

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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# Depression, inflation, interest rates, and the myth of monetarism

It is an accepted part of dogma, when interpreting recent US economic history, that October 1979 marked a watershed in central banking. In that fateful month, the Fed changed tactics and announced that henceforth it would put increased emphasis on the growth of bank reserves and less emphasis on interest rates in the control of day-to-day operations. This shift, away from interest-rate targeting to a new focus on a degree of reserves availability, was supposed to allow the Fed to more efficiently achieve its policy of gradually reducing monetary targets and to thus "squeeze" inflation out of the system.

The week-to-week, month-to-month, quarter-to-quarter, and year-to-year focus on monetary targets *concealed one of the greatest ironies of the financial history of the post-war period: The overall rate of growth of money supply did not change one zloty in the post-1979 period compared with the pre-1979 era!*

Incredible as it seems, the narrowly-defined measure of money supply grew at an annualized compounded rate of 7.5% in the IV Q 75 to IV Q 79 period and at 7.6% in the IV Q 79 to IV Q 83 period (statistics from *International Economic Conditions*, a publication of the Federal Reserve Bank of St. Louis). Given the *secular* uptrend of M1 velocity, a good argument can be made (and is not likely to be challenged) that the rate of growth of M1 in the later period was substantially more expansive than in the earlier period.

Did Fed policy intend this result? An examination of the behavior of the adjusted monetary base leaves little doubt. The adjusted monetary base grew 36.5% in the four years to the fourth quarter of 1975, 38% in the four years to the fourth quarter of 1979, and 35% in the four years to the fourth quarter of 1983. Since the adjusted monetary base is *directly under the control of the Fed*, one would have to feel cheated for having been led to believe, for four long years, that the Fed was really doing *something* about the decline in the purchasing power of our fiat money.

What about inflation? Didn't Volcker slay the dragon? Again, mirages. In the four years to IV Q 1975, the CPI rose 34.8%; in the four years to IVQ 1979, it rose by 37.5%; and in

the four years to IV Q 83, it rose by 33.2%. Hardly a consolation after two recessions in the most recent four-year period — and one of them the most severe contraction in 50 years!

Recessions and depressions are brought about by speculative *excesses*, usually the product of easy money and credit. Poor investments cause losses that cumulatively put pressure on overextended balance sheets. A normal process of retrenchment begins, which tries to "clean up" these maladjustments, thus creating recessions. The retrenchment degenerates into a depression when malinvestments and overindebtedness become the norm rather than the exception.

Of course, democratic governments are not likely to allow the bitter medicine to take its painful toll and resort to bailouts of all sorts. In the US, the bailout took the form of a massive increase in government deficit spending — a shift equal to 5% of GNP! For some less-developed countries (LDCs), particularly Argentina, the bailout took the form of a "liquification of debts" — an unexpected and powerful surge in inflation wiping out controlled-rate deposits and thus debts. And so on.

Fortunately for Mr. Volcker and associates, the intervening recessions since 1979 increased uncertainty and slowed down money velocity to well below its secular uptrend, *trapping* money supply increases and "moderating" the rate of inflation. Simultaneously, a strong dollar (caused by powerful capital inflows not always — and not even most of the time — attracted by high interest rates) "anchored" the prices of most international commodities, reinforcing the disinflationary trend.

### In this issue

The most volatile, most profitable period for futures investors lies ahead — we explain the why and how of it. Woe to the dollar bears as the US buck perplexes everyone. We look at some mixed signals in stock indices and energy futures — and stay neutral. Cocoa gets ready for a spectacular move, corn is rising, and hogs are bullish. Contributions by Albert D. Friedberg and Michael Beech.

As the worldwide recovery gains momentum, velocity is bound to increase and perhaps regain lost ground. The April survey by the National Association of Purchasing Management reveals a dramatic surge: Higher employment was reported by 29% of the survey, *the largest percentage since June 1978*; only 6% reported fewer new orders, *the lowest percentage since August 1950*; production dropped in April for only 3% of respondents, *the lowest figure since the survey was started in 1931*. Ominously, 38% of those surveyed said inventories rose in April compared with 26% in March; 55% said prices rose in April, *the highest percentage since January 1981*.

Contrary to popular belief, money supply increases do not disappear yearly into thin air; they simply rest and build up liquidity until conditions are propitious for their usage. Then they begin to turn over with the force of a steamroller. We are about to witness this phenomenon again, for the third time in less than 15 years.

We are in the presence of rapid *monetary inflation*, fuelled and maintained by a relatively permissive central bank. Monetary inflation, when combined with boom-like economic conditions, creates price inflation. The only restraint at this time to a global economic boom (an average 3.5%-4.5% rate of growth) is the belt-tightening measure being taken by LDCs in the vain hope of fulfilling their debt obligations. Even here, steps are being taken by central banks and by the *de facto* hardening of debtor positions to alleviate this dead weight. At this time there are three serious alternatives:

1) "Cap" interest rates at some level, not far from present levels, forcing LDCs to continue to maintain relatively austere economic programs.

2) Split interest charges into their real and inflation-premium components with the former being serviced and the latter being added to the principal — a proposal that would "liberate" a large amount of LDC resources towards more imports and consumption.

3) A *de facto* default and the total capitalization of all interest charges — clearly a very "bullish" economic scenario for LDCs, although possibly offset by its impact on lending institutions in creditor nations.

Be that as it may, the way is opening for a synchronized worldwide boom-type expansion accompanied by rapid price inflation and a rapid rise in interest rates.

Monetary inflation is *always accompanied by an escalation of interest rates*. That is exactly what is happening at this time. The recent and spectacular rise in interest rates has everything to do with easy money and credit conditions and

nothing to do with Fed tightening. To prove our point, we refer to Chart 1 where three different yield spreads are computed on a ratio basis to eliminate any bias resulting from the cyclical rise in rates. In all cases, a *strongly positive yield curve* indicates that there is no "shortage" of money. This is particularly pronounced in the short-end government sector where one-year T-bills have *widened* their yield advantage over three-month T-bills, despite a 200-point rise in rates. Clearly, while money costs more, there is a lot of it around.

The soaring pace of credit demands will *eventually* tighten the availability of funds. Commercial banks are only in the *early* stages of liquidating large holdings of securities built up during the relatively calm III Q 82-III Q 83 period; total bank investments turned negative for the first time in a number of years in Jan.-Feb. '84, and later statistics tend to confirm a gradual but persistent process of liquidation in more recent weeks. Of course, this loss of liquidity will further raise the level of interest rates and *invert their term structure*. This dangerous stage (i.e., inversions, or a downward-sloping yield curve) may yet be many months away.

*The most volatile, yet most profitable, period for futures investors lies ahead: spectacular price rises in commodities that enjoy reasonable fundamentals, such as cocoa, soybean oil, corn, orange juice; and spectacular rises in interest rates.*

In due time, as the LDC debt burden is resolved (particularly by the last two alternatives mentioned earlier), other commodities will join the bull market.

**STRATEGY:** *Our recommendation last month to enter the short side of June '84 and September '84 Eurodollars was exquisitely timed. We said "sell one third of your eventual position during the coming week and one third each during the following two weeks. Eurodollars are preferred over T-bills so as to capture the inevitable widening of the spread." Assuming sales at the average price prevailing on the weeks of April 9, April 16, and April 23, you are short June '84 Eurodollars at 88.68 and September '84 Eurodollars at 88.16. Given Friday, May 11 closes of 87.71 for June '84 and 87.00 for September '84, these short positions are showing gains of 97-116 points, or approximately \$2,425-\$2,900 per contract.*

*Furthermore, our premonition that Eurodollars would widen their yield premiums over T-bills was dramatically correct: the "Ted" spread widened 47 points, basis the June contract; on a ratio basis (see Chart 3), June '84 Eurodollar reached a 17% premium over T-bills (not adjusted by coupon equivalents in the letter) from 13.4% last month.*

*Remain firmly short.*

Chart 1

Three Yield Comparisons

|        | (A)<br>30-day<br>Commercial<br>Paper | (B)<br>Corporate<br>AAA<br>Bonds | (B)/(A) | (C)<br>3-month<br>Treasury<br>Bill | (D)<br>1-year<br>Treasury<br>Bill | (D)/(C) | (E)<br>5-year<br>Treasury<br>Securities | (F)<br>Long-Term<br>Treasury<br>Securities | (F)/(E) |
|--------|--------------------------------------|----------------------------------|---------|------------------------------------|-----------------------------------|---------|---|--|---------|
| 1983   |                                      |                                  |         |                                    |                                   |         |   |  |         |
| Mar.25 | 8.68                                 | 11.76                            | 1.3548  | 8.55                               | 8.55                              | 1.000   | 10.26                                   | 10.70                                      | 1.043   |
| Apr.29 | 8.36                                 | 11.43                            | 1.3672  | 8.11                               | 8.16                              | 1.006   | 9.95                                    | 10.44                                      | 1.049   |
| May 27 | 8.49                                 | 11.67                            | 1.3746  | 8.48                               | 8.51                              | 1.004   | 10.32                                   | 10.75                                      | 1.042   |
| Jun.24 | 9.15                                 | 11.71                            | 1.28    | 8.97                               | 9.02                              | 1.006   | 10.71                                   | 10.95                                      | 1.022   |
| Jul.29 | 9.17                                 | 12.31                            | 1.342   | 9.13                               | 9.44                              | 1.034   | 11.39                                   | 11.62                                      | 1.020   |
| Aug.26 | 9.20                                 | 12.32                            | 1.339   | 9.15                               | 9.37                              | 1.024   | 11.34                                   | 11.54                                      | 1.018   |
| Sep.30 | 8.97                                 | 12.22                            | 1.362   | 8.75                               | 9.04                              | 1.033   | 11.22                                   | 11.43                                      | 1.019   |
| Oct.28 | 9.04                                 | 12.34                            | 1.365   | 8.66                               | 9.02                              | 1.042   | 11.39                                   | 11.69                                      | 1.026   |
| Nov.25 | 9.06                                 | 12.36                            | 1.364   | 8.79                               | 9.07                              | 1.032   | 11.35                                   | 11.59                                      | 1.021   |
| Dec.30 | 9.66                                 | 12.56                            | 1.300   | 8.96                               | 9.22                              | 1.029   | 11.54                                   | 11.78                                      | 1.021   |
| 1984   |                                      |                                  |         |                                    |                                   |         |   |  |         |
| Jan.27 | 9.20                                 | 11.98                            | 1.302   | 8.93                               | 9.04                              | 1.012   | 11.31                                   | 11.59                                      | 1.025   |
| Feb.24 | 9.42                                 | 12.22                            | 1.297   | 9.18                               | 9.35                              | 1.019   | 11.67                                   | 11.94                                      | 1.023   |
| Mar.30 | 10.04                                | 12.71                            | 1.266   | 9.72                               | 9.86                              | 1.014   | 12.20                                   | 12.40                                      | 1.016   |
| Apr.27 | 10.16                                | 12.95                            | 1.275   | 9.64                               | 10.00                             | 1.037   | 12.47                                   | 12.69                                      | 1.018   |
| May.11 | 10.40                                | 13.09                            | 1.259   | 9.99                               | 10.43                             | 1.044   | 12.89                                   | 13.07                                      | 1.014   |

Chart 2

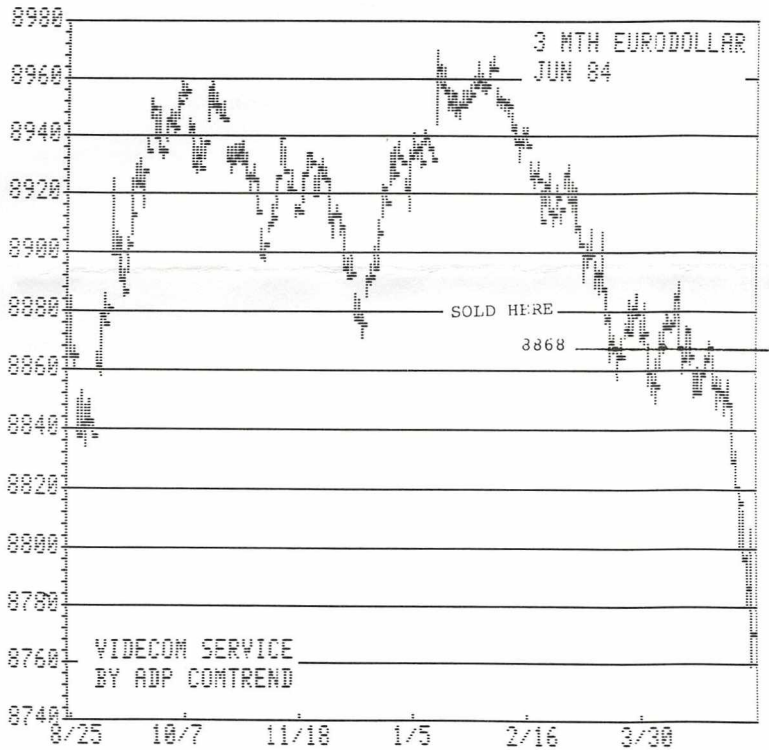
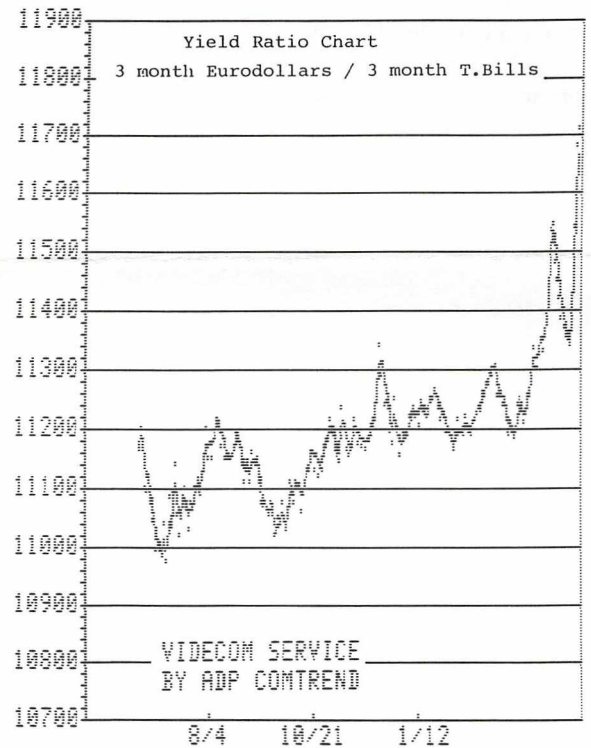


Chart 3



# Currencies

## Woe to the dollar bears

Perplexed. Decimated. Yet unwilling to learn that powerful trends are not broken by flimsy notions and naive interpretations of economic data.

Our bullish US dollar position is a simple one: We posit

that the flow of causation runs from strong capital inflows to low after-tax interest rates to higher-than-expected economic activity to a widening current account deficit. Furthermore, we do not profess to *know* why there are such strong capital flows, although we suspect that it is a combination of attractive interest rates (*to nonresidents, non-tax-paying individuals*),

political safety, wide availability of investment alternatives, a strong pro-business administration (more Madison Avenue than real), a buoyant drug market, etc. Finally, we measure current account deficits in relation to GNP and do not present them as gigantic, absolute (and meaningless) numbers. Canada and the UK have, at various times in the past, run current account deficits of the order of 3% of GNP; Latin American countries have done the same but with magnitudes exceeding 6% of GNP — while all along enjoying rising real rates of exchange. So why can't the US run a measly current account deficit of 1.5%-2% of GNP (projected for 1984), especially when their country risk and transfer risks are infinitesimally smaller — almost non-existent? And especially if, as is being readily admitted by intelligent and highly-placed European officials, the US current account deficit has acted as the engine for worldwide expansion?

In recent days, the Bundesbank has attempted to slow down (reverse?) the climb of the US dollar and has purportedly spent between \$700 million and \$1 billion, just under the DM2.80 per dollar rate. The Bundesbank runs the risk of losing a considerable amount of reserves to no avail.

Cross-rate movements in past weeks have been fairly pronounced and at times quite dramatic. As we expected last month, the British pound/Deutschemark rate firmed, mov-

ing from 3.74 to 3.84. Further trouble in the Gulf should work to conserve Sterling's newly-gained strength. The yen, the favorite currency of the dollar bears, has become extremely overbought in relation to the DM (82.5¥/DM; see Chart 6), and we fully expect it to weaken in coming weeks.

**STRATEGY:** Roll over all June '84 short positions to September 1984. Remain firmly long the US dollar by way of short DM. To avoid intermediate-term whipsaws, we advise lowering stops on one half all positions to 36.70, basis June '84 and on the balance at 36.95, basis June '84, close only. On all other currencies, take your cue from the DM.

## Canadian dollar

The onslaught continues. Despite strong efforts to maintain "parity" with the US on the interest rate front, the super strength of the US dollar is causing a deep hemorrhage in Canadian international reserves. Just as we have expected.

**STRATEGY:** Remain short, lowering stops to 77.75, basis spot.

Chart 4

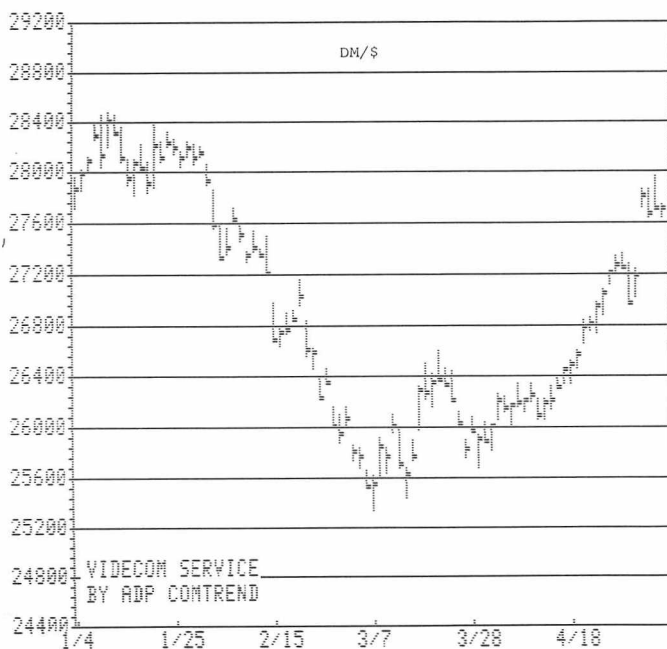


Chart 5

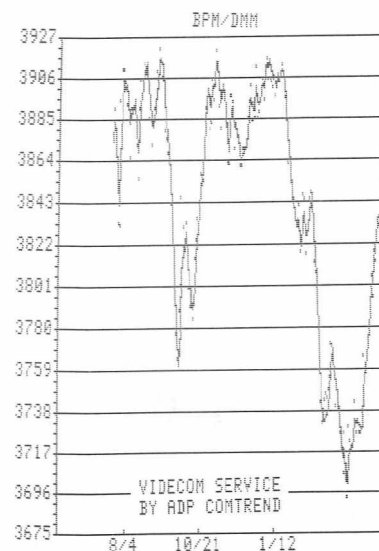


Chart 6

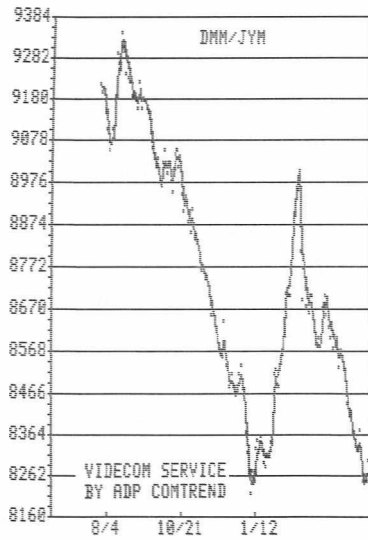


Chart 7

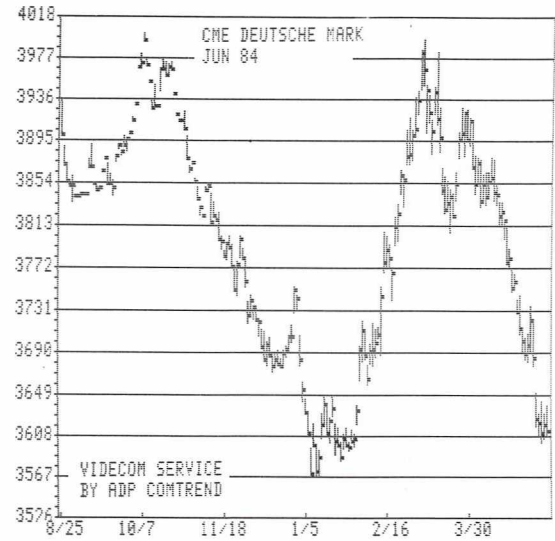


Chart 8

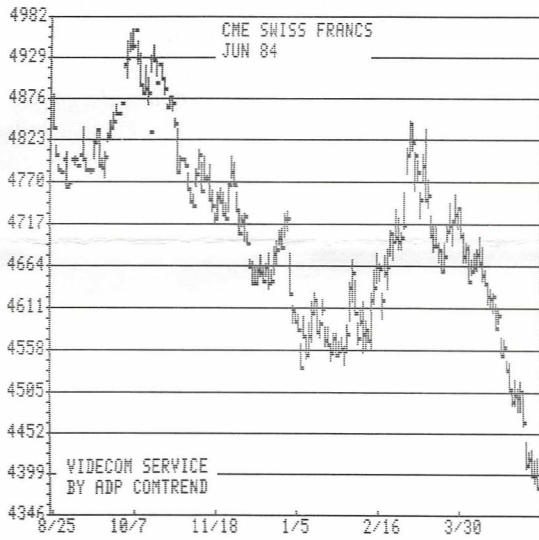


Chart 9

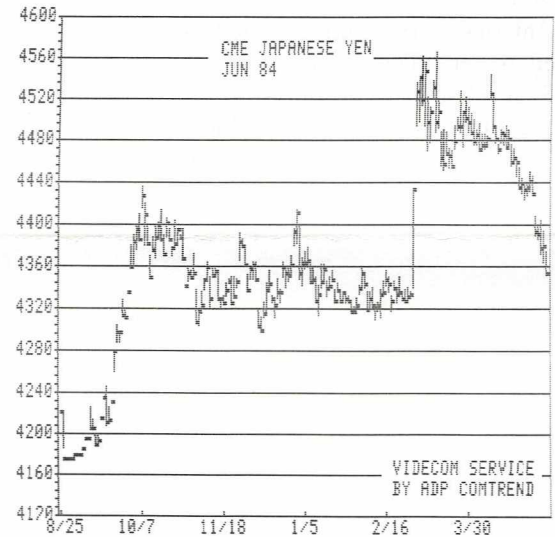


Chart 10

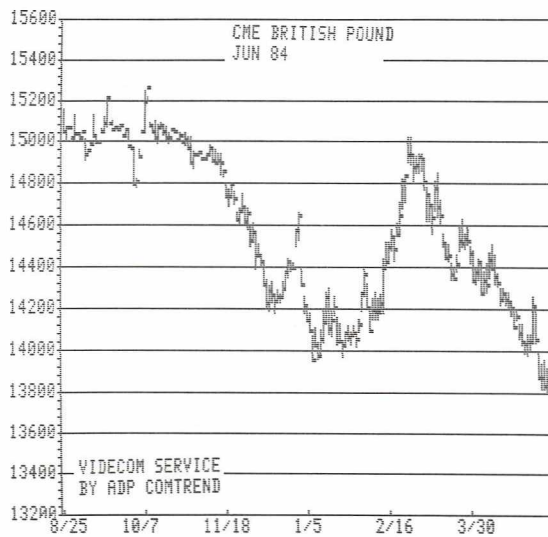
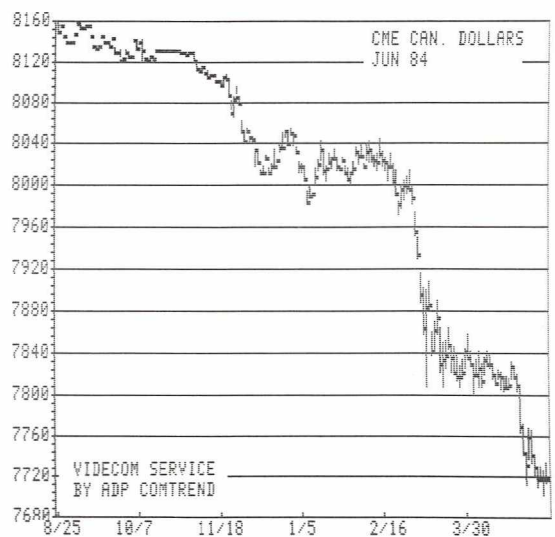


Chart 11



# Stock Indices

Backing and filling in a relatively narrow band, stock prices continue to resist the onslaught of the bond market and have vindicated the relatively neutral position we've adopted since March 2 (see Hotline update in March 11 issue) and in subsequent *Commodity & Currency Comments* issues.

Sentiment indicators continue to give out bullish signals as pessimism is becoming "thick": the percentage of bearish advisory services has risen to the highest level since mid-1982; odd-lot short sales remain stubbornly high and rise to very high levels on sharp upswings; premiums on futures, particularly June '84 S&P and Value Line, remain extremely low and at times nonexistent; put option volume on the CBOE 100 market tends, on most days, to exceed call option volume; specialist short sales are relatively low; in the latest week, members of the NYSE accounted for less than 79% of all short sales (a very low historical ratio); and so on.

Internal market statistics, on the other hand, emit some mixed signals: The much broader Value Line Index has continuously underperformed the blue-chip S&P 500 Index (see Chart 12); the advance/decline line continues to look saggy; new lows continue to exceed new highs (the latter being mostly a result of the extraordinary spate of takeovers

and leveraged buyouts); the over-the-counter high-tech sector continues to be demolished; and so on.

On the other hand, new-issue underwriting has picked up of late, and the aftermarket in initial public offerings remains relatively firm. Also, the highly interest-rate-sensitive Utilities Average has performed exceedingly well in recent weeks. Finally, rotational group strength indicates that the "beast" has still some life left in it.

Our interpretation is that the level of interest rates does not disturb this market, which is becoming absurdly overvalued; the availability of money *will* disturb the market, but as we pointed out in our introductory comments, there is *still* a great deal of liquidity sloshing about. The proof of it, in stock market terms, is the extraordinary explosion of bank-financed, leveraged buyouts which, as is characteristic of terminal diseases, has been picking up steam: The deals are becoming increasingly speculative and vulnerable, and the number of players is rising. A prelude for disaster.

**STRATEGY:** *Remain sidelined; there is still a good probability that the stock indices will successfully manage to launch a fair-sized rally in weeks ahead — but always in the context of a bear market.*

Chart 12

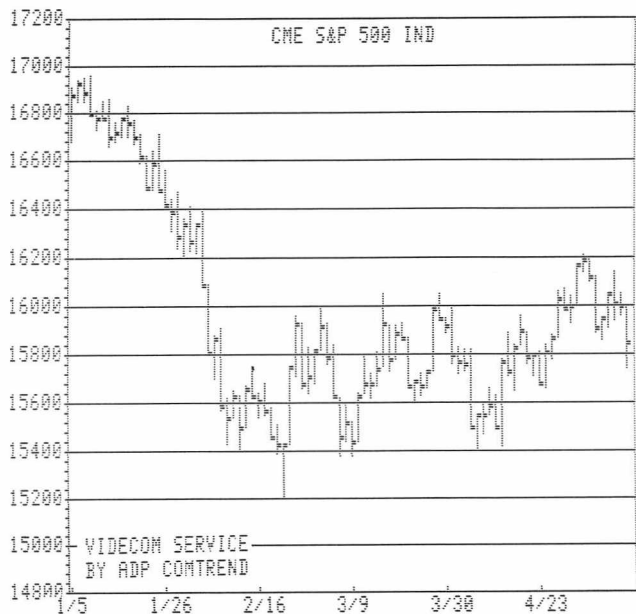
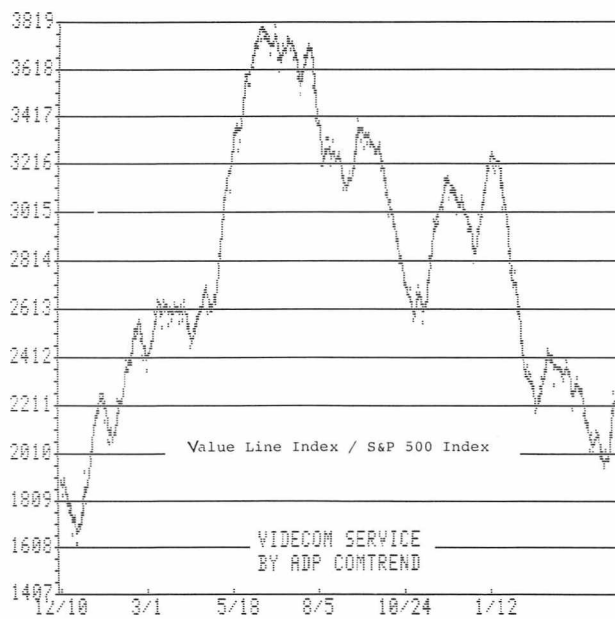


Chart 13



# Energy Futures

Slowly but inexorably, tanker traffic in the Gulf is drying up:

On April 26, Iraqi jets attacked a Saudi tanker and set it ablaze. The Safina Al-Arab carried some 2.6 million barrels of Iranian oil loaded at Kharg Island. On May 7, the Iraqis did it again, hitting another large Saudi-owned tanker carrying 800,000 barrels of Iranian oil. In short order, Lloyd's of London raised premiums on cargo value to 1.5% and on hull-value to 2%, adding approximately 30¢ to the price of a barrel of oil. These revised insurance rates have deterred Japanese tankers from calling on Kharg Island since April 25 and have prompted them to reconsider commitments to lift crude oil from Iran's main terminal. The same can be said for practically all tanker operators, particularly of other Gulf nations.

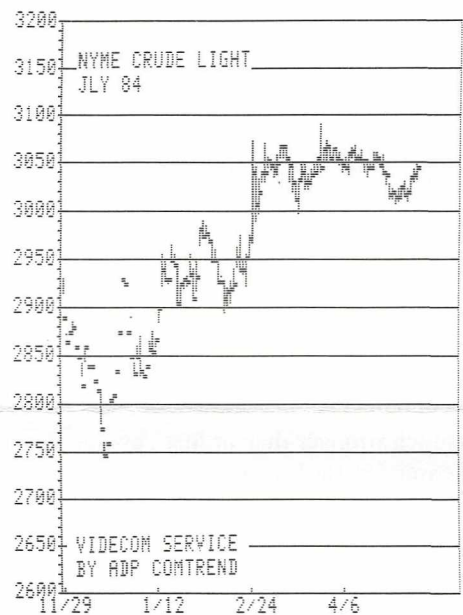
Should the Iraqis succeed in driving out Iranian customers, as much as 2.5 million barrels per day (mbd) may be lost in Opec production. While this shortfall can be made up readily by Saudi Arabia or a combination of other Gulf producers, it remains to be seen what course of action the Iranians will take. Kamikaze tactics against US or other foreign naval vessels and an attempt to close the Strait of Hormuz cannot be ruled out.

And there are still other oil-related developments: 1) US oil imports in 1983 fell for the sixth consecutive year; 2) Soviet crude oil production problems in the Tyumen region, which provides more than half of the country's oil, seem to be easing, with production figures for the first quarter of 1984 matching the year-earlier period (1.12 billion barrels); 3) the UK has revised upwards its North Sea oil (16%-25%) and gas (8%-28%) reserves, indicating also that drilling activity in 1983 reached a peak with 21 significant discoveries versus only 9 in 1982. Production hit an all-time high of 115 million tonnes.

Regardless of bearish fundamentals, the risk of an end to oil surplus from the Gulf is high, either because of a curtailment of tanker traffic or because of an attempted closure of the Strait. Consequently we are continuing to defer our expectations of substantially lower prices.

**STRATEGY:** Remain sidelined; keep in close contact especially if widened hostilities in the Gulf cause prices to jump.

Chart 14



## Metals

### Precious Metals

Remain short; roll over June '84 Comex gold to December '84 Comex gold and May '84 silver to December '84 silver. Lower stops to 430, basis December '84 gold and to 1105, basis December '84 silver, close only.

### Copper

Stopped out at 66.80; remain sidelined.

Chart 15

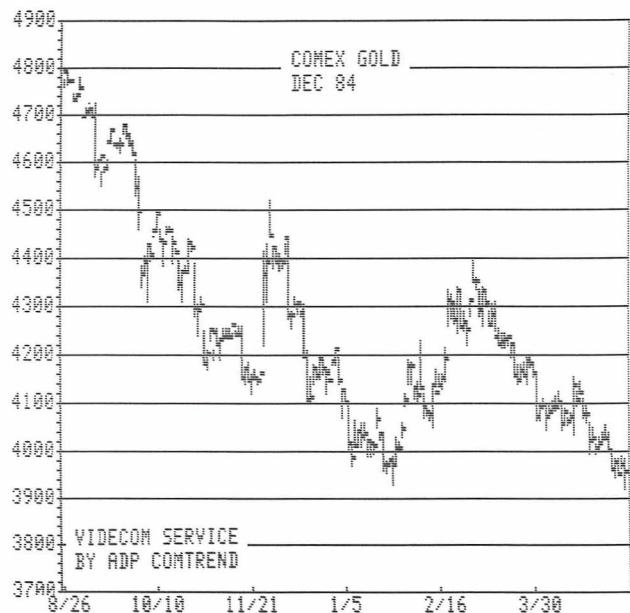


Chart 16

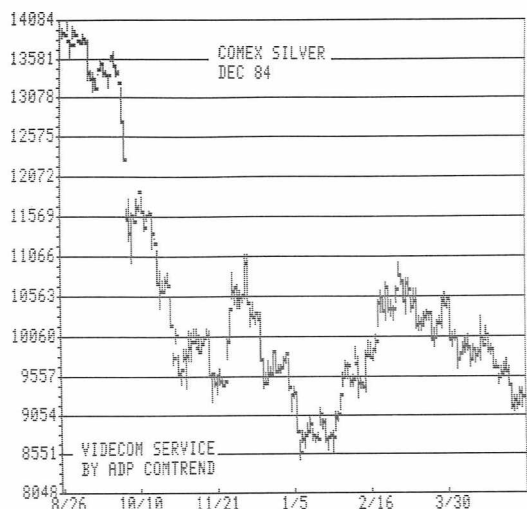
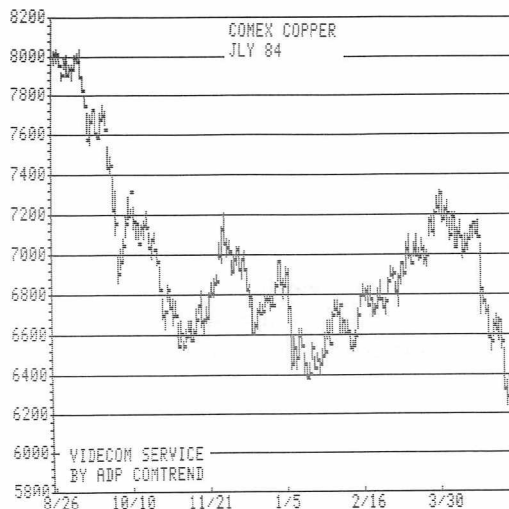


Chart 17



## Cocoa

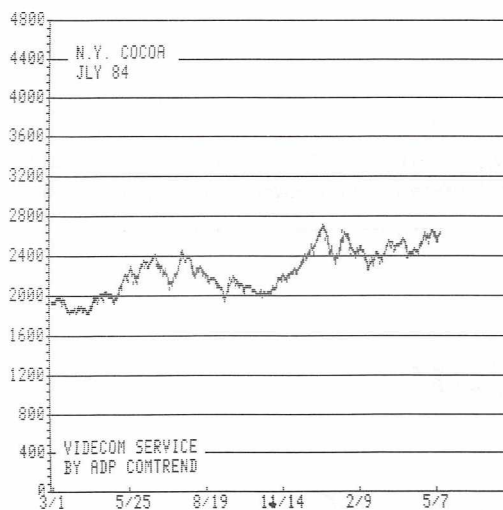
Substantially increased cocoa grind figures for the large industrialized consuming nations (US, UK, West Germany, Holland, Japan, and France) in 1983 over 1982 and continuing into the first quarter of 1984 may reflect consumption that is much stronger than at first apparent, especially in view of the trend towards increased origin grindings in recent years.

When coupled with the strong probability of a third deficit year and the continuous whittling down of high-quality inventories, a case can be made for explosive price action in coming weeks and months.

Technically (see Chart 18), we have just completed and broken on the upside of a massive three-month triangle, which comes atop another previous triangular consolidation, lending credence to our *virtual certainty of a spectacular rise*.

**STRATEGY:** We strongly favor immediate additions to long positions of September '84 New York cocoa and September '84 London cocoa, at market. The London position has the benefit of being 1) high grade cocoa and 2) denominated in sterling — a double-barrelled upside possibility (i.e., a weak Sterling causes prices to rise further).

Chart 18



## Grains

The bull is still out there in the field; he's just hiding for a while . . . so we believe!

Up until about last weekend, May 5 and 6, corn plantings in the corn belt, including Illinois, Indiana, Iowa, Nebraska, and parts of Ohio, were severely delayed by cool, wet soil conditions. The USDA reported May 7 that corn plantings

progress to May 6 was only 10% complete versus 17% last year and a 31% five-year average. The December corn chart, however, reflects in the past five trading days, the progression of corn plantings during the week. Tomorrow's (Monday May 14) USDA report on corn planting progress to May 13 will be of prime importance. Extensive precipitation occurred over

the cornbelt in the past three days, which will probably delay plantings through the next few days, when further precipitation is forecast. "The longer range weather pattern continues to indicate frequent and lengthy periods of showers," the US National Weather Service said May 9.

Continued weather delays will reduce corn yields; some northern areas cannot safely plant past May 15. In addition, switching from planting corn to planting soybeans, which can be sown later, could occur and lead to higher corn prices but lower soybean prices. This would alter the prospects for 1984 corn and soybean production, which were given preliminary estimates by the USDA World Board (based only on average yields and analysts' judgments) as indicated in Chart 19. The ending stocks estimates given in the chart for 1984-85 compare with our estimates on February 12, 1984, as follows: wheat, 1,500-1,600 million bushels (mbu.) (1,470 estimated by USDA on May 10, 1984); corn, 1,200-1,700 mbu. (1,121); soybeans 200 mbu. (215). Based on these initial estimates for 1984-85 ending stocks, compared with our earlier estimates, we feel even more positive about corn and soybean prices.

The USDA Crop Reporting Board estimated 1984 winter wheat production on May 10 at 1,979.4 mbu. versus expectations averaging 2,030.6 mbu. and was considered somewhat bullish. Earlier private estimates had placed winter wheat output as high as 2,081 mbu., based on harvested acreage of 54.1 million acres, compared with 51.78 estimated by the USDA on May 10. Earlier estimates of corn production included these: 7,000-7,600 mbu., based on planted acreage of 77.6 million acres, by the Farm Bureau; 8,030 mbu. by the American Soybean Association (ASA), based on planted acreage of 81.82 million acres. Similarly, the Farm Bureau had forecast soybean production at 1,900-2,100 mbu. from planted acreage of 66.0 million acres, while the ASA had forecast soybean acreage at 67.49 million acres. The USDA on February 16 estimated corn plantings at 81.77 million acres and soybeans at 65.24 million. We expect 1984 corn plantings of only 77.0 million acres, based on the March 23 acreage reduction report on set-aside participation.

As we indicated last month, the April 23 grain stocks report was a very important price determinant for wheat, corn, and soybeans. The results are indicated in Chart 20. Based on these figures, usage rates in the January to March quarter are given in Chart 21. The figures were considered bearish for wheat and corn, bullish for soybeans. This, and the increase in corn plantings in the week May 6 to 13, have caused soybeans to gain substantially on corn from last month to 2.47:1 for both spot and new crop contracts, compared with 2.25:1 last month for the former and 2.45:1 for the latter.

On May 2, Brazil lifted its export restrictions on soybeans and products, but on May 8 reinstated them, owing to overly high export registrations in the period. Soybean and soybean meal exports will again be limited to 100% of last year's rate, while soybean oil exports will be limited to 80% of last year, versus 60% during the earlier restrictions.

On May 10 the USDA estimated the Soviet Union's 1984-85 grain crop at 190 million metric tons (mmt) compared with

195 in 1983-84. Wheat production is forecast at 85.0 mmt., up from 78.0 last year, while coarse grain output is projected at 95.0 mmt, down from 105.0 last year. Soviet grain imports are forecast at 35.0 mmt. versus 31.0 in 1983-84, including 20.0 mmt. of wheat, the same as last season, and 14.0 mmt. of coarse grains, up from 10.0 in 1983-84. Soviet spring plantings have been progressing at a better than targeted pace, but that is attributable to drier-than-normal soil conditions, which are causing the winter grain crop to falter badly, while the spring grain crop is not emerging well; sure, the seeds are sown, but without water, nothing will happen. There is potential that the USSR in 1984-85 will have its worst grain crop since the disastrous 1981-82 grain crop of 160 mmt.

**STRATEGY:** Long positions in May and November positions were unfortunately stopped out last month; May was stopped at about 7.75, for about a 10¢ loss, while November was stopped at around 7.15, for about a 10¢ profit. However, long positions in July soybean oil recommended at 31¢ and added to at 30¢ (buy orders were filled above a low of 29.85¢) are showing tremendous profits of over \$4,000 per contract; raise sell stops to 33¢, good anytime. Long positions in May corn were also stopped out at about 3.48, the same level that positions were established. Remain long December corn; the chart at this juncture looks badly damaged, but plantings delays this week should serve to renew the uptrend. Maintain stops at 2.90, close only.

Chart 19

May 9 USDA Crop Production Report and May 10 Supply and Demand Projections - Summary.

May 1 data.

| (million bushels)       | 1984/85    |               | 1983/84    |               | 1982/83    |               |
|-------------------------|------------|---------------|------------|---------------|------------|---------------|
|                         | production | ending stocks | production | ending stocks | production | ending stocks |
| all wheat               | 2,550      | 2,600         | 2,425      | 1,392         | 2,812-R    | 1,561-R       |
| -winter wheat           | 1,979      | 2,030.6       | 1,994      | NA            | 2,108-R    | NA            |
|                         |            | (1,950-2,081) |            |               |            |               |
| corn                    | 7,775      | 1,121         | 4,204      | 520           | 8,359-R    | 3,140-R       |
| soybeans                | 2,075      | 215           | 1,595      | 105*          | 2,229-R    | 383           |
| -soybean oil            | 11,450     | 800           | 10,689     | 700**         | 12,041     | 1,261         |
| (million pounds)        |            |               |            |               |            |               |
| -soybean meal           | 24,750     | 365           | 22,491     | 215***        | 26,714     | 474           |
| (thousand short tons)   |            |               |            |               |            |               |
| cotton                  | 11.5       | 3.2           | 7.8        | 2.9           | 12.0       | 7.9           |
| (million 480-lb. bales) |            |               |            |               |            |               |

R - record.

\* - previous estimate 125 -lowest since 1977 (102.9); record low was 1973 (59.6)

\*\* - previous estimate 810 -lowest since 1979 (775.8); record low was 1973 (515.5)

\*\*\* - previous estimate 255 -lowest since 1982 (175); record low was 1970 (137)

=105 million bushels of soybeans represents potential production of:

|                |                           |
|----------------|---------------------------|
| soybean meal - | 2,520 thousand short tons |
| soybean oil -  | 1,155 million pounds      |

Source: U.S.D.A.

Chart 20

April 23 USDA Quarterly Grain Stocks Report - April 1 Data.

| (million bushels) | April 1/84 | expected              | January 1/84 | April 1/83 |
|-------------------|------------|-----------------------|--------------|------------|
| all wheat         | 1,752.8    | 1,708.1 (1,670-1,751) | 2,326.4      | 1,877.1    |
| corn              | 3,257.8    | 3,063.5 (2,865-3,289) | 4,934.3      | 6,247.3    |
| soybeans          | 753.1      | 788.5 (766-822)       | 1,295.4      | 1,177.5    |

Chart 21

Grain Usage Rates Based on April 23 Grain Stocks Report - Domestic plus Exports.

| (million bushels) | January-March |       | Season-to-date |         |         |           |
|-------------------|---------------|-------|----------------|---------|---------|-----------|
|                   | 1984          | 1983  | 1984 %         | 1983/84 | 1982/83 | 1983/84 % |
| all wheat         | 574           | 644   | 89.1           | 2,213   | 2,099   | 105.4     |
| corn              | 1,680         | 2,060 | 81.6           | 4,086   | 4,294   | 95.2      |
| soybeans          | 537.6         | 630   | 85.3           | 1,225.6 | 1,322   | 92.7      |

Source: U.S.D.A.

Chart 22



Chart 23

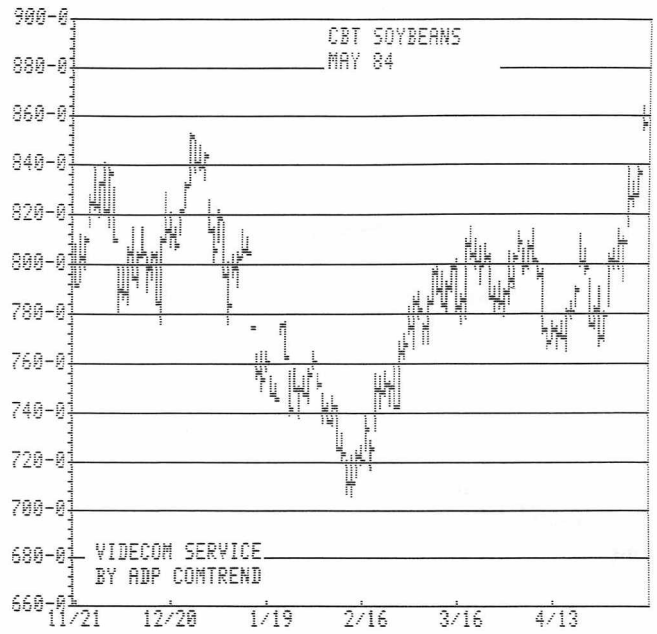
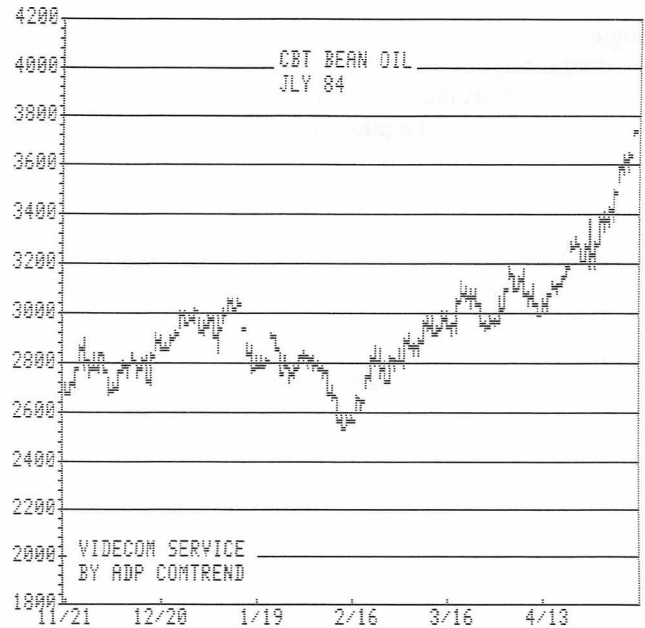


Chart 24



Chart 25



# Livestock

Whither hog prices? Even though hog and pork belly prices have stagnated over the past several weeks, we remain steadfastly bullish. Why our intransigence? Large, but far from record-large, stocks of frozen pork and pork bellies combined with a declining farm-to-retail hog-price spread have encouraged processors to work off "excess" supplies. Average retail pork prices are at their lowest for this season since 1981. As a result, demand for pork is being encouraged. At the same time, average retail beef prices for March were the highest ever, further inducing demand for pork. The developing strength in demand for pork will remain through the summer, in spite of declining hog supplies, thus sustaining the rise in hog prices.

Some will call the current large supplies of pork "excessive." But it will look small indeed if, as we expect, summer 1984 hog prices approach 70¢/lb. Is it possible? Look at the figures. April 20 cold storage stocks were reported at 348.5 million pounds of pork, including 95.1 mln. lb. of pork bellies. These figures are up from 234.7 mln. lb. and 44.3 mln. lb., respectively, on April 1, 1983. However, total pork supplies at 348.5 mln. lb. amount to *only a little over one week's total pork production*. Similarly, total pork belly supplies of 95.1 mln. lb. amount to only 12% of the total estimated March to August pork belly production of 788.8 mln. lb., or *about 3 weeks of production*. Once these supplies are brought down as production declines this summer, prices will advance powerfully under the influence of sustained strong demand arising from current low retail prices.

Now, what about cattle? Cattle prices have eroded under the double-barrelled pressure of seasonally large supplies and the desiccation of muddy feed-lots as a supporting factor in prices. The April 18 quarterly 13-state cattle-on-feed report by the USDA (see Chart 26) was construed as bearish. High placements in the January to March quarter, a large proportion of which were steers, will increase

slaughter cattle supplies for April through August. A large proportion of the first-quarter placements were moved onto feed-lots at heavy weights, implying that the largest increase in cattle rates should occur around June, at up to 106% of year-ago slaughter. Thereafter, supplies will decline through the third quarter of 1984. While steer slaughter rates in June may reach 10% above 1983, the pressure will be predominantly on beef prices rather than substitute meats, as heifer numbers are mostly below 1983 levels, making total beef supplies less burdensome.

Following the first-quarter cattle-on-feed report, the USDA revised its beef production forecast for 1984 to 22,859 mln. lb., up 0.8% from its previous estimate on April 10 of 22,675 mln. lb., but still 1.7% below the 23,243 mln. lb. estimated for 1983. Total red meat production in 1984 is projected at 37,968 mln. lb., up 0.5% from the previous estimate, but well below the 1983 level of 39,270 mln. lb., a sharp drop of 3.3%.

**STRATEGY:** *Remain long July hogs. With the prospect of late summer hog production 12% below 1983 and 6% below 1982, and strong demand now being nurtured by low retail prices, we expect July hogs to approach 70¢/lb. by late June. Remain long December cattle, as the discount to nearby contracts is not justified considering declining cattle and hog slaughter into the second half of 1984, in spite of large placements in the first four months of 1984. The USDA releases its monthly 7-state cattle-on-feed report on May 14. Placements should show a declining trend, owing to already large numbers of feedlots, higher grain prices, and sharply higher interest rates; however, placements will likely still be above year-ago levels.*

*Long positions in August feeder cattle were stopped out last month, as we anticipated, at 66.25¢, owing to high grain prices and sharply higher interest rates.*

Chart 26

April 18 Quarterly USDA Cattle-on-Feed Report  
 April 1 data 13 States  
 (total 13 states—in thousands)

|                     | 1984  | 1983   | Pct-X |
|---------------------|-------|--------|-------|
| On Feed             |       |        |       |
| January 1           | 9,908 | 10,271 | 96.5  |
| Placed on Feed      |       |        |       |
| January-March       | 5,511 | 5,027  | 109.6 |
| Marketed During     |       |        |       |
| January-March       | 5,714 | 5,694  | 100.4 |
| Other Disappearance |       |        |       |
| January-March       | 365   | 451    | 80.9  |
| On Feed             |       |        |       |
| April 1             | 9,340 | 9,153  | 102.0 |

X-1984 as pct. of 1983.  
 Y-Other disappearance includes death losses and feedlot movements.

Kinds of Cattle On Feed  
 (total 13 states—in thousand head based on April 1)

|                   | 1984  | 1983  | Pct-Y |
|-------------------|-------|-------|-------|
| Steers and Calves | 6,196 | 5,816 | 106.5 |
| Heifers and       |       |       |       |
| Heifer Calves     | 3,107 | 3,299 | 94.2  |
| Cows and Others   | 37    | 38    | 97.4  |

Y-1984 as pct. of 1983.

Cattle On Feed By Weight Groups  
 (in thousand head as of April 1)

|                         | 1984  | 1983  | Pct-Y |
|-------------------------|-------|-------|-------|
| Steers and Steer Calves |       |       |       |
| Less than 500 lbs.      | 190   | 206   | 92.2  |
| 500-699                 | 1,078 | 1,109 | 97.2  |
| 700-899                 | 2,125 | 1,941 | 109.5 |
| 900-1099                | 2,138 | 1,922 | 111.2 |
| 1100 lbs. and over      | 665   | 638   | 104.2 |
| Heifers and             |       |       |       |
| Heifer Calves           |       |       |       |
| Less than 500 lbs.      | 123   | 170   | 72.4  |
| 500-699                 | 1,018 | 1,009 | 100.9 |
| 700-899                 | 1,263 | 1,404 | 90.0  |
| 900 lbs. and over       | 708   | 716   | 98.9  |

Y-1984 as pct. of 1983.

Intended Marketings  
 (in thousand head)

|            | 1984  | 1983-A | Pct-Y |
|------------|-------|--------|-------|
| April-June | 5,690 | 5,527  | 103.0 |

Y-1984 as pct. of 1983.  
 A-Actual marketings.

Chart 27

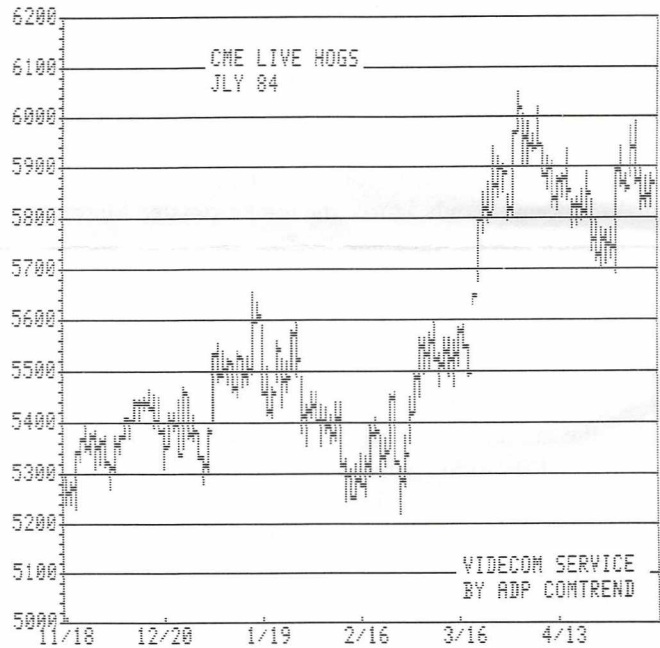
April 18 Monthly 7-State Cattle-on-Feed Report  
 Cattle On Feed  
 (total seven states—in thousand head as of April 1)

|                       | 1984  | 1983  | Pct-X |
|-----------------------|-------|-------|-------|
| On Feed April 1       | 7,568 | 7,268 | 104.1 |
| Placed on Feed        |       |       |       |
| in March              | 1,764 | 1,404 | 125.6 |
| Marketed during March | 1,594 | 1,603 | 99.4  |
| Other Disappearance   |       |       |       |
| March                 | 117   | 137   | 85.4  |

X-1984 as pct. of 1983.

Source: U.S.D.A.

Chart 28



**Hotline**

No updates last month.

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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.

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