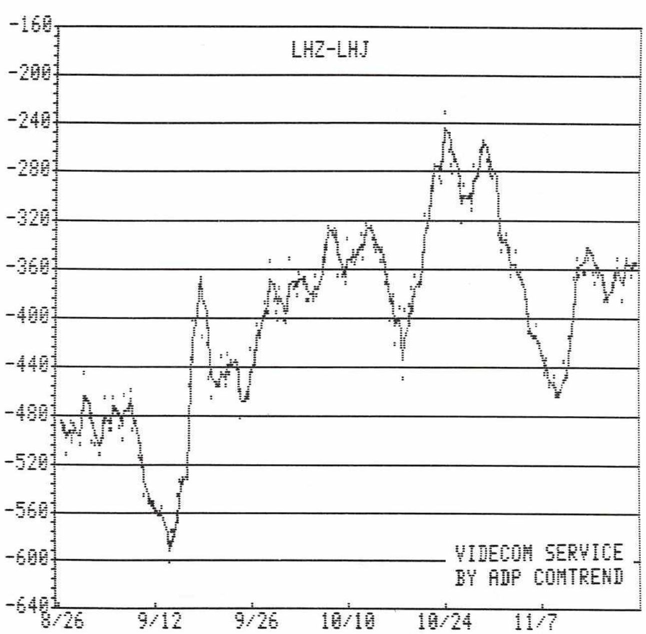


Chart 25

November 16 USDA Cattle and Calves on Feed Report-November 1 data.

	1983	1982	1983/1982 %	expected
on feed October 1	6,951	7,153	97.2	
placements-October	2,460	2,600	94.6	95.6 (81-102)
marketings-October	1,626	1,527	106.5	101.5 (96-105)
other disappearance*-Oct.	102	83	123.0	
on feed November 1	7,683	8,143	94.4	96.2 (91 - 98)

*- includes death losses, movements to pasture from feedlots, and movement to other feedlots for further feeding.

Source: U.S.D.A.

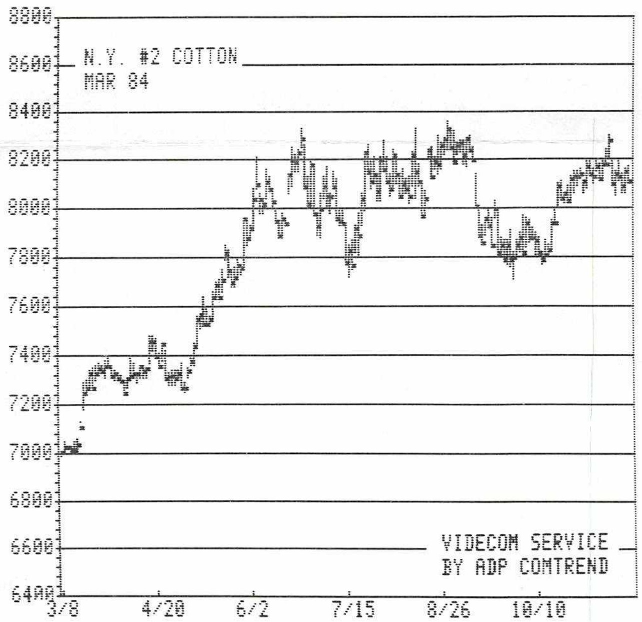
Cotton

In the bearish environment of declining prices for almost all other commodities, and more recently, falling grain prices, cotton seems to be the exception. The world situation does not pique our interest from a bullish standpoint, but good US domestic mill activity combined with export limitations by non-US alternative exporters seems to be generating a bidding war for first quarter 1984 US cotton supplies.

The November 10 USDA cotton production estimate of 7.5 million bales was considered bearish, compared with expectations of 7.1 to 7.4 million, but still has not left the market without support. Bullish news regarding the size of the Soviet and Egyptian crops may, over the longer term, have a delayed bullish effect.

STRATEGY: *Retain long positions in March cotton, raising stops to 79¢, close only.*

Chart 26



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