FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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Volcker, Foreign Savings and the US Dollar

On February 7, Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, met the Committee on Banking, Finance and Urban Affairs to discuss the Federal Reserve's monetary policy for the year ahead. While his address lacked drama, it contained much useful information on current Fed thinking regarding the US *external* position. In the following paragraphs we shall expand on this critical issue, quoting the Chairman's words and introducing some comments that may be of consequence for a correct forecast of interest rates and the US dollar in the months ahead.

Under the sub-heading "The Problem," Volcker noted that "over the past year, our needs have been increasingly met by savings from abroad in the form of a net capital inflow: That money has come easily; *amid world economic and political uncertainty, the United States has been a highly attractive place to invest.* But *part* of the attraction for investment in dollars has been relatively high interest rates. In effect, the growing capital inflow has, directly or indirectly, helped to finance the internal budget, by *the same token helping to moderate* the pressures of the budget deficit on the domestic financial markets. At the same time, the flow of funds into our capital and money markets pushed the dollar higher in the exchange markets *even in the face of a growing trade and current account deficit* — and the dollar appreciation in turn undercut our worldwide trading position further."

Mr. Volcker's mechanical explanation of the US balance of payments is absolutely flawless in a strict accounting sense. After all, as he says, "at the end of the day, the counterpart of a net capital inflow is a net deficit on our current account and trade services — with other countries."

Mr. Volcker says that "part of the attraction for investment in dollars has been *relatively high interest rates.*" If this fact were entirely true, he would beg the question of why for many years the US has succeeded in saving (net of depreciation) only some 7% to 9% of GNP: Relatively high US interest rates should be as attractive to residents as to non-residents! An interesting and probably correct way to solve this puzzle is to argue that US interest rates are decidedly lower for residents, who are subject to an average tax rate of close to 30%, than for tax-exempt non-residents. This "wedge" keeps US interest rates below the optimal level for residents and causes them to spend more than their incomes, availing themselves of foreign savings provided by non-residents, who view US rates as extremely attractive. This theory would help explain the extraordinary buoyancy of the US economy (spending beyond its income) and the relatively meager performance of its trading partners.

But there is more than interest rates. In Mr. Volcker's words, "amid world economic and political uncertainty, the US has been a highly effective place to invest." In a word, *confidence*. Capital flows have been known to respond rapidly and dramatically to political considerations and to well-meaning economic pronouncements that glorify private enterprise and encourage private economic activity. The Thatcher effect, the Mitterrand effect (negative) and the Reagan effect . . . .

In sum, low but rising after-tax interest rates, topped-off by an absurd tax wedge (that significantly raises after-tax returns to non-residents), and a strong pro-capitalistic Administration have conspired to attract massive amounts of capital to the US. Under a fixed exchange-rate policy, these flows would come to swell the US money supply, creating strong inflationary pressures. Ultimately, adverse competitive considerations would force the US to run large current account deficits, presaging a possible devaluation.

The impact of large capital inflows under floating rates, as is the case with the US now, is twofold: In the first place it holds interest rates lower than desired for domestic equilibrium, stimulating spending at the expense of savings and manifesting itself in a deteriorating current account position; secondly,

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it raises the value of the US dollar, causing it to become overvalued. This overvaluation impacts the current account, mainly through a deteriorating trade balance, and eventually reverses capital flows as it makes capital assets unattractive.

At the present time, one could argue with a fair degree of certainty, as we have for the past year, that only the *first effect* is visible. Value considerations have had little or nothing to do with the deterioration of the US balance of trade where almost two thirds of the adverse shift can be attributed to the Latin American depression and the considerably weaker pace of activity of its principal trading partner, namely Canada. *Therefore, to speak of an overvalued US dollar is "non-sense."*

"Most forecasts," continues Mr. Volcker, "suggest that we, as a nation, *will have to borrow abroad (net) about 2 percent or more of our GNP this year to meet projected domestic needs.* That pace does not appear sustainable over a long period." Of course, the US need not be in such a fortunate position as having to borrow "cheap" foreign savings; it could satisfy its own domestic demand at slightly (or substantially) higher interest rates. And, to make matters even more complicated, because of the "tax wedge," it may compound the inflow of capital from abroad, making the dollar even stronger. Naturally, by then, perceptions could change and the higher rates would just be sufficient to offset the flight from the dollar. In the end, the US may be stuck with high interest rates and a weak or weakening dollar.

A great deal will depend on *perceptions* of *value* and other intangibles such as confidence. Alternatively, the US may reduce its domestic credit demands, a path Volcker and all sane people would like to see, by simply cutting its budget deficit. Interestingly enough, such a cut may lower domestic interest rates but may not necessarily weaken the US dollar, which will continue to "suffer" from capital inflows induced by growing confidence. In the end, the US could continue to enjoy low domestic rates and a strong dollar.

If the delicate balancing act of 1983 were to continue into 1984, — i.e., if interest rates remain at approximately present levels and foreigners continue to accept and even seek out a growing amount of dollar assets — would a current account deficit equal to 2% of GNP be ominous for the dollar? Mr. Volcker thinks that it would, although not necessarily for the dollar. He states that "in the same way that the interest costs of this year's deficit add to next year's requirements — and compound over many years thereafter — the interest and dividend payments related to the net capital inflow *build up future* charges *against the current account of the balance of payments.*" After admitting to a certain degree of skepticism regarding our ability to count and measure accurately the flows in and out of the country, he concludes that "it is nonetheless *ominous* that the recorded net investment position of the US overseas, built up gradually over the entire postwar period, will in the space of only three years — 1983, 1984 and 1985 — be reversed. If the data at all reflect reality, the largest and richest economy in the world is on the verge of becoming a net debtor internationally, and would soon become the largest."

We cannot possibly see why this development is ominous. In a stagnating world, where less developed nations must earn their way, there must be *someone* who could sustain world trade by borrowing to buy more than it sells, and it might as well be the largest and most credible borrower. Mr. Volcker himself agrees with this concept when he says that the trade deficit "has provided a welcome impetus toward stimulating the growth process in other countries of the industrialized world."

But, once again, will it be ominous for the dollar? And when? Naive press commentators have compared the US addiction to foreign savings with Brazil's and Mexico's before the Great Catastrophe. How valid are these comparisons? Chart 1 compares the three countries, the US from 1980 to 1984 (estimated) inclusive, and Brazil and Mexico for the years 1976-1982 inclusive.

Clearly, the US indebtedness is far more reasonable and sustainable. Incredibly, Mexico and Brazil were able to borrow as much as 5% to 6% of their GNP in one year, even while their capacity to borrow and repay were almost nonexistent. One could argue that the US, with its impeccable credit rating and the absence of a transfer risk, could surely borrow at least as much as these countries and thus could run up a current account deficit of at least $200 billion before running into any trouble. One should also note the cumulative nature of this full-throttle borrowing spree, which lasted a full six years in Mexico's and Brazil's case.

A more realistic comparison can be made with the UK for the period 1973-1976. Here, strong foreign exchange pressures began to appear as the UK reached a current account deficit equal to 3.8% of GNP, again a much higher figure than the prospective US deficit (see Chart 2). The speed of the foreign exchange reaction, less than three years of back-to-back current account deficits, is due to the fact that the UK's external disequilibrium was caused by purely domestic considerations. In effect, domestic credit demands, *not* capital inflows, were responsible for the excess spending over income; the exchange rate did not enjoy the cushion that comes with external inflows.

An even more realistic comparison can be made with Canada (see Chart 3). During 1974, heavy long-term capital inflows began to destabilize the current account, which shifted to the equivalent of a negative 0.9% of GNP. As these flows persisted, Canada's current account deficit widened to the equivalent of 2.9% and 2.1% of GNP in 1975 and 1976 respectively. The imbalance is even greater if one assumes that *all net errors and omissions* are current items (an exaggerated but somewhat plausible premise that helps to put the US case in better perspective). Adjusting for this item, the deficit widens from 1.5% of GNP to 3.6% in 1975 and 3.9% in 1976. All through this period, the Canadian dollar rose and/or remained extremely strong. By November 1976, concomitant with the Parti Québècois election in Quebec, capital flows reversed massively and the Canadian dollar plunged almost 20% by late 1978. Chart 3 compares the US current account deficit on both bases.

Note how the US current account *turns into a surplus* if adjusted by the *positive* balance of net errors and omissions. At any rate, the official and unadjusted reading seems to be far from the apparent danger point of 3%-4% of GNP.

In conclusion, budding US current account deficits are a function of a strong economy where spending is exceeding income thanks to cheap foreign savings, drawn in turn by a relatively attractive economic environment and high (to nonresidents) interest rates. Concern over a US build-up in net international indebtedness is exaggerated and premature. Efforts to close the budget deficit may lower domestic interest rates but will probably not lower the rising US dollar.

STRATEGY: *Remain long the US dollar; cross rates indicate that Sterling, the French franc and the Japanese yen are weakest at the moment, the latter as foretold last month. Press short positions in Japanese yen if spot breaks 235.50 (42.46) on close.*

Chart 1

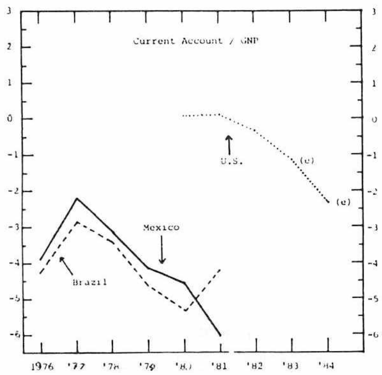


Chart 2

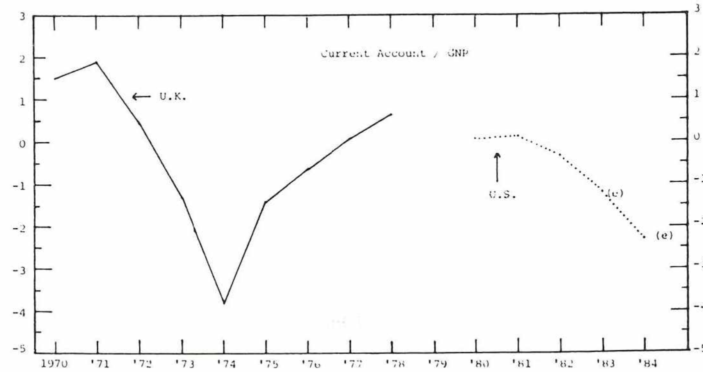
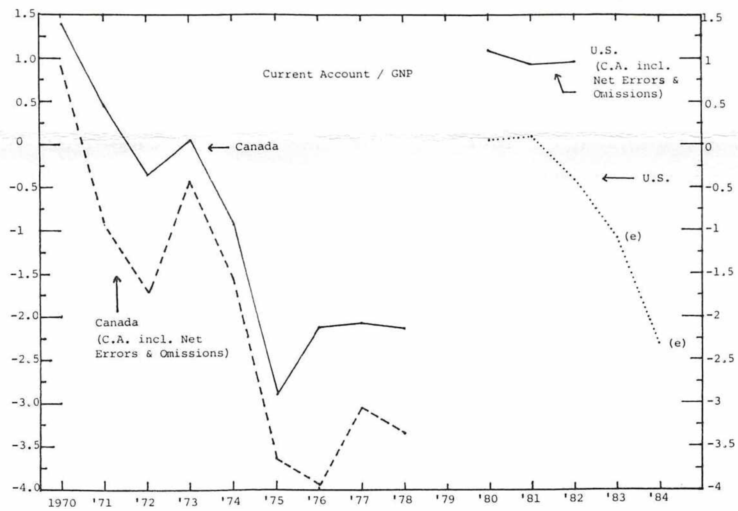


Chart 3



(e) = Mr. Volcker's estimates

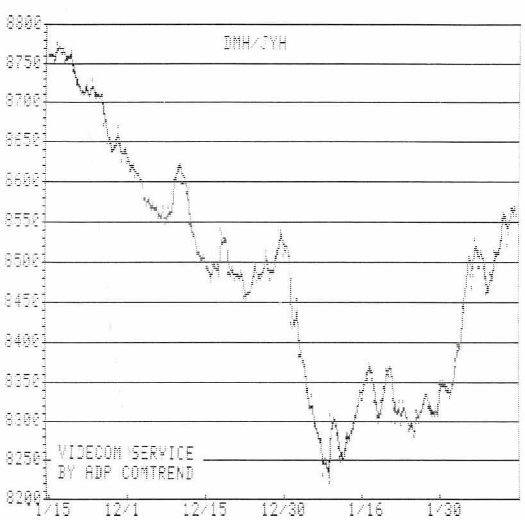


Chart 4

Chart 5

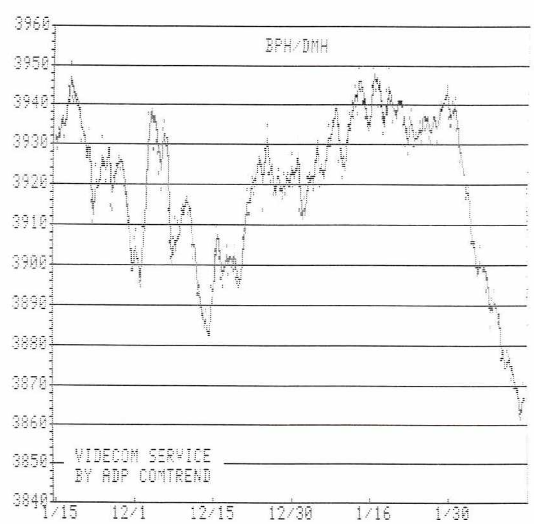


Chart 6

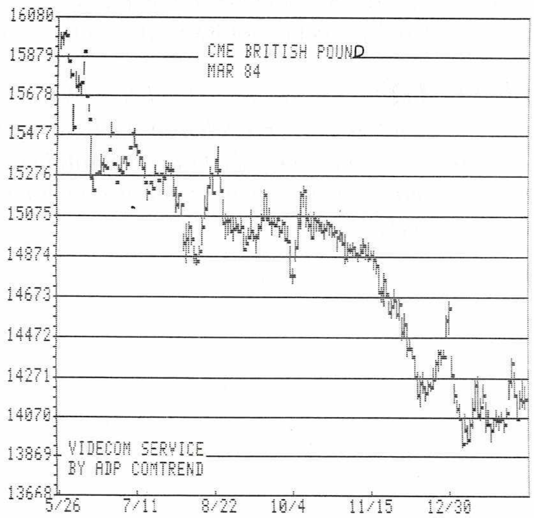


Chart 7

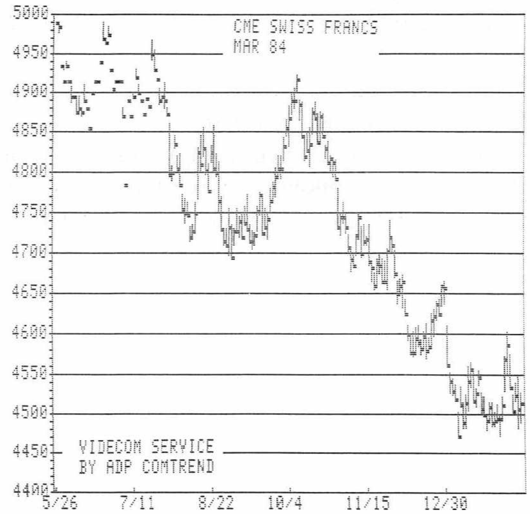


Chart 8

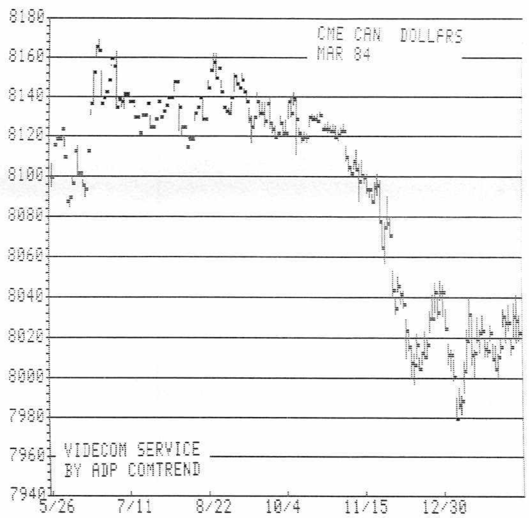


Chart 9

Chart 10

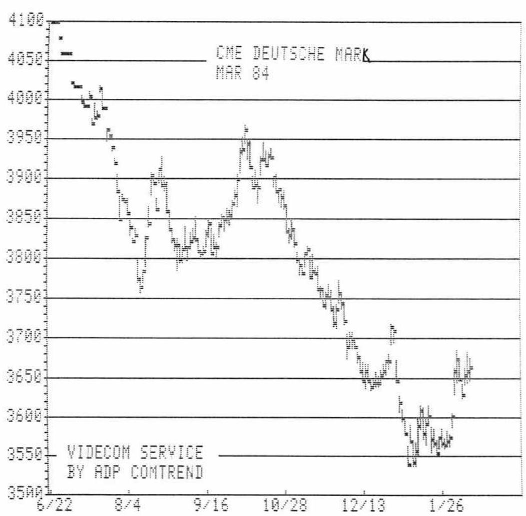
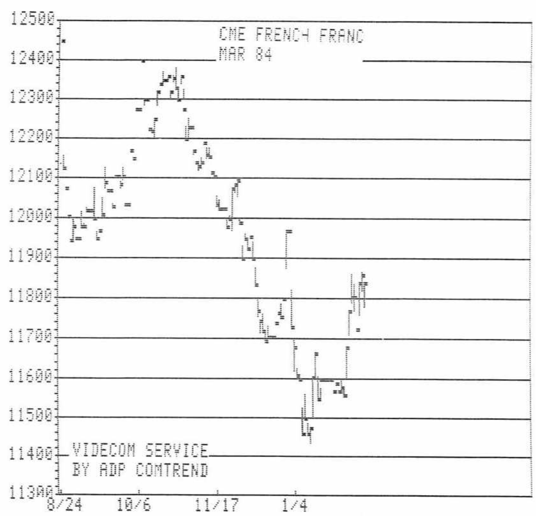


Chart 11



Stock Indices

Whether one labels it the beginning of a bear market or a mere 25%-40% bull market, correction is academic. The key question is how far down.

In previous issues we enumerated many reasons why we expect the stock market to suffer a waterfall-type decline. Most arguments were technical: lack of leadership; narrowing breadth; nonconfirmation of the advance/decline line; heavy margin debt; and so on. Stunned by the speed and severity of the decline, market observers have attributed the fall to the current impasse over the budget deficit and concern over rising interest rates obliquely hinted by Mr. Volcker in his recent testimony. While massive, the fiscal deficit is not an unexpected event nor is it necessarily as worrisome as it is made out to be when considering that other industrialized countries have survived and prospered with deficits equal to 8%-18% of GNP compared with 5.5% for the US.

In our opinion, the market's malaise is far deeper and more far-sighted than suspected. It *can* and *should* worry about a cancerous banking system that daily becomes more insolvent and speculative. It need *not* worry about deep economic contractions à la '30s, simply because the government represents as much as 50% of GNP; it can easily worry about deflation and debt liquidation, and their impact on corporate earnings (downward revisions have found wide air-pockets, a sign of too-great expectations).

Earnings are being suffocated by the service of the debt while the debt mounts, growing ominously in excess of the accumulation of liquid assets. In short, the debt bulldozer has to be faced: It is either liquidated or liquified. A deflationary debt liquidation process will be devastating for stocks (and commodities as well); a massive liquification of debts cannot possibly be visualized under present monetary policy, although *a very minor* demonstration did take place in the closing months of 1982 and early 1983; we are thinking in terms of a 30%-50% annualized increase in money supply, effected practically overnight. Quite bullish for stocks (and commodities as well). Which will it be?

STRATEGY: *Short positions on March '84 S & P were reinstated via the Hotline on January 13, at about 169.00 and were reaffirmed in Hotline updates throughout the balance on January and February. Judging by the degree of confusion expressed in the midst of a generally complacent environment, we would guess that the present decline has yet to find a temporary bottom. Bottom pickers should watch for the following "signs":*

- *a) a discount to the cash index on the March '84 S & P and/or Value Line;*
- *b) a drop to the minus 12 to minus 15 area of Trendline's Short Range Oscillator, now at minus 8.1;*
- *c) a rise in the 10-day moving average of odd lot short sales to 3,500-4,000 shows.*

Regardless of the above, positions should be covered on any upside weekly reversal in the S & P 500 and/or the Dow Jones Industrial. Keep in mind that significant declines tend to go a lot lower and a lot further than imagined; it would be foolish to abandon a profitable position just because the market looks historically oversold.

Keep in close contact with the Hotline.

Chart 12

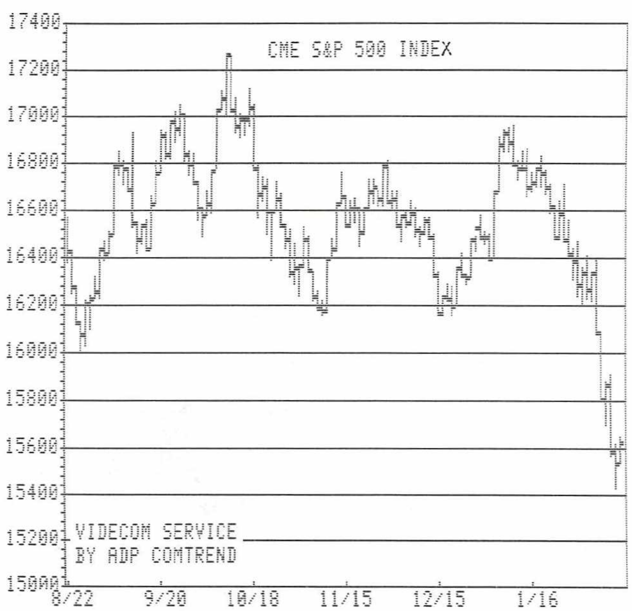
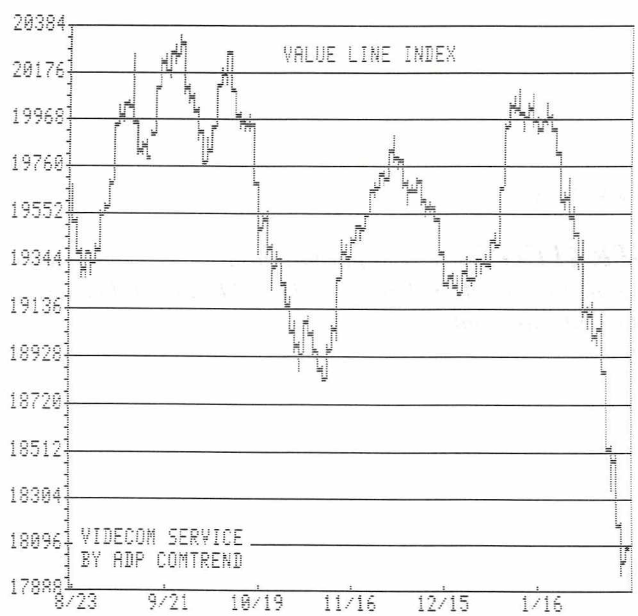


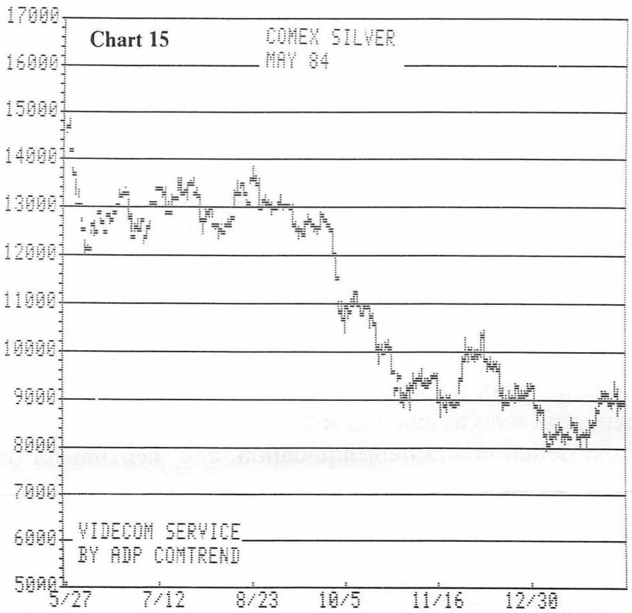
Chart 13



Precious Metals

Responding to the very slight decline of the US dollar in recent weeks and a whiff of reflation, precious metals staged a modest rally. Gold prices bounded up by about $25/oz., while silver prices gained as much as $1.40/oz. from the lows recorded in January. Short of a massive turnaround in the US dollar or a dramatic reacceleration of inflation, neither in the cards, precious metals will head considerably lower in months ahead.

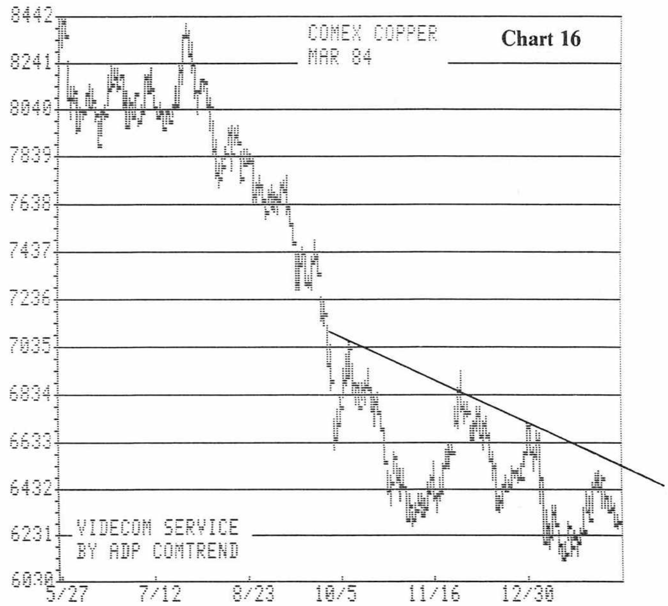
STRATEGY: *We covered on January 13, and reinstated short positions on February 9 as per our Hotline service, taking over $18/oz. out of gold and 55¢/oz. out of silver. Remain short with stops at 395 basis April '84 gold and 9.44 basis May '84 silver, good anytime.*



Copper

Looks lower.

STRATEGY: *Short as per last month's suggestion advising sales on breaks below 63.20, basis March '84. Place stops at 67.50, close only.*



Energy Futures

Exceedingly low distillate stock inventories, particularly in New York harbor, forced the expiring February '84 contract to a $1.04 high and provided the fireworks behind the spectacular run in the March '84 position to the 91¢ area.

There are a number of lessons to be learned from this unfortunate experience: a) when you trade on oil fundamentals (or any other commodity for that matter — e.g., soybeans) trade the raw product (if you can) and treat the products, much more easily subject to manipulation, with the greatest of caution; b) make sure delivery points do not restrict *easy* access from all corners of the world (spot N.Y. harbor was selling as much as 13¢ higher than the Gulf and as much as $36 per ton higher than London/Rotterdam — and transportation from both points was either very costly or not acceptable; c) treat the N.Y. Mercantile with great care — it is not Chicago, or even Comex.

The rising open interest in the N.Y. crude oil contract permits us now to move over completely to that contract, and we have so advised over the Hotline.

Saudi light continues to trade at a 40¢/barrel discount to the official price, while a small discount has reappeared on the Nigerian crude. In recent days, Nigerian officials have come out strongly in favor of obtaining a higher Opec quota.

Military activity in the Gulf area is keeping traders nervous; there are some reports of imminent Iraqi action against Iranian oil installations and tankers. The Saudis continue to build up their floating storage, reportedly at a daily rate of 1 million barrels per day. In the unlikely event of a closure of the Strait of Hormuz, Middle Eastern oil will continue to flow for long enough to allow the US and its allies to reopen the sea lanes. Of course the War Powers Act in the hands of a confused and meek US Congress could change the picture . . . .

STRATEGY: *Press the short side of May and June '84 N.Y. crude oil. Place stops at 30.50, close only.*

Chart 17

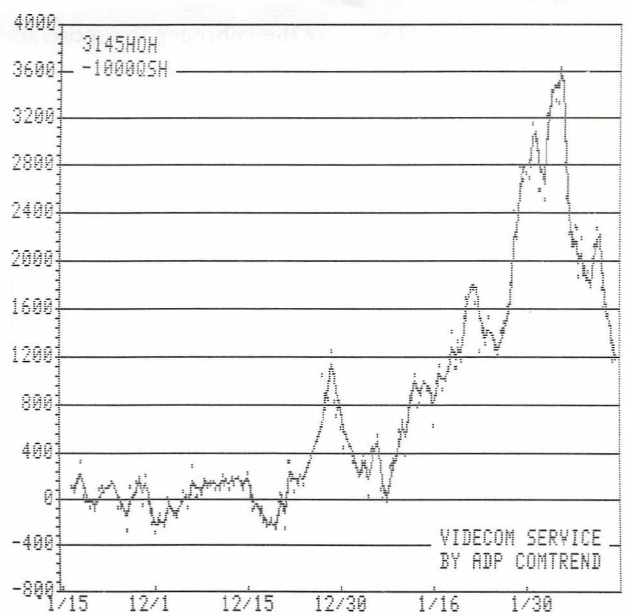
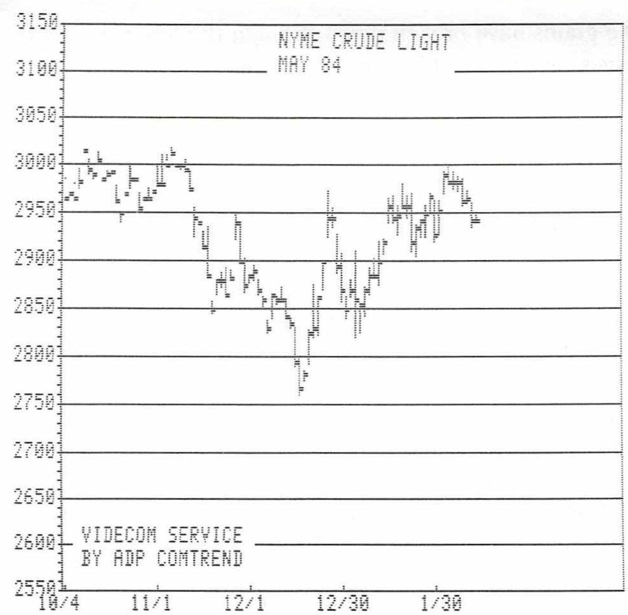


Chart 18



Cocoa

Fundamentally, rising cocoa prices were justified by the January 13 reports, indicating stable demand in the face of sharply rising prices (see Chart 19). Technically, the market showed good support in rebounding from the upper 2300 range.

We remain bullish, anticipating that the long-term cycle points toward the 3000 level near the middle of 1984. Supply problems augur again for the main producing regions, as political, weather, and grove maintenance factors have failed to be changed for the better during 1983.

STRATEGY: *Maintain investment-type long positions, retaining close-only stops at 2350. Positions were reinstated shortly after being stopped out at 2380, close only, as indicated on our Hotline.*

Chart 19

Cocoa Grind Figures

(Metric Tonnes)	4Q1983	3Q1983	4Q1982	4Q1983/3Q1983 %	4Q1983/4Q1982 %	1983	1982	1983/1982 %
U.S.-cocoa	53,231		50,680		105.0			
-cocoa liquor	8,372				116.8			
-cocoa butter	9,800				106.4			
U.K.	21,319	17,434	22,087	122.3	96.5			
W.Germany	49,752		46,311		107.4	179,462	167,043	107.4

Grains

The grains have broken down through the lower end of the ranges we proposed last month for the first four months of 1984. Thus, at this time, we expect continuing weakness, at least until the prospective plantings report by the USDA on February 16. (Please listen for our update on grains on the Hotline on February 16, following the report). US farmers have until February 24 to sign up for corn and wheat acreage set-aside programs.

Analysts currently expect a 1984 corn crop of 7,900 to 8,100 million bushels (mbu.) compared with the reduced (through drought and payment-in-kind) 1983 crop of 4,204 mbu., and with the record 1982 crop of 8,359 mbu. Based on a crop of that size, ending stocks on September 30, 1985 are expected to rise to between 1,200 and 1,700 mbu. from the latest USDA estimate of 545 mbu. on September 30, 1984. A soybean crop of 2,050 to 2,250 mbu. is currently expected, versus the drought-reduced 1983 crop of 1,595 mbu. and the record 1982 crop of 2,229 mbu. Given a crop in that range, August 31, 1985 soybean stocks should rise nominally to around 200 mbu. from the USDA's current 1983-84 ending stocks forecast of 150 mbu. on August 31, 1984. The wheat crop in 1984 is expected to total 2,600 to 2,800 mbu., versus 2,425 in the PIK-reduced 1983 crop and the record 2,812 mbu. crop in 1982. Wheat carryover in 1984-85 on June 30, 1985 is expected to total 1,500 to 1,600 mbu. compared with the latest USDA estimate for 1983-84 on June 30, 1984 of 1,389 mbu.

The 1984 corn and soybean crop production estimates can be better analyzed following the February 16 report. As we have mentioned before, the consequences of any curtailment of production in 1984 from the current expectations would be explosive, particularly for corn, and to an even greater extent, soybeans.

The volatility of grain prices in the past few weeks has been largely attributable to confusion arising from conflicting USDA reports. The January 13 USDA final crop production report for 1983 gave increased estimates for corn and soybeans (compared with the December report) as shown in Chart 20. Based on that report, the January 16 supply and demand forecasts indicated 1983-84 ending stocks of 595 for corn, 185 for soybeans, and 1,441 for wheat, all raised from previous estimates of 512, 150, and 1,424 mbu., respectively. These supply and demand figures were considered negative (See Chart 23).

Then, on January 23, the USDA estimated January 1 stocks of grain as indicated in Chart 21. The stocks figures for corn and soybeans were far below the expected range and the average, and as such, were very bullish. Based on the stocks report, grain usage was as indicated in Chart 22. Livestock feed use estimates have been raised to levels well above 1982-83 for wheat and soybean compound feeds, based on this information (See Chart 24).

Given higher US corn exports to date this season, compared with 1982-83, corn feed use is also remarkably high. These high livestock feed use rates, good domestic demand, and narrowly reduced export rates, compared with 1982-83 (at least for corn, for which exports are still running *ahead* of last season, and for soybeans, if not for wheat), necessitate that demand be reduced to more reasonable levels in the second half of the 1983-84 season, in order to ensure adequate, albeit near record-low, carryover stocks of corn and soybeans. This cutback in demand will be necessary as limited supplies may yet spur grain prices much higher before the harvest of the new crops in 1984 begins. The prospective plantings for 1984, coupled with the critical weather factor early in the season, will determine whether continued shortages of corn and soybeans will power grain prices higher in 1984, as in 1983.

STRATEGY: *Persistent weakness in the grains as a whole led to our long positions in July wheat being stopped out at 3.30. At this time we expect such weakness to continue, but the major influence on the trend of the next several weeks should be decided by the February 16 planting intentions report (We will be giving our recommendations on the Hotline immediately following that release).*

Chart 20

JANUARY 13 U.S.D.A. CROP PRODUCTION ESTIMATES.

(million bushels)	1/13/84	12/12/83	1982	(previously)
corn	4,203.8	4,121.0	8,359.0	(8,397)
soybeans	1,595.4	1,537.0	2,229.0	(2,230)
all wheat	2,425.0	2,408.0	2,812.0	(2,809)

Chart 21

JANUARY 23 U.S.D.A. GRAIN STOCKS REPORT.

(million bushels)	1/1/84	expected	10/1/83	1/1/83
corn	4,928.5	5,218(5,025-5,400)	3,140.3	8,284.2
soybeans	1,290.7	1,358(1,332-1,400)	383.3*	1,803.9
all wheat	2,324.5	2,325(2,285-2,390)	2,966.1	2,520.7

*-September 1/83 stocks.

Chart 22

GRAINS USAGE BASED ON JANUARY 23 STOCKS REPORT.

(million bushels)	1./Oct.-Dec.83	2./Oct.-Dec.82	(1÷2)%	3./Jun.-Dec.83	4./Jun.-Dec.82	(3÷4)%
corn	2,420	2,262	107.0			
all wheat	642	467	137.5	1,641	1,455	112.8
	Sept.-Dec.83	Sept.-Dec.82				
soybeans	688	692	99.4			

Chart 23

ENDING STOCKS ESTIMATES, U.S.D.A.

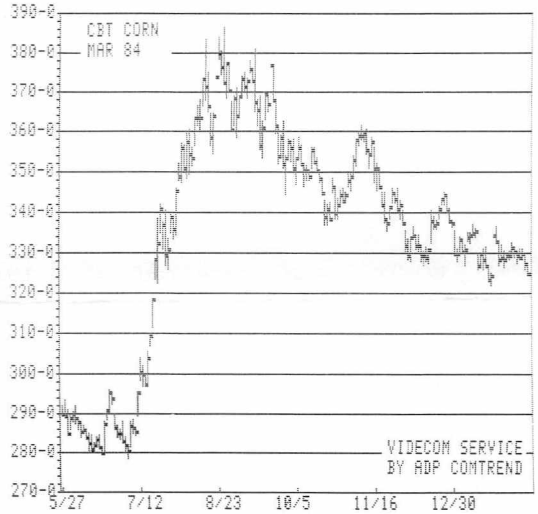
(million bushels)	1983/84			1982/83
	1/24/84	1/16/84	12/13/83	
corn	545	595	512	3,140
soybeans	150	185	150	387
all wheat	1,389	1,441	1,424	1,543

Chart 24

FEED USE ESTIMATES - FROM JANUARY 24 U.S.D.A. SUPPLY AND DEMAND PROJECTIONS

(million bushels)	1983/84			1982/83
	1/24/84	1/16/84	12/13/83	
corn	3,975	3,925	3,925	4,734
soybeans(inc.seed&residual)	118	87	89	95
soymeal(thousand short tons)	17,600	17,600	17,450	19,306
wheat	450	400	400	218

Chart 25



Livestock

Once again, we look into our crystal ball: We foresee the recent downtrend in livestock prices continuing for several weeks longer. Livestock prices have fallen sharply in the past months, breaking as temperatures rose, which aided weight gains for cattle on feed. Another contributing factor to the fall was the January 18 quarterly 13-state cattle on feed report (Chart 26), which showed more cattle on feed than previously expected. Similarly, hog prices fell as the weather became milder and as slaughter increased to 7% above the year-ago levels in the first two weeks of February after having fallen to 3% in the second half of January. (In contrast hog slaughter was 15% above 1982 levels in the first half of January 1983).

But we expect the general uptrend in prices that began in November 1983 to resume. Packer margins for both cattle and hogs are negative at present; until either supplies increase (depressing live weight prices) or demand increases (raising carcass values), processors of cattle and hogs will attempt to reduce buying, which will weaken livestock prices for the next few weeks. Prices will soon have discounted the trend to higher marketings following the record-cold temperatures in December and early January, which delayed weight gains.

It is rumored that a higher incidence of transmittable gastro-enteritis (TGE) arising from cold weather will result in a sharp increase in piglet deaths this winter. This would lead to fewer hogs for market in the summer of 1984 than the already low expectations relative to 1983 shown by the December 22 quarterly hog report. Sows farrowing in the period December 1983 to May 1984 were expected, in that report, to be only 94.8% of the year-earlier total. Since the December report, deferred hog futures have been gaining substantially on nearby months. Summer hog futures will continue to exhibit greater price strength than either early 1984 or late 1984 hog futures prices.

Near-term support for cattle will be aided by a February 3 USDA report that indicates only 12% of US dairy farmers have contracted to reduce their milk output in the 15-month program. This was a very disappointing level of participation and is expected to lead to the slaughter of only 336,796 head of dairy cows, a sharp contrast to initial expectations of as many as a million head.

Based on the January 18 cattle-on-feed report, which showed steers in the 700-899 pound category at 105.5% of 1983, steer slaughter should reach a peak in mid-April, depressing cattle prices relative to hog prices. Based on last month's analysis, hog slaughter should be much lower in the second quarter of 1984 than it was in 1983, and substantially below the high levels in April 1983. These factors should cause an abrupt narrowing of the price differential between April cattle and April hogs.

Contrary to recent reports, hog producers have not been holding slaughter animals back, and in fact have been slaughtering at a faster-than-normal rate. December and January slaughter was 86.7% of the over-180-pound hogs in the December 22 report, the highest level in the past 13 years and sharply above the average of 80.6% in those years. Slaughter in December and January comprised 67.8% of the June-August pig crop, also well above the average of 63.2% in the past 13 seasons. Based on this information, we believe hog futures are close to a bottom for the next several months.

STRATEGY: *Long positions in June cattle instituted in October at between 63.5¢ and 64¢ were stopped out at 65.5¢. Hog positions in August feeders were sold at 67.25¢ in December, not 65.25¢ as reported in last month's* Comments. *Maintain orders to repurchase August feeders at 66.25¢ for outright positions. Maintain spreads of long August feeders/short August live cattle, risking a close below 200 points, premium the feeders.*

Roll February cattle positions into April to retain the spread long 4 April hogs/short 3 April *cattle, in spite of current losses.* Lower *stops in long positions in June hogs to 50¢, close only, from 51¢. In addition, buy July hogs at 52¢, with stops also at 50¢, close only.*

Chart 26

JANUARY 18 U.S.D.A. QUARTERLY 13-STATE CATTLE ON FEED REPORT - JAN. 1 DATA

(thousand head)	1983		1982		1983/1982 %	expected
on feed October 1	8,465		8,800		96.2	
placements-Oct.-Dec.	7,252		7,216		100.5	96.6 (94.9-104)
marketings-Oct.-Dec.	5,416		5,374		100.8	101.3 (98 - 103)
	1984		1983		1984/1983 %	
on feed January 1	9,908		10,271		96.5	93.4 (92 - 97)
-steers and calves		6,747		6,653	101.4	
under 500 lb.		323		368	87.8	
500-699 lb.		1,247		1,228	101.5	
700-899 lb.		2,114		2,004	105.5	
900-1099 lb.		2,366		2,330	101.5	
over 1100 lb.		697		723	96.4	
-heifers and calves		3,120		3,555	87.8	
under 500 lb.		177		277	63.9	
500-699 lb.		803		1,013	79.3	
700-899 lb.		1,297		1,406	92.2	
over 900 lb.		843		859	98.1	
intended marketings-Jan.-Mar.	5,752		5,694		101.1	

7-STATE REPORT

	1983	1982	1983/1982 %	expected
on feed Dec.1	7,814	8,324	93.9	
placements-Dec.	1,736	1,530	113.5	98.5 (94-102)
marketings-Dec.	1,425	1,430	99.7	101.1 (95-105)
on feed Jan.1	8,006	8,316	96.3	93.2 (92 - 94)

Chart 27

JANUARY 30 U.S.D.A. CATTLE STOCKS REPORT - JANUARY 1 DATA

	1/1/84	1/1/83	1984/1983 %	expected
all cattle and calves	114,040	115,199	98.9	98.7 (98 -99.4)
cows and heifers w/calves	48,800	49,154	99.2	98.1 (97 - 99)
-beef cows	37,660	38,079	98.8	97.8 (97-98.5)
-milk cows	11,140	11,076	100.5	99.6 (98.2-101)
heifers over 500 lb.	18,598	18,830	98.7	98.8 (97-100.7)
-for beef cow repl.	6,195	6,343	97.6	98.2 (94-103.2)
-for milk cow repl.	4,541	4,533	100.1	101.1 (99-101.7)
-other heifers	7,862	7,954	98.8	97.8 (94.9-105)
steers over 500 lb.	16,391	16,225	101.0	100.2 (96.5-103)
bulls over 500 lb.	2,550	2,615	97.5	98.0 (96 - 99)
calves under 500 lb.	27,701	28,375	97.6	98.3 (96.8-100)
	1983	1982	1983/1982 %	expected
calf crop	44,900	45,400	98.9	98.3 (95 - 99.5)

Chart 28

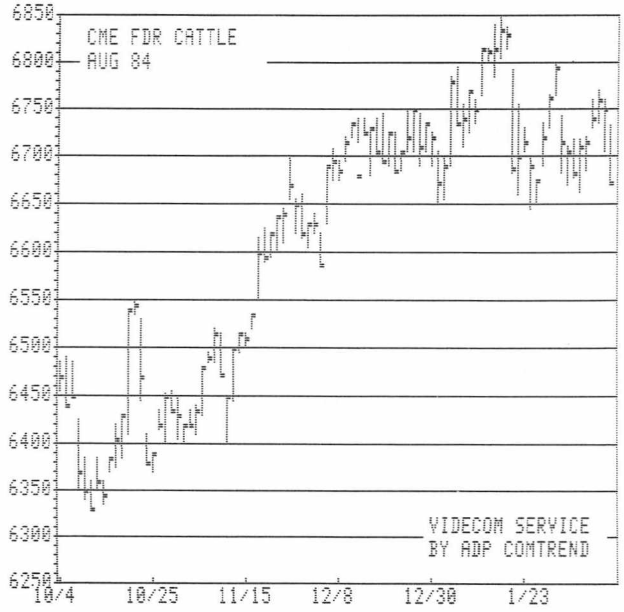
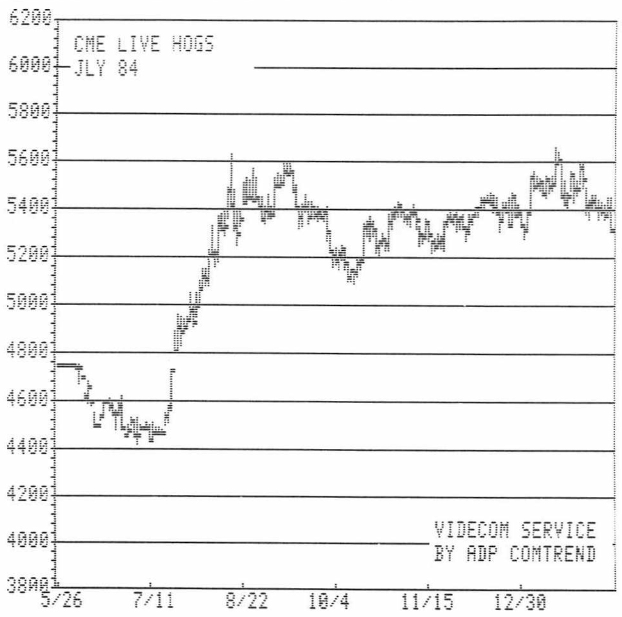


Chart 29



Last Month's Hotline Updates

Friday, January 13. There are two updates to the January 8 issue: 1) Reinstate short positions in S & P at market, given most conditions set out have been met; 2) Cover gold and silver positions at market; stand aside.

Tuesday, January 17: Repeats.
Friday, January 20: Repeats.
Tuesday, January 24: Repeats.
Friday, January 27: Repeats.
Tuesday, January 31: Repeats.
(Flash) Update Thursday February 2, 9:45 am: Cover short March '84 heating oil and stand aside. April and beyond should be switched over to short N.Y. crude oil — May, June and July. For those short February and March London Gasoil, roll into deferred months in London — May, June and July or N.Y. crude oil.

Friday, February 3: Repeats.
Tuesday, February 7: Repeats.
(Flash) February 9: Update: Sell April '84 gold and May '84 silver with stops at 395 and 944 respectively, good anytime.
Friday, February 10: Repeats.

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