FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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Deflate the debt, please

> We must indeed all hang together, or, most assuredly, we shall all hang separately.
>
> *-Remark to John Hancock at the signing of the Declaration of Independence, July 4, 1776.*

One year later, the debt owed by Less-Developed Countries (LDCs) to Western banks and official institutions continues to mount. Developing nations undergo cataclysmic contractions, the painful aftermath of their own speculative bubbles, which in turn were caused by the mindless liquidity injections of the '77-'82 period. World trade suffers. Mercantilism is on the rise. Banks become angry and impatient with their demurring debtors but extremely satisfied with those who, having forsaken the idea of principal repayments, are punctilious payers of interest.

But is there a better way? It depends on the objective: either the resumption of worldwide economic growth or the bailing out of the multinational banks. It is imperative to understand how and why these two objectives are mutually exclusive before we can begin to propose a better solution.

The International Monetary Fund (IMF), along with the General Agreement on Trade and Tariffs (GATT), claim to be the engine of liberalism that restarted, preserved, and promoted the unparalleled Western economic expansion of the post-war era. The IMF's conditionality associated with upper credit tranche adjustment programs — the jargon for the conditions attached to loans made to countries experiencing balance of payments problems — was designed to "restore and maintain viability to the balance of payments in an environment of price stability and sustainable rates of economic growth." Of course, the IMF was mainly concerned with the successful recovery of its loans and demanded, to the best of its "know-how," the fulfillment of an economic program that would guarantee eventual repayment. Primary emphasis was placed on generating a balance-of-payments surplus. Since the latter phenomenon was a function of a properly aligned exchange-rate and the elimination of excessive domestic credit creation, the IMF was, in fact, helping the hapless debtor to *regain economic health.*

Viewed in this light, the adjustment programs of the '50s, '60s, and early '70s were generally successful. It should be noted that this period was characterized by extraordinary growth in world trade and by the emergence of "soft" loans and "soft" creditors, i.e., long periods of repayments at *concessionary* and *fixed* rates granted by magnanimous official institutions. By the late '70s, conditions had changed dramatically: World trade, or at least its rate of growth, was past the apogee; adjusting countries could no longer be "carried" by the vibrant caravan in neighboring countries. Worse yet, the terms on international loans had stiffened; floating interest rates, well above the rate of inflation in primary goods, were granted by profit-maximizing creditors.

The economic tragedy had begun. Creditors turned a blind eye to the realities of *overindebted* and *insolvent* debtors. Arguing that the crisis was merely a temporary

Contributors

Albert D. Friedberg

Michael Beech

liquidity problem, bankers coopted the IMF to dictate measures that would improve cash flow. It did not matter if the patient's long-term health deteriorated in the process: what mattered was that those debtors could generate as many dollars as possible.

In a little more than one year, the IMF approved adjustment programs that contravened the very essence of a liberal trading system: multiple or dual rates of exchange and severe protectionist measures (including the almost total prohibition of importation of consumer goods into Brazil and Mexico). Artificially starved of imports and resorting to the most ill-conceived import-substitution schemes, most LDCs undergoing treatment in 1983 produced "results": bulging trade balances that went to cover "partially," at least, interest due on their debts. Admittedly, the IMF encountered severe political problems in trying to impose its "conditionality." However, most cases where the IMF has formally withheld approval (i.e., Brazil until November, Argentina, and Peru) had much more to do with their failure to contain inflation and some slippery measure of fiscal indiscipline than with their irritating mercantilistic policies.

The IMF has ceased to be a partner in the construction of a liberal trading order. It now serves the interests of the creditor-banks, solely concerned with the here-and-now mundane problem of interest payments. Hundreds and thousands of *efficient* enterprises in Brazil, the Philippines, Mexico, and Argentina are being driven to the wall because they lack essential imported parts and machinery; billions of dollars are being wasted in these countries for the sole purpose of "saving" dollars in spite of obvious inefficiencies. The extraordinary 40% drop in US exports to the region during 1982 and 1983 had as much to do with economic depression as with protectionism.

Although the shift to attaining a surplus-at-any-cost syndrome is by far the most damaging result of this adjustment process, we should note that there are other ill effects. State intervention in the economy grows as various central banks try to centralize all foreign exchange activities; treasuries are forced to guarantee failing private enterprises, heavily indebted abroad; income policies, or worse, price and wage controls, are instituted to comply with required inflation objectives. In short, creditors are maiming their debtors. *But the debts grow.*

Is it worth it? No. Is there a better way? Yes. The world must *stop* bailing out the creditors. It must begin *deflating* the debt. It must recognize the losses in much the same way as domestic lenders accept the bankruptcy and reorganization of some of their clients.

Two elements of our March 1983 proposal remain intact ("How to solve the international debt crisis"): Commercial banks must lower their interest rates sufficiently to allow *well-behaved* debtors (more on that later) to *reduce their total indebtedness* in, again, much the same way as domestic lenders accept shares or 50¢ on the dollar for loans made to a borrower who turned indigent. In a second and related step, commercial banks must be forced by regulators to auction off or sell large quantities of their LDC paper to other financial institutions and/or individual investors so as to eliminate the high degree of concentration and vulnerability existing in the large money-center banks.

Let us now return to the IMF. No longer entrusted with generating as much cash as possible, the IMF should be allowed to tailor for each individual debtor an impeccable economic program in *exchange* for reductions in interest payments. *In effect, good behavior would win the exhausted debtors an honorable partial default.* The IMF's scorecard would grade fiscal, monetary, exchange (presumably opting for a unified, fixed rate), and trade policies. The superior practitioner would benefit most, receiving as a prize the largest reductions in interest payments. Poor disciples would receive little or no interest concessions. Of course, *they could opt for defaulting*, but this choice is open to them now and is not easily adopted for fear of becoming the pariah of the Western world (much like Cuba and North Korea).

Prestige and a significant transfer of resources (in the form of foregone interest) would be gained by those debtors that adhered to the rules of the game. Creditors would be assured of nominal interest payments and full principal repayments rather than, as now, doubtful interest payments and certain principal defaults. The IMF would regain its former role of promoting growth within sensible balance-of-payments policies. It would have its day in the sun. Finally, creditor nations would benefit, *as exporters*, from the economic recovery of otherwise insolvent debtors.

Addressing similar concerns, Prof. Allan H. Meltzer (*Financial Times of London*, December 14, 1983: "There is a way to defuse the bomb") suggests the exchange of debt for shares in government controlled firms. This ingenious idea has a political drawback — it is highly unlikely that (even mildly) nationalistic governments would give up partial control of state-owned enterprises. What seems plausible, however, is to require creditors to accept shares in exchange for loans to *private companies.* It is the latter that have suffered the most from erratic government policies. Furthermore, many of those private concerns — operating in a freer and more stable environment — could generate sufficient profits in future years to save harmless their creditors.

The above third element in the overall solution is highly justifiable because the present alternative — creditors demanding state guarantees for loans made to private concerns, thus enlarging the economic activities of the state — can clearly be seen as both inequitable and inefficient.

There is little time left to implement a cogent, sensible, and equitable solution to the international debt problem. Growing pressures to reflate in some developing countries are coming up against external constraints: in the end, these nations will either repudiate their debts, with serious consequences for the international financial system, or they will turn to some sort of "fortress economy," a legacy of 17th century mercantilists, with even more serious consequences for world trade and economic and social well being.

The underlying principle should be to promote the return to a more liberal trading order and to deflate the monstrous debt that seems to be compounding ad infinitum. Either the creditors and debtors will hang *together* or the *creditors* will hang *separately*.

Stock Market Futures

Chart 1

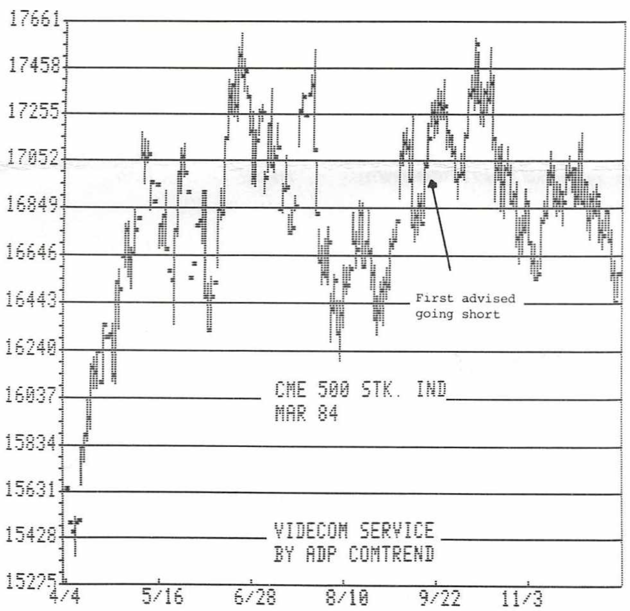
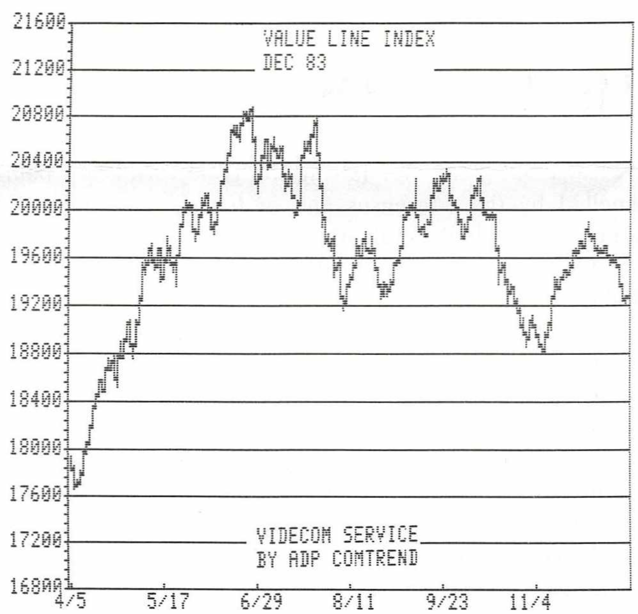


Chart 2



The story is becoming monotonous: Margin debt continues to surge ahead, the market's breadth continues to deteriorate, key issues leave pronounced tops behind in the midst of unbound optimism, sentiment indicators are just beginning to recede from wildly bullish levels, the Dow Industrial records a downside weekly reversal from a new all-time high, and so on.

At almost $22 billion, margin debt has exploded 300% since the August '82 lows and is approximately $14 billion higher than at the 1973 top. Curiously, margin debt has expanded $5.5 billion since the general market's peaks in June of this year, a rate exceeding $1 billion per month, without a bullish impact on prices. The longer prices fail to satisfy the leveraged investor, the more likely it is that he will turn into a seller. As you will recall, the 1929 stock market crash was blamed on the excessive total level of margin debt and the fact that most leveraged positions were carried on a mere 10% margin. Since, in the last few years, margin has been set at 50%, it is obvious that potential for liquidation is not nearly as devastating. Nevertheless, we should caution that stock *option* trading is a great deal more prominent today than it was in the '20s, and its impact, as well as the impact of stock index futures, has as yet to be tested in a severe market decline.

For the second week running, weekly net new highs have been negative, a further sign that the internal structure of the market is *collapsing*. Furthermore, the Amex advance-decline line has resumed the long decline it began in mid-June, paralleling ominously the long Amex A-D line decline that preceded the 1973-74 bear market. It would appear that the smaller speculator has been fleeing the market, while mutual funds, and more particularly pension funds, have run down their cash reserves by purchasing new issues and a handful of blue chips. An almost classical repeat of the nifty-fifty market of 1972.

We are often asked what could derail this market given the extraordinary momentum and visibility of corporate earnings. We are sufficiently impressed by the evidence of strong technical deterioration that it matters little what the bearish scenario might be. We could, however, list two potentially negative developments: a full-fledged banking crisis and a sharp upswing in interest rates. We rate both events as enjoying a high degree of probability, bordering on the certain.

STRATEGY: *We have been short S&P futures since September 18 '83 at 168.95. December '83 should have been rolled over to March '83 with at least 300 points premium in our favor. Remain short, lowering stops to 172.25, basis the cash index.*

Currencies

The World Over

We can't but gloat over having the good fortune of being repelled by the consensus and of having a modicum of common sense in the evaluation of foreign exchange markets.

Once again, we hear the dogmatic assertion that the US dollar is overvalued and that it will *slide* 10%-15% and possibly more next year. The "overblown dollar," as the prestigious *Economist* calls it, is not only being sentenced to death but some "sober" international economists have expressed "fears that the fall, when it comes, will be unmanageable" as well. As argued in previous issues, the continued high level of skepticism has built up huge dollar short positions, a necessary pre-condition for a "blow-off top." When it finally comes, you will know it. In the meantime, enjoy the ride.

STRATEGY: *Remain short* all *currencies, with particular emphasis on Sterling, the French franc and the Deutschemark. The relative strength of the Japanese yen and Swiss franc is illusory, for they cannot stop the steamrolling US dollar.*

For the first quarter of 1984, we look for the following targets (all expressed in US per foreign currency): Sterling = 1.15-1.25; French francs = .1042; Deutschemarks = .33; Swiss franc .425; and Japanese yen = .40.

Retain stops at October highs; roll December '83 points over to March '84.

Canada

The excessive narrowing of interest rate differentials finally did in the Canadian buck. The change in sentiment could lead to a 2¢-3¢ drop in the weeks ahead, especially in view of the very large effective trade-weighted rise since mid-1982.

STRATEGY: *As advised in our Hotline, we reversed our long Canadian dollar position at around the 80.30 level, basis spot. Speculators should rather play the strong US dollar via short positions in British pounds, French francs, and Deutschemarks than via short C$ positions. Hedgers, however, should sell at present levels.*

Chart 3

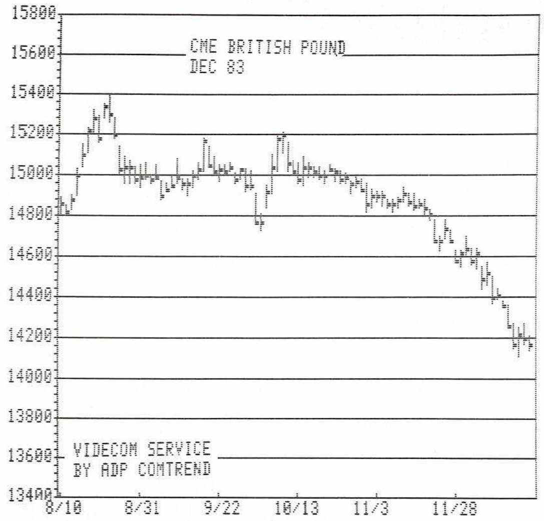


Chart 4

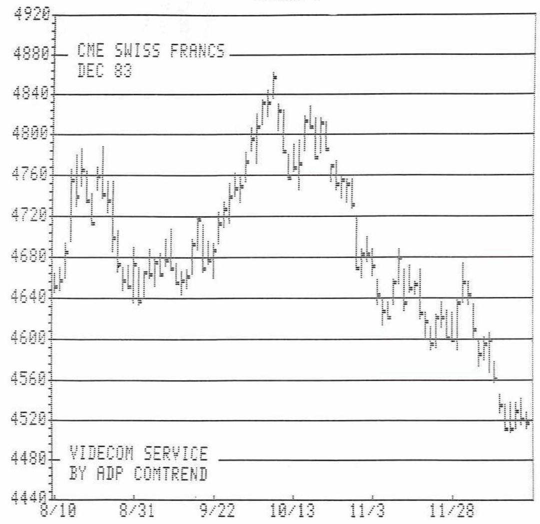


Chart 5

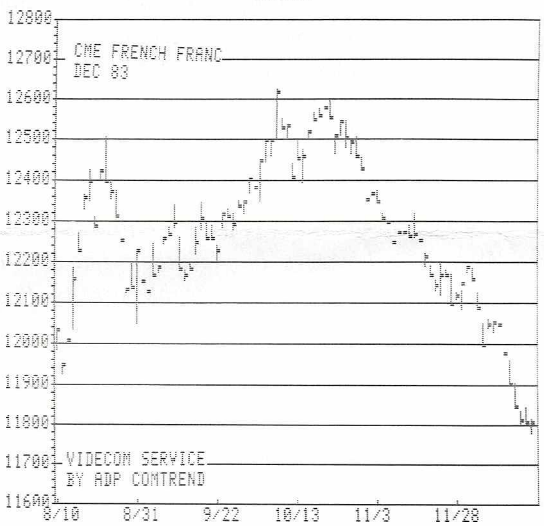
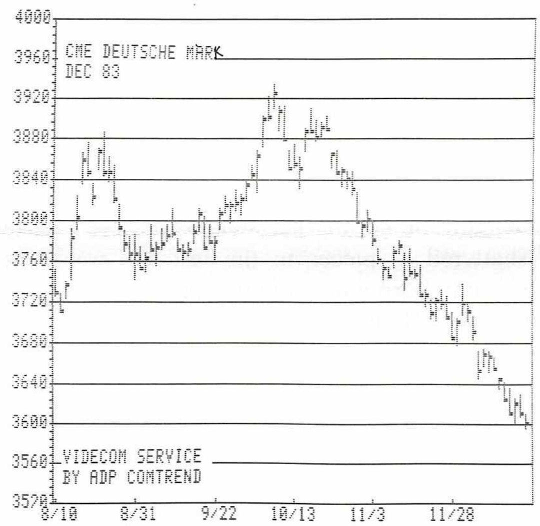


Chart 6



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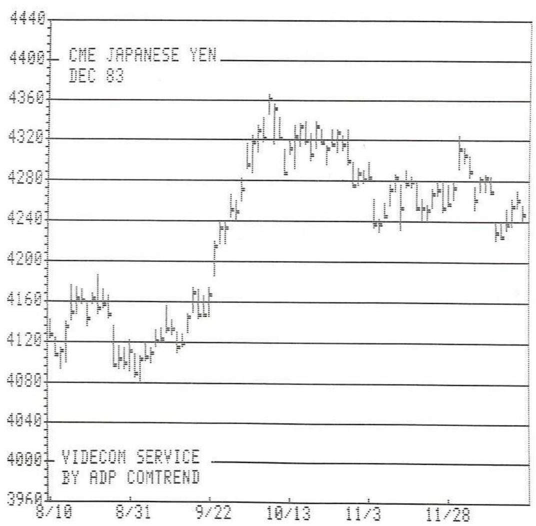

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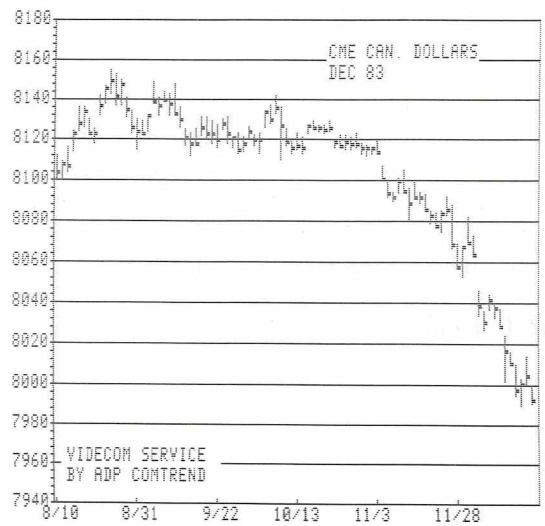


Interest Rate Futures

Chart 9

The lengthy money-market stability enjoyed during 1983 was shattered to pieces in the last two weeks as prime three-month corporate commercial paper rose 75 basis points while LIBOR rates crossed the 10.5% mark and Fed Funds teased with the 10% level a number of times without evoking any Fed easing.

Undoubtedly, loan demand has begun to pick up; the much-feared "crowding out" effect is causing serious concern. In view of the strength of US retail sales, industrial production and capacity utilization, the Fed is not likely to accommodate an excessive expansion of credit, although the fragile international debt situation cannot *tolerate even a continuation of a 10.5% LIBOR rate* (most work-out models assume for 1984-85 an 8.5% LIBOR rate and a 3% OECD rate of growth; the first number must be the product of a demented mind: the second, one of merely a sick one).

Our favorite "Ted Spread" i.e., short Eurodollar futures against a like amount (there is no need for weighing if rates are going decidedly higher) of long T-Bill futures combines the best feature of a speculative play on rates: Whereas private credit demand should impact private credit instruments (i.e., CDs and Eurodollars) more significantly than government obligations, thus widening the spread, the very increase in the absolute level of interest rates will increase perceptions of risk and default, making for a profitable vicious circle.

STRATEGY: *T-Bonds, T-Bills, and the Eurodollar should all work lower as interest rates are about to make a cyclical up-move. We prefer, however, to play the "Ted Spread," which is already producing some sizeable profits. Retain spread; roll over to March '84.*

Precious Metals

There were two common explanations for the sudden rally in gold and silver prices. The most convincing of these was simply that the market had become deeply oversold.

There is little on the horizon that would justify a change in trend. A sudden turn for the worst in inflation continues to be a lesser risk than a sudden deflationary spasm; after all, gigantic debt balloons are more easily pricked than eroded. Purchasing power considerations continue to support a "value" range in the $250/oz. area.

STRATEGY: *Our Hotline proved its worth. Having advised last month the covering of short positions at $401/oz., basis Comex spot, our Hotline of December 1 (and repeated subsequently on December 9) reinstated these short positions with but a minor difference in price. We were not as lucky with silver as, having reinstated short positions, we were stopped out once again. Nevertheless, we persisted in reentering the short side of March '83 silver and finally succeeded in securing an advantageous position.*

STRATEGY: *New buy stops: February '83 Comex gold at 408, close only; March '83 silver at 9.80, close only.*

Chart 10

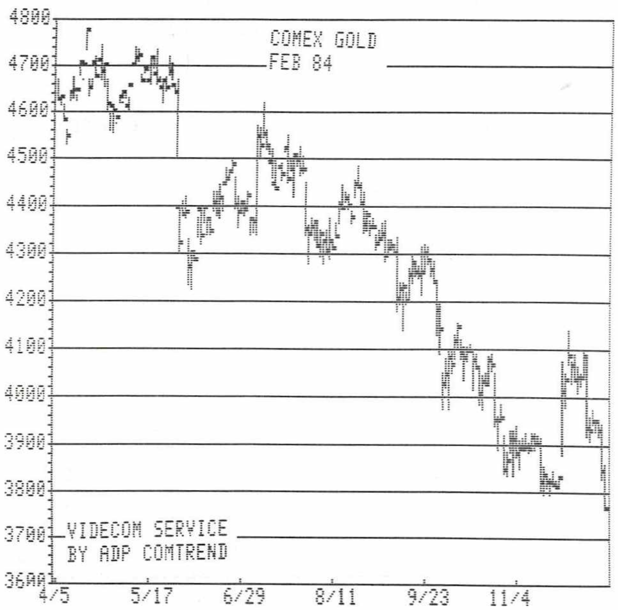
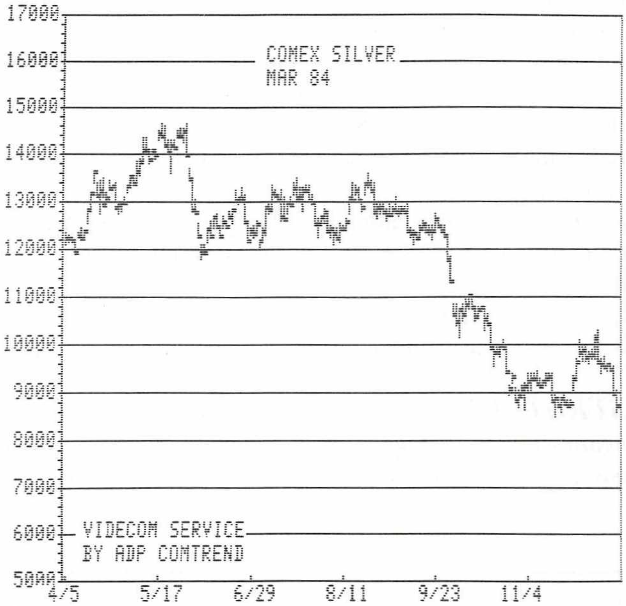
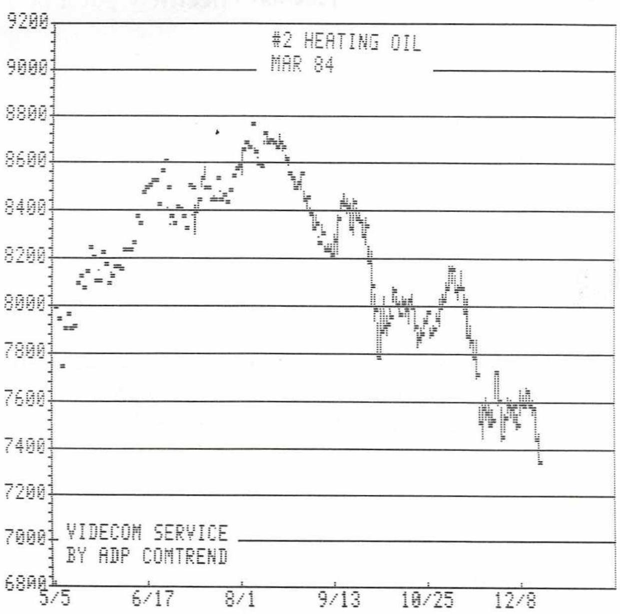


Chart 11



Energy Futures

Chart 12



The most recent Opec meeting was rather uneventful. It was obvious to all those present that Saudi Arabia had all the cards: a maturing marketing organization, independent of the whims of Aramco, and an enormous supply of above-ground crude.

Reliable sources indicate that Saudi Arabia's domestic storage facilities are practically overflowing, holding perhaps as much as 80 million barrels (mb). Also, floating VLCCs are holding another 20-30 mb just outside the Strait of Hormuz. It is commonly thought that the latter supplies are a form of insurance against a sudden Iranian closure of the Strait.

We think otherwise. It makes little sense for Saudi Arabia to store oil in case of a blockade. Given the American, British, and French naval presence in the area, the Strait could not remain closed for much longer than a few days; it is inconceivable that Saudi Arabia, who not long ago *voluntarily* cut back production to as low as 3 mb/day, should want to profit from two, three or four-day interruption of supplies. Alternatively, the relatively small amount of oil stored in VLCCs outside the Strait could not possibly insure Saudi shipments on the improbable case of a prolonged blockade.

The answer to this puzzling behavior lies elsewhere, in our opinion. Together with the domestic supplies, Saudi Arabia could supply the Western world's *demand for Opec oil* for approximately one week, perhaps long enough to expand output to full capacity and *force a permanent lowering of prices to whatever level they desired.* In effect, if the Saudis could convince the rest of the Gulf producers (with the exception, of course, of Iran) to lower prices, they could supply enough oil to make the new posted price stick. Without a substantial reserve, Saudi Arabia could not control marginal sales at the old price. Since prices are set at the margin, the Saudis would find themselves selling at a substantial discount, without effecting the desired impact.

What is the desired impact of a concerted lowering of prices? Certainly, the bankruptcy of Iran.

Aside from this fascinating theory, we note that product prices are outrunning crude prices on the downside, creating irresistible pressures for a sharp cutback in crude purchases and a new drop in prices, a condition similar to the one prevailing in early 1983. In response to these conditions, Citgo, a minor US refiner, announced a $1.50/barrel reduction in the price it pays for West Texas Intermediate, a crude very similar to the British and Nigerian variety. Almost assuredly, a British move would trigger a Nigerian pricing defection from Opec, which in turn could trigger our long-expected "death spiral" to $8-$10/barrel.

We remain as convinced as ever that *economic* forces will shatter, once and for all, Opec's last pillar of price support.

STRATEGY: *Remain short all oil products, particularly heating oil, as it remains expensively priced vis à vis London gasoil. Should prices break $25/barrel in the very near future, we advise moving short positions to London, in anticipation of a US imposition of an import tax. The patient speculator will be rewarded in spades.*

Chart 13

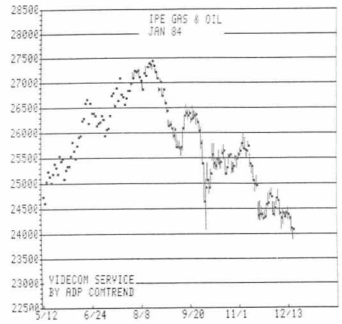
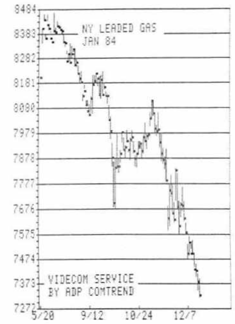


Chart 14



Cotton

The December 12 USDA report indicated US 1983 cotton production of 7.619 million bales, a surprise to most analysts who had been expecting a downward revision to 7.1-7.4 million bales. The November estimate indicated production of 7.497 million bales. The 1983 Chinese cotton crop was estimated the same day at an amazing 18.5 million bales, up 1.5 million from the previous month's estimate, and 1.9 million higher than the previous record in 1982. While China exports cotton textiles rather than cotton, and because it imported very little cotton in 1982-83, leaving little room for reduction of imports, the psychological impact on the market was substantial.

In addition, deliverable stocks of cotton as of December 15 had risen substantially to 80,519 bales from less than 70,000 several weeks ago. This has effectively put a lid on this market for the moment.

STRATEGY: *Stops were executed December 15 at 79.00, stop close only. Stand aside.*

Cocoa

We failed to *reemphasize,* in our October and November reports, the stance we had suggested for cocoa in our September issue. On September 18 we advised that "the lightest of investment-type long positions may be reestablished with stops at recent lows." Those lows, specifically, on September 12, were $1,871 a tonne, basis December, and $1,907, basis March. Those who heeded our remarks, albeit with minimal long positions, would now be holding healthy profits.

The dearth of available statistics on cocoa shipments at this stage of the season prevents us from making any more than a subjective judgment that the upward trend should continue. It won't be until January that reports on European and US quarterly cocoa grinding figures substantiate the current bull market — or refute it.

STRATEGY: *Barring a significant turn of events, maintain existing long positions. Raise stops from the point of September 12 lows, to 2380, stop close only, basis March. Should these levels prove inviolable, a continuation to $3,500 to $4,000 a tonne during 1984 does not seem inconceivable.*

Chart 15

Grains

The US dollar remains king. And our long-term outlook remains negative. Had the dollar not been so mighty in 1983, record corn and soybean prices would have been virtually certain. Surprisingly enough, the peak in US soybean prices this August in terms of the Deutschemark, was 25.35 — exactly equal to the peak price of US soybeans (in Deutschemark terms) in October 1974, during a previous major bull market. (We use the Deutschemark as a proxy for Dutch and Belgian soybean import costs in domestic currency terms.) The Dutch, Belgian, and West German region of Western Europe, with the largest soybean re-export industry in the world, and with large domestic consumption, was forced by record high prices to cut back consumption of soybeans and meal. In fact, West German mixed-feed producers used 17% less grain in their output in 1982-83 (August-July) versus 1981-82. The effect in the 1983-84 year should be even greater when record import prices are considered.

In the past month, 1983-84 export commitments have slowed their advance: corn, from 36.2% ahead of 1982-83 to 31.0% ahead; soybeans, from 10.7% ahead to 1.1% *behind*; and for wheat, a marginal reduction from 6.9% behind 1982-83 to 8.9% behind. However, actual exports (that is, loaded into ships) for the season to date cast a slightly different light upon the situation: Corn exports are 13.6% up from 1982-83 levels to December 8; soybean exports are 14.7% *behind*! and wheat exports lag 1982-83 only 7.6% to December 8. In summary, exports of US grain to date in 1983-84 have been excellent, but the pace of additional sales is weakening. Buyers have been awaiting lower prices, and they have certainly got them in US dollar terms, if not in terms of their own currency.

There were few changes in the USDA supply and demand projections of December 13 from the month before. The notable exception was a drastic reduction in forecast corn and soybean price ranges for 1983-84, from 3.40-3.80 for corn to 3.25-3.55, and from 8.50-9.50 for soybeans to 7.75-9.00. The most important of the minor changes included: 1) a further increase in forecast wheat feed use in 1983-84 to 400 million bushels from 350 estimated previously and a huge 96% above 1982-83 wheat feed use of 215 million bushels — a result of extremely low relative prices for wheat as compared with corn; 2) a reduction in forecast soybean exports in 1983-84 to 710 million bushels from 720, estimated in November and 21.5% below the 1982-83 exports of 905 million bushels.

On the world scene, however, there were some major changes. Total world grain production in 1983-84 is now estimated at 1,602 million metric tons (mmt), 13 mmt more than last month, although still 4.8% below the 1982-83 crop. The Australian wheat crop in 1983-84 is now estimated at 19.5 mmt, although it has recently been damaged by heavy rains in eastern Australia. The Argentine wheat crop has been reduced to 12.0 mmt and will be reduced further owing to excessively dry weather during harvesting. The European and Chinese wheat crop estimates were raised, the latter by a further 2.0 mmt to a phenomenal 80.0 mmt. The Canadian coarse grain crop estimate for 1983-84 was raised substantially to 21.3 mmt from 20.8 while the currently-developing young Australian and Argentinian coarse grain crop estimates were raised by about 1.0 mmt each, to 9.5 and 18.6 mmt, respectively. China's coarse grain crop was also raised to an estimated 87.0 mmt from 85.0, reflecting excellent results in that country's agricultural industry.

The recent European Economic Community (EEC) summit was a disaster, and its future appears desperate. Budgetary cutbacks are a must. The strong opposition of both EEC member countries and the US towards proposals to increase revenues apparently leaves the EEC in a quandary. The most recent effect has been a reduction in the maximum wheat report rebate to 43.99 European Currency Units (ECUs), or about US$49 from previous levels of about 60 dollars/mt. The EEC flour export subsidy totalled about US$73/tonne according to the USDA — 26% higher than the mid-October rate and 78% above the September rate. The direct export subsidies have served only to capture market share for the EEC's flabby agricultural industry, which otherwise would be defunct. The reduction, and eventual elimination of these subsidies will allow the world wheat market to recuperate. It is to be hoped that EEC agricultural intervention price-support procedures will suffer the same fate, leading to a leaner and more competitive agricultural industry in the long run.

STRATEGY: *Our outlook remains long-term negative based on our analysis of continuing strength in the US dollar. However, the near-term outlook is positive, owing to the combination of bullish fundamentals for corn and soybeans and current technical formations.*

Short positions in March corn should have been covered below 3.25 basis December. *Those retaining recently-entered long wheat/short corn spreads, per our hotline, should cover short positions in July corn at the market. Retain long positions in July wheat; this is now recommended as an outright position with stops at 3.30, close only, basis July.*

Spreads of long 1 March soymeal/short 2 March soyoil should have been liquidated with small profits of about $1,500 per unit. Cover any remaining short positions in March soybean oil at the market, as the objective was missed by about one cent.

Chart 16

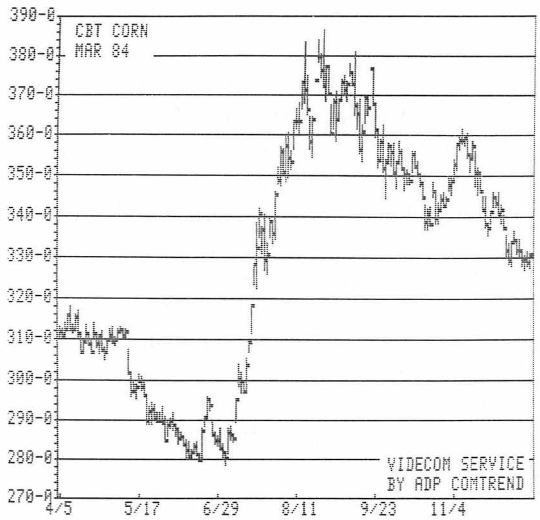


Chart 17

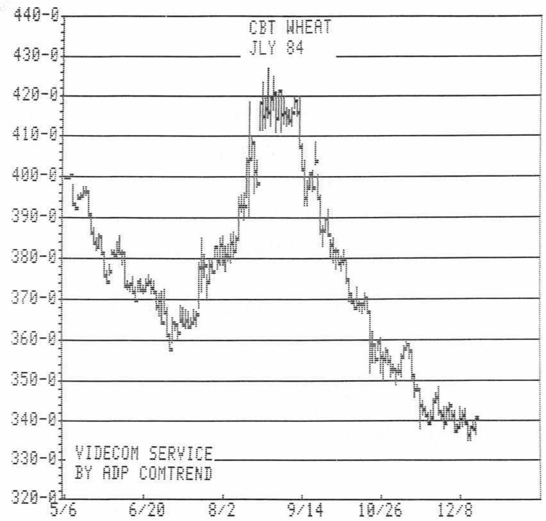
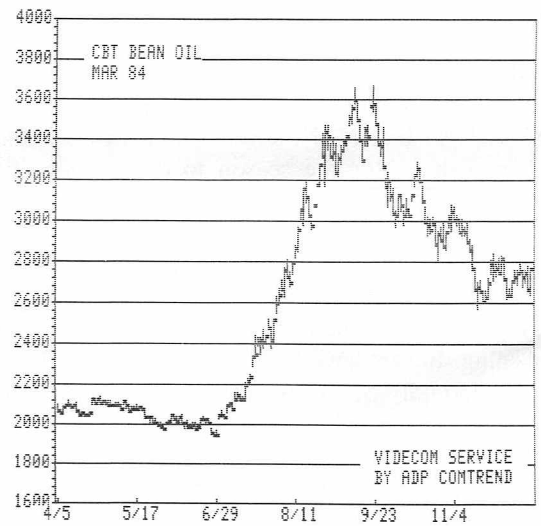


Chart 18

Chart 19



Livestock

We initially foresaw the development of long-term bull markets in livestock in October. That was after a severe correction in prices, which we took part in, following the strong advances in meats caused by high summer grain prices. Livestock prices have not only endured the negative events we outlined for the fourth quarter of 1983 but have exceeded even our expectations. Strength has been added by a fairly serious outbreak of influenza in the Northeastern US.

The December 22 USDA quarterly hog report will provide the necessary information for an analysis of the hog market. At this point, two factors cloud our analysis: 1) higher-than-expected fourth-quarter hog production (even assuming, as we have, delayed weight gains' causing a backlog in October and November); and 2) sow slaughter falling as a proportion of total hog slaughter, as of the weeks ended November 26 and 19, respectively, at 4.8% and 4.9%.

The December 14 monthly Seven-State Cattle-and-Calves on Feed report was construed as negative, based on marketing figures for November towards the low end of the range of expectations (see Chart 20). However, the placements figures for November and the resulting number on feed December 1 were positive. The market ranged up to 55 points higher the following day, as a result, in spite of having traded substantially lower during the middle of that day.

The USDA, on December 13, indicated that "lower milk production induced by the new diary bill will add 400,000 cows to slaughter in the first 1984 quarter, 500,000 cows in the second, and 100,000 cows in the third quarter." As a result, it raised its commercial beef production forecast by 650 million pounds. This liquidation of dairy cows could raise weekly slaughter by about 31,000 per week in the first quarter, 38,500 in the second quarter, and 7,500 in the third quarter. The number of slaughter animals would therefore rise approximately 4% to 6% in the first two quarters. While this is not a tremendous proportion, the competition arising from cheap hamburger from cows slaughtered could seriously weaken the price of alternative cuts of meat. As we've mentioned in the past, a similar event in the mid-1970's caused cattle futures to tumble for a short time before recovering.

STRATEGY: *Retain long positions in June live cattle and August feeder cattle. If February live cattle trades below 62.5¢, protect the aforementioned long positions by spreading against short positions in February live cattle. This will protect against the implications of any price weakness caused by dairy cow slaughter. Similarly,* if February live cattle trades below 62.5¢, *spreads of short February live cattle/long April live hogs would be recommended at the market.*

Retain long August feeder cattle/short August live cattle spreads, risking a close below 140 points, premium the feeders.

For new positions, we recommend buying July hogs on any dips to 51.5¢, with stops at 50.0¢, close only.

The spread long December hogs/short April hogs finally worked, and with a vengeance, but not until long positions in December were inadvisable, owing to the risk of notice of delivery. Losses were minimal, however.

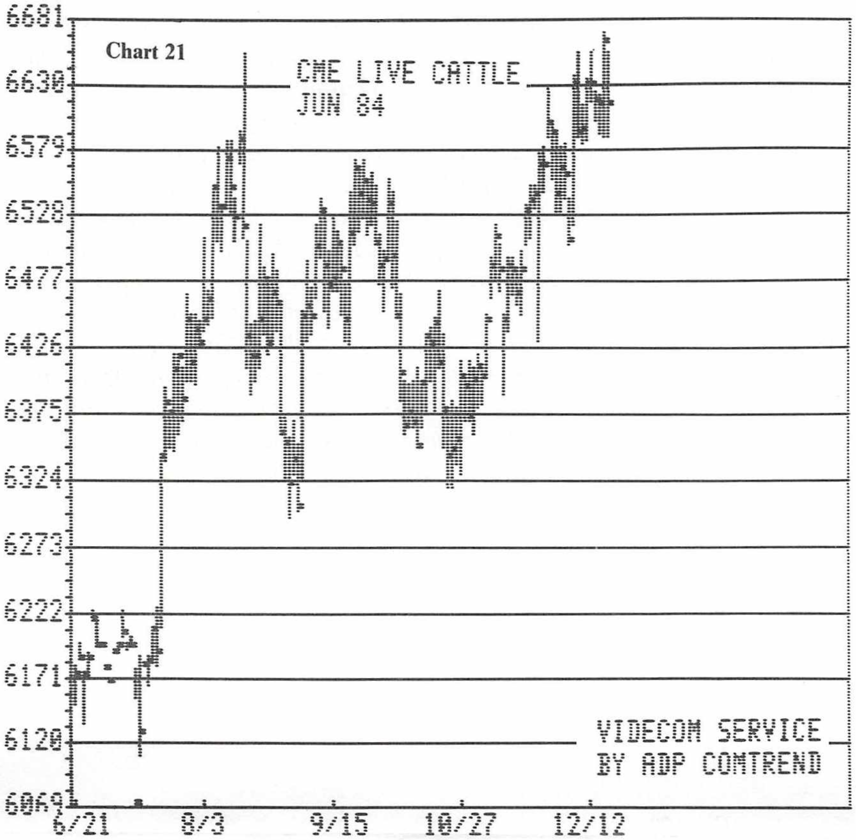
Chart 20

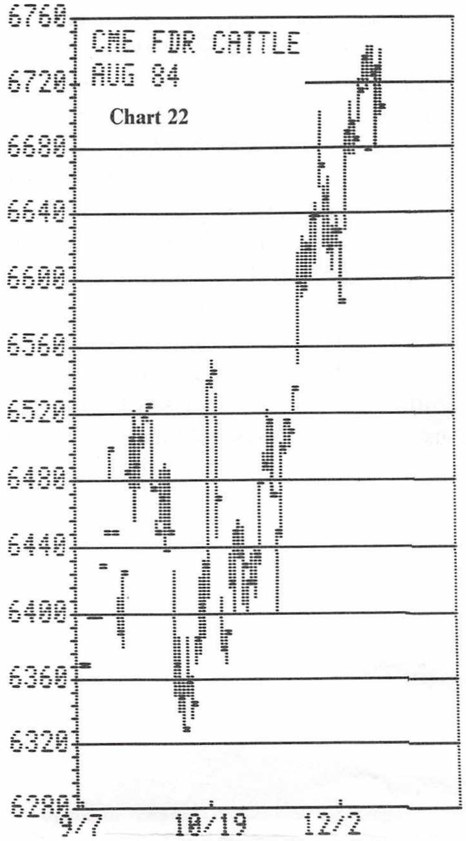
December 14 USDA Monthly Seven-State Cattle-and-Calves on Feed Report
December 1 Date

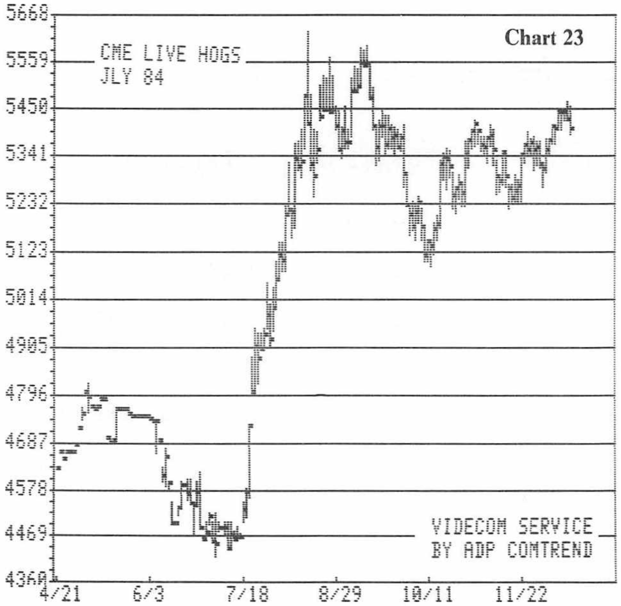
	1983	1982	1983/1982%	Expected
On Feed Nov. 1	7,683	8,143	94.4	
Placements During Nov.	1,711	1,785	95.9	96.5(91-100)
Marketings During Nov.	1,459	1,485	98.2	101.0(97-104)
Other Disappearance*	121	119	101.7	
On Feed Dec. 1	7,814	8,324	93.9	94.7(92-98)

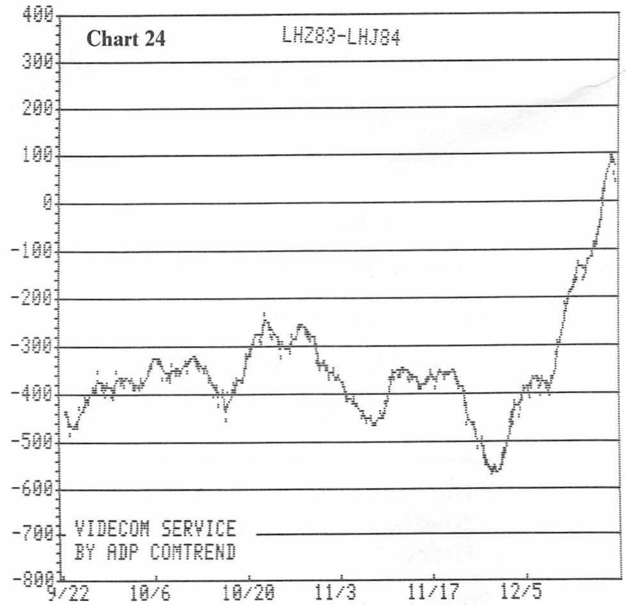
*Includes death losses, movements to pasture from feedlots, and movement to other feedlots for futher feeding.

Source: USDA.









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Subscription Enquiries
Friedberg's Commodity & Currency Comments
347 Bay Street
2nd Floor
Toronto, Ontario, Canada
M5H 2R7
(416) 364-1171

Trading Accounts
All enquiries concerning trading accounts should be directed to
Friedberg Mercantile Group
347 Bay Street
Toronto, Ontario M5H 2R7
(416) 364-2700
Cable: Friedco Toronto. Telex: 06-23446.