

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.

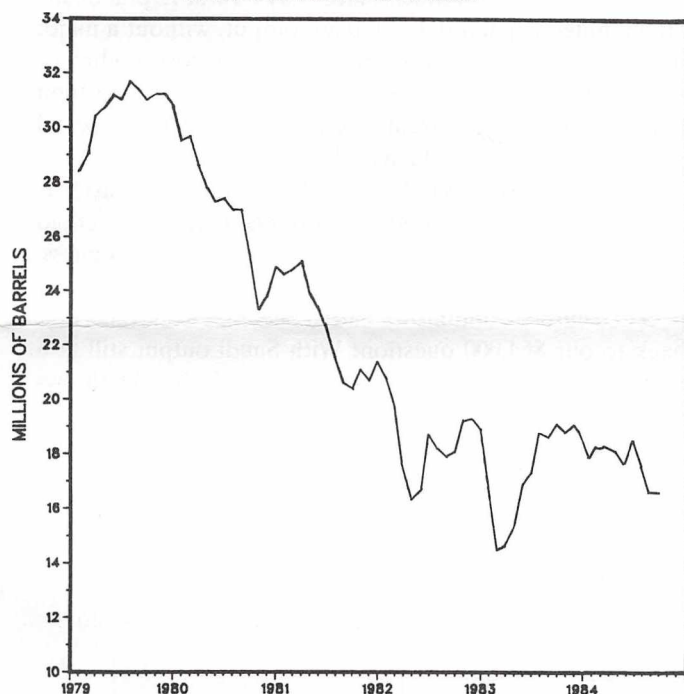


Volume 5, No. 9 September 16, 1984

### The countdown...

Chart 1

OPEC CRUDE PRODUCTION



Source: Petroleum Intelligence Weekly

Chart 2

OPEC Total Revenues

YEAR	AVERAGE YEARLY OUTPUT (Mln BPD)	OIL PRICE (\$/Barrel)	YEARLY REVENUES (Bln US\$)
1980	26.941	34	334.3
1981	22.680	34	281.4
1982	18.885	34	234.4
1983	17.438	29	184.6
1984	17.6 *	29	186.3
	17.1 **		181.0

\* Average output of first 9 months, annualized.  
 \*\* Our estimate for the full year of 1984.

Opec's demise has begun.

As everyone knows, timing economic events is an art bordering on prophesy. And, of course, it would be foolish for a sensible human being to claim clairvoyance. Fortunately, not all investment decisions need the pinpoint accuracy of such a gift. What *is* important, however, is identifying an economic trend in the early stages and interpreting it correctly so that the inevitable minor deviations that tend to occur from time to time do not confuse the investor/speculator from an otherwise profitable trade.

Opec's market power peaked in early 1980 as Charts 1 and 2 make so clear. Torn on the classical horns of a dilemma — maintaining a price or maintaining output — Opec (for reasons that seem to go beyond pure economics) opted for price stability (with one \$5/barrel downward adjustment in early 1983). In Chart 2, you can observe the effect on total revenues: not surprisingly, total revenues have been downtrending since 1980 and stand today as much as 44% lower than in that year! Annualizing 1984 output to date, it would appear that the downtrend has been halted, if only very slightly. Our estimate, however, is that the final three months of 1984 will see maximum outputs of 16 million barrels per day (mb/d), 15½, and 15 if any semblance of price stability is to be maintained. As a result, total revenues for 1984 will, once again, dip below the 1983 results.

What is absolutely noteworthy is the fact that the great 1983-84 worldwide economic recovery had *practically* no impact on Opec's revenues. Those who argue for continued firmness in prices for the foreseeable future must believe that economic activity will *accelerate* over the next few years. Sensible people cannot accept such forecasts.

We have identified a trend by concentrating on the one and only measure that is likely to spot it: total Opec revenues. Price followers will miss it entirely. Volume followers will con-

#### In this issue

The stage is set for Opec's collapse — add to short positions. The onset of the 1984-85 recession is upon us: What to do about it. The promised US dollar spike — is it here at last? The time is ripe for a wheat/corn spread. And February cattle are a good long-term bet. Contributions by Albert D. Friedberg and Michael Beech.

tend that Opec has been "successful" in maintaining prices. We now know that this is not true. Opec, along with all of us mortals, has failed to defy the laws of supply and demand.

What about prices? Will Opec manage to coordinate a new and lower output ceiling so as to hold the marker Saudi Light at the magic \$29/barrel? Clearly, the only producer financially capable of cutting back output is Saudi Arabia. Furthermore, Saudi Arabia is the only producer still producing a generous enough amount of oil that, in case it decides to cut back, it will significantly affect the market. Qatar, Ecuador, and Kuwait are already producing above their quotas, Libya has just cut its oil taxes in an effort to spur an increase in output, and Nigeria is literally broke and likely to try to stay above quota as soon as it lowers prices a bit. We're left with three substantial producers: Venezuela, Iran, and Saudi Arabia.

Venezuela's financial woes and nationalistic attitudes will prevent it from cutting even as much as 200,000 b/d. Iran has already suffered an enormous drop in output due to a combination of a semi-effective Iraqi blockade and a reduced price incentive to load at Kharg Island. Informed sources estimate that exports of oil from Iran's main oil terminal at Kharg Island are averaging about 500,000 b/d in the first half of September, down from 1 mb/d in August and 1.9 mb/d in July. It is highly unlikely that Iran will allow exports to stay down at these levels: more likely, a \$3-\$4/barrel discount will reappear and mercenary tankers will see to it that Iran's output rebounds to the 2-2.5 mb/d mark. We are left with Saudi Arabia as the true swing producer.

Recent reports indicate that in the early part of September, oil production in Saudi Arabia has dropped below 4 mb/d, broken down as follows: about 2.2 mb/d from the main Saudi

oil terminal of Ras Tannurah, with the minimum throughput of 400,000 b/d over the pipelines to Yanbu on the Red Sea; domestic consumption is around 1.2 mb/d and around 400,000-500,000 b/d of crude is produced under what is officially described as a swap arrangement with Iraq.

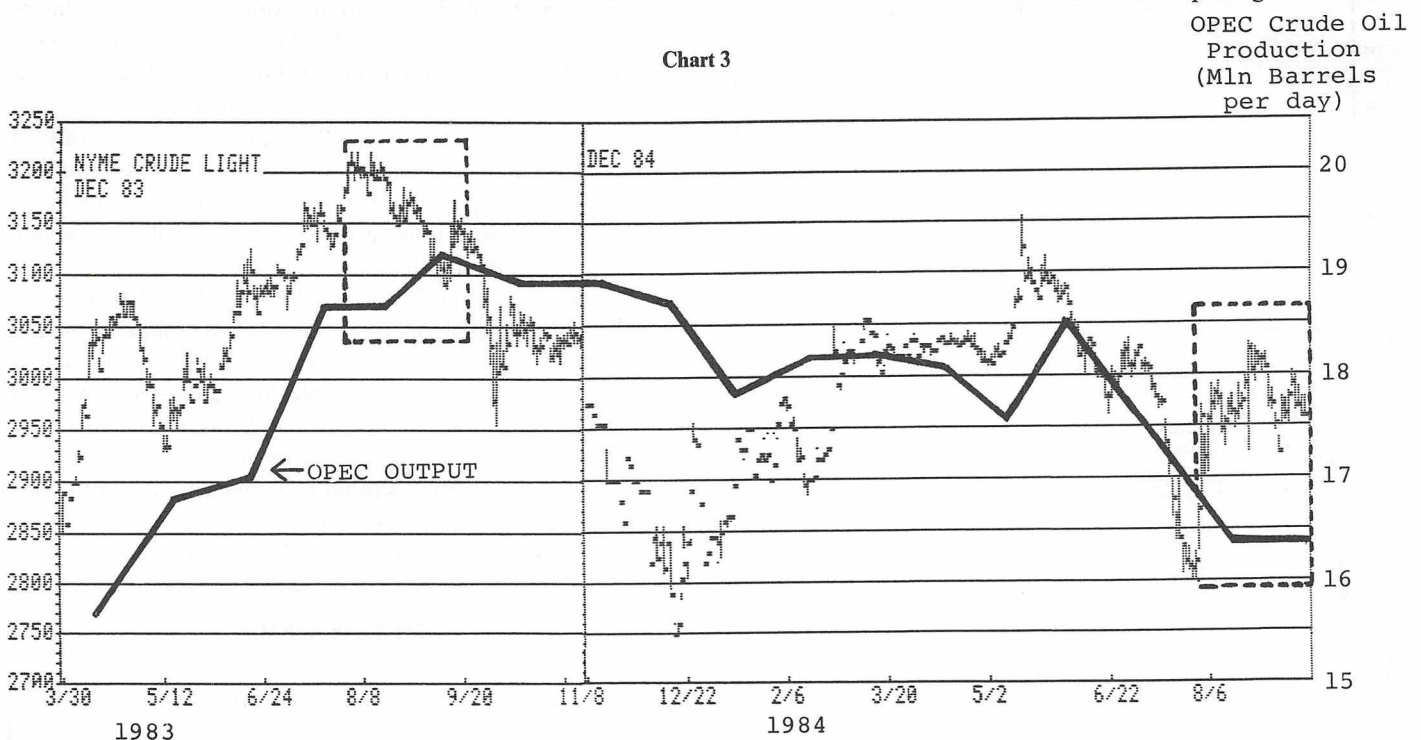
The record low Saudi output for the month of September (the beginning of a period of seasonal strength) has, however, not managed to close the substantial \$1.25/barrel gap between the official quote and spot market prices. The Saudis, then, will need to lower production another notch, perhaps to 3 mb/d (as we predicted in earlier *Comments*) before they see spot quotes firm up. And yet, there is no assurance that such a drastic move, at a time of seasonal strength, will do anything but cut Saudi revenues and drain their international reserves.

The Saudis would do well to search for a lower price that will increase total revenues, since they now have practically an unlimited capability to increase output, without a major impact on marginal cost. Furthermore, high cost producers, such as the UK, would be hard-pressed to continue their policy of preaching restraint and practicing licentiousness if prices dropped to \$10-\$12/barrel.

Wherein lies the Saudi bottom line? Since the decision is not (nor has it been) based on economic theory, one could only guess. Eventually, of course, one need not even guess, because as Saudi output approaches zero, the economic impact of a cutback diminishes until it becomes irrelevant. But, back to our \$64,000 question: With Saudi output still at a respectable 4 mb/d, how low is low before the Sheikh throws in the towel?

There are two considerations. One is prestige. The Sau-

Chart 3



Note how the lower output in the 1984 period does not raise prices to the levels achieved in 1983. A sure sign of weakness.

dis are not likely to allow themselves to lose the first spot in the *exporter* derby: This means, for all practical purposes, a minimum of 3.5 mb/d (Mexico, the UK, and the Soviet Union would be very close behind). The second consideration is budgetary: Outputs of under 4 mb/d on a sustained basis would imply a net drawdown of reserves even after investment income. Since the Saudis view these resources as the patrimony of the ruling families rather than the nation, it would be unthinkable for them to bear out-of-pocket losses in order to provide an umbrella over other producers' heads and merely for *their* welfare. The planes-for-oil barter deal demonstrates conclusively the unwillingness to go into pocket for even as little as \$1 billion.

Conclusion? We estimate that the Saudis will attempt to hold prices by cutting production to perhaps as low as 3.5 mb/d and hold it there for not more than a few months, *providing* the market responds. And here lies the clue: *If Saudi output is seen to drop to below 4 mb/d for a few more weeks and the spot market continues to trade at \$1.00-\$1.30 discount, the die will have been cast.*

In our anxiety to get to the crux of the situation, we failed to mention that US oil consumption just showed its first year-to-year drop. In effect, the Energy Information Administration (EIA) said that products supplied in the US fell 0.3% in the four weeks ended September 7 to 15.43 mb/d from 15.49 mb/d a year earlier. In its weekly petroleum report, the agency disclosed that the decline was across-the-board: i.e., in gasoline, (-.4%), distillate (-1.1%), and residual fuel (-16.2%). Since we are of the belief that the US has already entered (or is about to) a recession, we cannot but assume that future consumption numbers will reveal large declines — joining the worldwide trend towards conservation.

In a similar vein, Chart 4 shows the extraordinary appreciation of oil prices in terms of the second most widely traded currency of the world: the Deutschemark. Here, too, demand is likely to fall significantly in coming months.

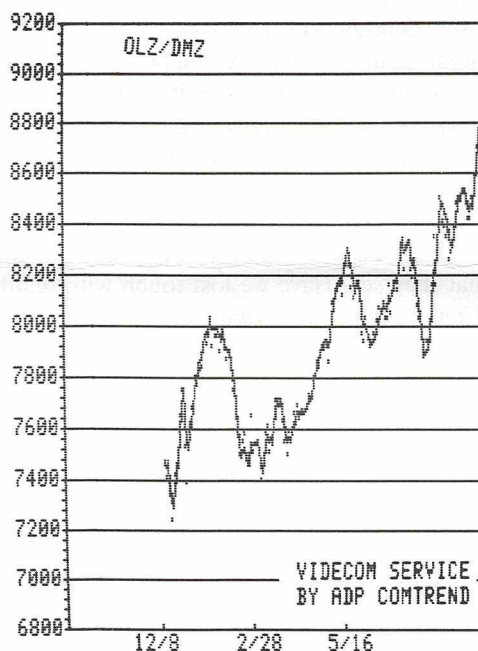
What about the Gulf war? Military experts now believe that Iraqi superiority, at least in terms of armament, is becoming overwhelming. The inability of the Iranians to launch their

much-heralded human wave attack is probably due to an assessment by their military leaders that it will fail combined with rising anti-war sentiments building up in the population and even in government. The Iraqis have been able, almost at will, to control the flow of oil in the Upper Gulf region and are said to be able, if necessary, to close down Kharg Island. The Iranian air force, on the other hand, is too weak to halt traffic in the Gulf. As a result, output losses are not likely to be much larger than they are at present, especially if deep price discounts reappear.

The stage is set for a total collapse of Opec. The countdown has begun.

**STRATEGY:** *Present levels are most attractive for the bear. Add to previously-established short positions at market, risking 31.20, basis December '84 N.Y. Mercantile crude oil.*

Chart 4



## Stock Indices

It seems inconceivable, but it is true. Stock prices are still rising despite unmistakable (or are they?) signs that we are nearing an important watershed in economic activity: the onset of the 1984-85 recession.

The extraordinary strength of the US dollar (and more to come — see the currency section) has been exerting an extraordinary deflationary pull on prices and consequently profit margins. One of the last casualties is the commodity chemical sector: Dow Chemical's and Union Carbide's earnings have been revised downwards because surging imports are battering prices. As an example, actual selling prices of polyethylene, used in making plastics, have dropped as much

as 20% during the summer. Aside from weak margins, volumes have begun to flatten or decline significantly in some areas. Caterpillar Tractor is a case in point, dropping 4/8 in one of the strongest overall market sessions because of a "sudden and sharp" decline in sales of construction equipment. Another one is an erstwhile glamor stock, AMP, hit by slowing orders.

Market reaction to earnings disappointments is rapid and severe, as if to say that present levels do not leave any room for negative results. As the recession-cum-downside price pressure spreads, air pockets will become even more frequent until the *general* market heads lower.

Breadth remains extremely poor. The NYSE composite A/D cumulative line has as yet to better the May highs, even though the S&P 500 and the Dow Jones are as much as 4% above their own May highs. Furthermore, stocks reaching 52-week highs have continued to recede. Chart 7 demonstrates the progressive weakening of the beast: While the averages record new closing highs, stocks making new highs drop; the weekly figures are just as indicative.

The madness of investment advisers is such that they have bid up the stock of bankrupt companies, such as Financial Corp. of America, as much as 100% in two short weeks, based only on a statement that the CD runoff is large but not as heavy as anticipated. Can one be more naive than to think that a financial institution that has lost the confidence of the public can make enough of a comeback to attract and retain volatile megadeposits when: a) there are at least another 10,000 institutions that are ready to take deposits and have as yet not been tainted by any problems; b) institutional depositors, who have no loyalties, have been told that in this case there is no reason to insure depositors over \$100,000 (because, in the words of a bureaucrat, 22 major banks were dependent on Continental Illinois, which is not the case with Financial Corp. of America); c) some premium must be paid over the market to attract/retain deposits — enough to destroy razor-thin margins in a highly competitive environment, and so on.

The list of marvels is endless. Bullish sentiment has reached the highest levels in six years, but somehow we cannot see what they see. Have we lost touch with reality? Or have they? The next few weeks will tell.

**STRATEGY:** One half of our short position on the September '84 S&P is still open, risking 170.50, close only. Roll positions over to December '84 S&P, but maintain the same stop.

Should you be stopped out, we will suggest one last entry point: Sell December '84 S&P if and when a downside weekly reversal is recorded, i.e., the S&P 500 (preferably the Cash Index) trades higher anytime during the week than the previous week's high, but closes lower. It should be the final coup de grace to this insane market.

Chart 5

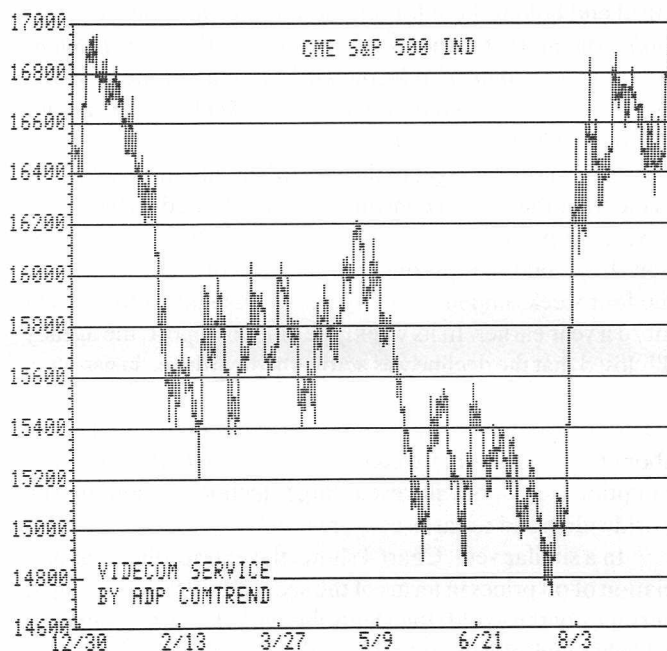


Chart 6

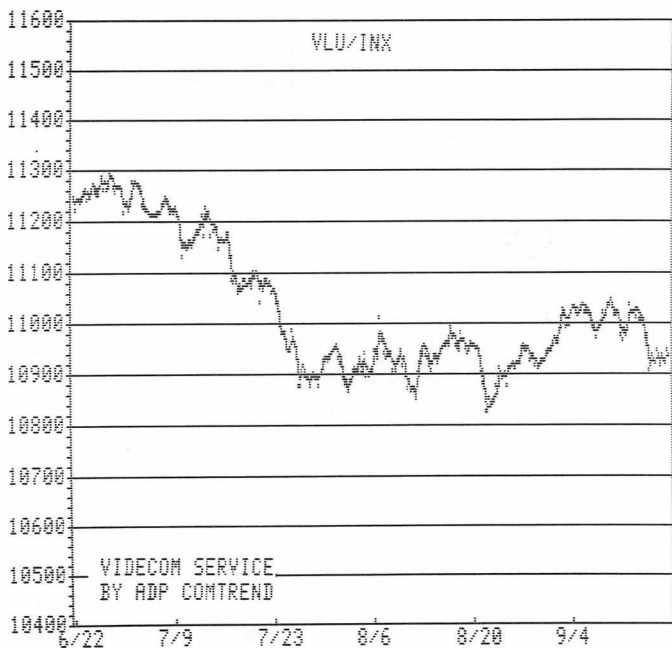


Chart 7

Date	Dow Jones-Industrial	NYSE New 52-weeks Highs
Aug. 6th, 1984	1202.96	113
Aug. 10	1218.09	103
Sep. 14	1237.52	81

Week Ending	Weekly Average of DJ Industrial	NYSE Weekly 52-weeks Highs
Aug. 3rd, 1984	1156.03	127
Aug. 10	1210.08	177
Aug. 17	1209.53	75
Aug. 24	1228.36	122
Aug. 31	1227.70	78
Sep. 7	1213.12	72
Sep. 14	1217.76	120

# Currencies

Are we or are we not at the beginning of the promised SPIKE?

Let's see. The howls of the dollar bears are getting fainter; now a respectable bear will only be looking for a "continuation" of the dollar/mark "range" of 2.80-3.00. It is becoming rarer to see someone predict a dollar/mark parity of 2.40 and 2.25 as was common during the ferocious attack on the dollar last spring.

A sign of the changing atmosphere is that Dr. Herbert Giersch, the well-known president of the Kiel Institute of World Economics, has had enough guts to proclaim *publicly* that the dollar is not greatly overvalued and will remain close to present levels for several years. Joining our long-standing position, Dr. Giersch points out that the capital inflows financing the US current account deficit were not "induced" financing, reflecting the combination of a tight monetary policy and a loose fiscal policy but, instead, they are voluntary flows mirroring the success of the US economy in raising profits.

Dr. Giersch is of course referring to our famous reverse causation theory: Strong capital flows, attracted by good profit potential, liquidity, easy marketability, and depth of markets, cause the current account to turn negative by the process of lowering US interest rates, raising consumption and investment, and ultimately incomes. Higher incomes, in turn, cause imports to soar and leave little room for exports to grow, widening the trade deficit and, with it, the current account.

Although Dr. Giersch is correct in pointing out that there are no signs yet of "induced" financing and that therefore the reverse causation argument stands, the nature and impulse of the capital inflows has changed. Debt inflows (capital searching high interest rates) rather than equity inflows have begun to predominate. The changed composition of these inflows does not augur well for two reasons: First, these inflows are extremely volatile and interest-sensitive, and are subject to massive reversals. Second, in contrast to equity flows, a net debtor position implies a *fixed* future financial burden, regardless of whether the economy earns it — a potentially destabilizing factor; one likely to aggravate outflows.

As the atmosphere changes to a much friendlier view of the dollar, the potential for a spike increases. With "not a bear in sight" the dollar should peak, but *that* has as yet not been seen. Still, "sentiment" conditions have begun to change sufficiently for us to begin wondering whether this is "it."

Let's turn for a moment to fundamentals. What level of foreign savings (as a percent of GNP) is the US likely to attract before its sheer magnitude is perceived to be "excessive"? As discussed in earlier issues (see particularly, "Volcker, foreign savings, and the US dollar," Feb. 12 *Comments*), historical comparisons are instructive insofar as they provide a useful perspective. At the time, we argued that a current account deficit equal to 1%-2% of GNP presented no financing problem to the US nor was it likely to derail inflows. We showed how Mexico and Brazil, *before the debacle*, reached

deficits of 5%-6% of GNP despite the fact that they were already heavily indebted and presented serious "transfer" risks. More developed countries, i.e., UK in 1973-76 and Canada in 1974-76, saw current account deficits of as much as 4% before meeting a run on their currency.

The US current account deficit (including net errors and omissions) is likely to top \$100 billion for *all* of 1984 but it is likely to be running at a deficit of *at least* \$150 billion in the fourth quarter of the year. These magnitudes are equal to approximately 2.7% and 4% of GNP respectively, which by themselves are not inconsiderable. However, it should be pointed out that the US is not perceived to carry a sovereign risk, much less a transfer risk and therefore can maintain a good debtor profile for much longer than other nations.

On a more negative note, it would appear that the US banking system is the most vulnerable one to LDC default. This may cause solvency jitters, especially if the Treasury has its way and allows some banks to fail. Nevertheless, the risk of outflows may exist only short term, as major depositors switch to government paper in the intermediate term.

Finally, the Fed has begun to ease by aggressively pushing new reserves into the system and raising permanently the Monetary Base by about \$4 billion in the past two weeks. On previous occasions we have noted that a slightly easier monetary stance negatively affects, *short term*, the US dollar (see our *Comments* of March 11). Should the Fed persist in accommodating reserves, the dollar will come under some pressure.

We conclude by stating that the psychological, or sentiment, conditions concurrent to a dollar spike (on the upside, of course) are beginning to fall into place; that, on fundamentals, the dollar *must rise further and longer* before we reach a critical current account deficit level; and that, *shorter term*, an easier monetary policy could set back the dollar in coming weeks.

**STRATEGY:** *Remain short all currencies; however, keep tight stops in anticipation of some near-term weakness induced by Fed easing. We suggest stopping short positions using a 10-day moving average and/or a weekly reversal, whichever is lower, close only. At this time, begin by lowering stops: to 41.50, basis December '84 yen and 34.10, basis December '84 DM. Cover other currencies should the yen and DM stops be triggered. Sterling has appreciated sufficiently on a cross basis (3.837 DM) to justify switching some DM and yen short position to Sterling, especially in view of our very bearish oil outlook (see our first article in this issue).*

*We have reentered the short side of the Canadian dollar thanks to a massive weekly downside reversal. Place stops at 76.75, basis December '84, close only.*

Chart 8

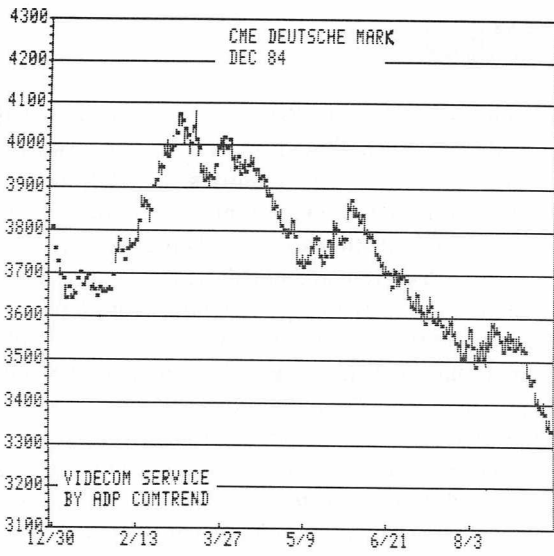


Chart 9

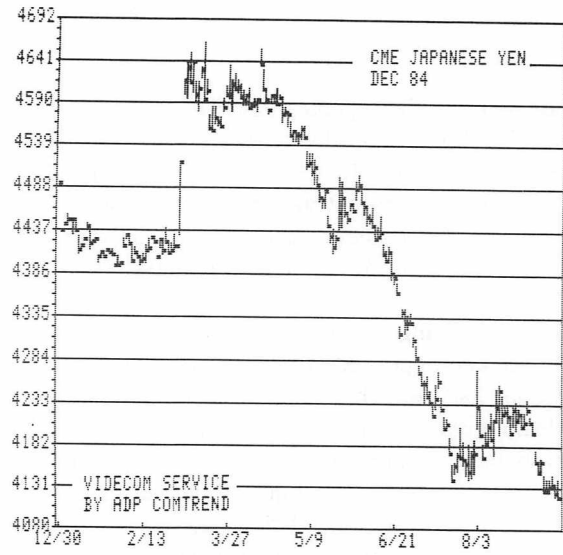


Chart 10

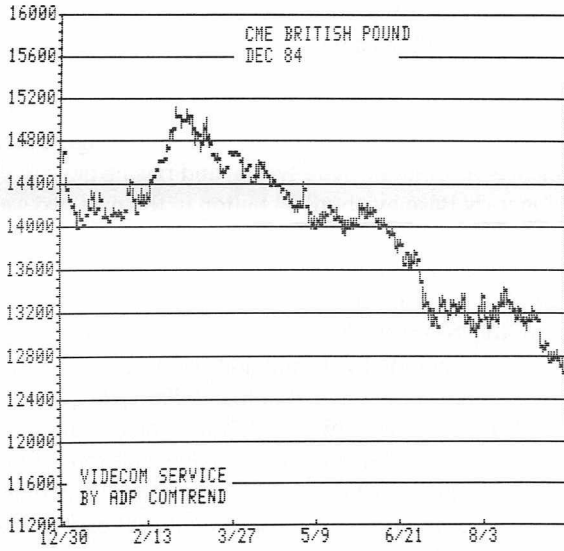


Chart 11

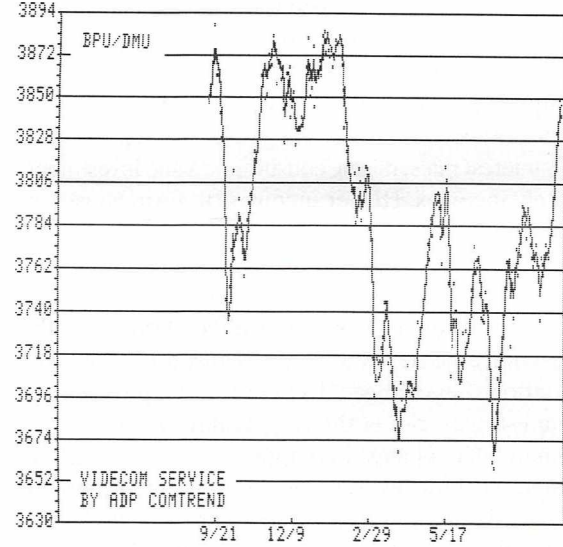


Chart 12

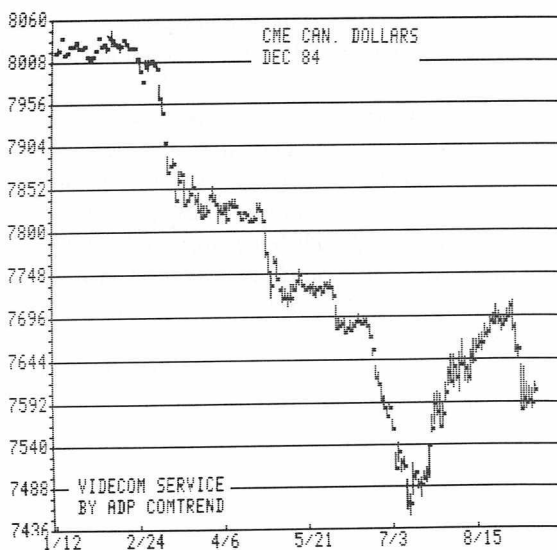
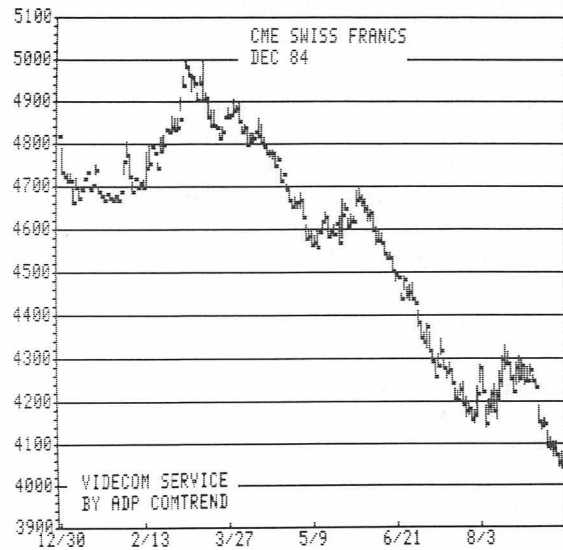
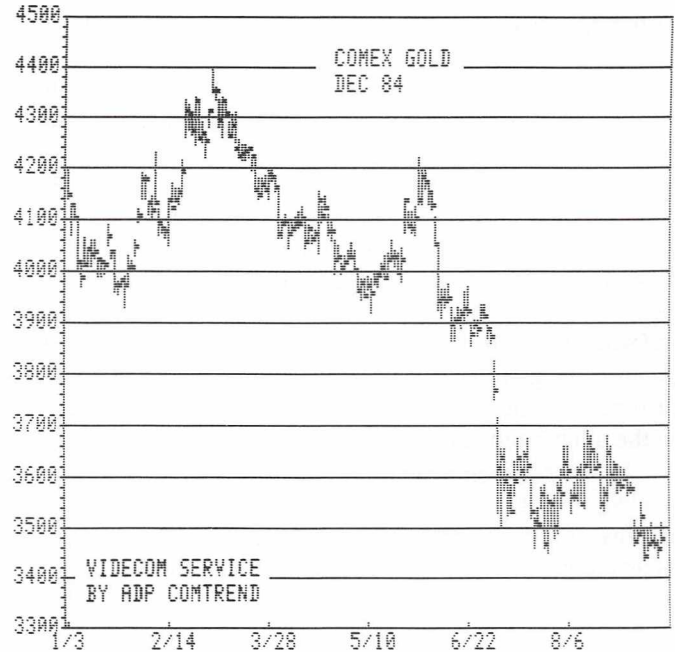


Chart 13



# Precious Metals

Chart 14



We continue to hold bearish views on gold and silver. Principally because of the strength of the US dollar.

# Interest Rate Futures

**STRATEGY:** Stopped out on the September '84 Euro-dollar and December '84 T-bonds short positions as per last month's suggestion. Definitely an unprofitable trade. On the other hand, the short September '84 Euro/long De-

cember '84 T-bill "whammy" was a major success (see Chart 15), widening to 150 from 132 points. As the September '84 Euro expires, roll forward to December '84 Eurodollar and March '85 T-bill.

Chart 15

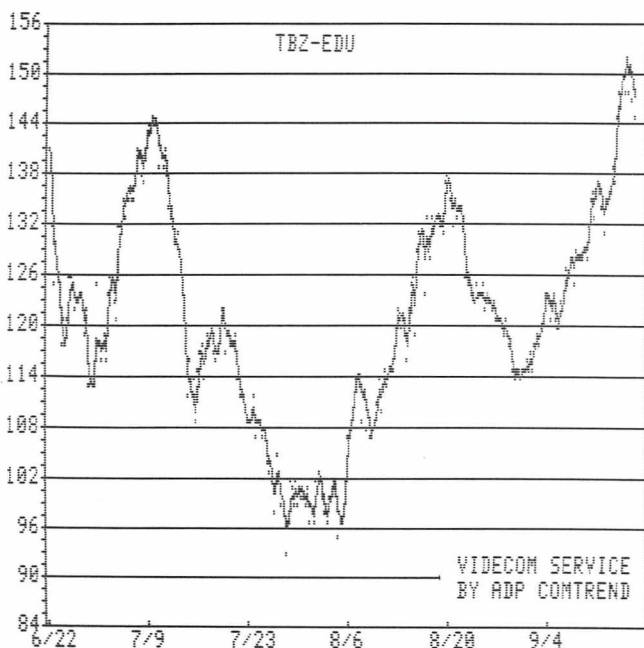
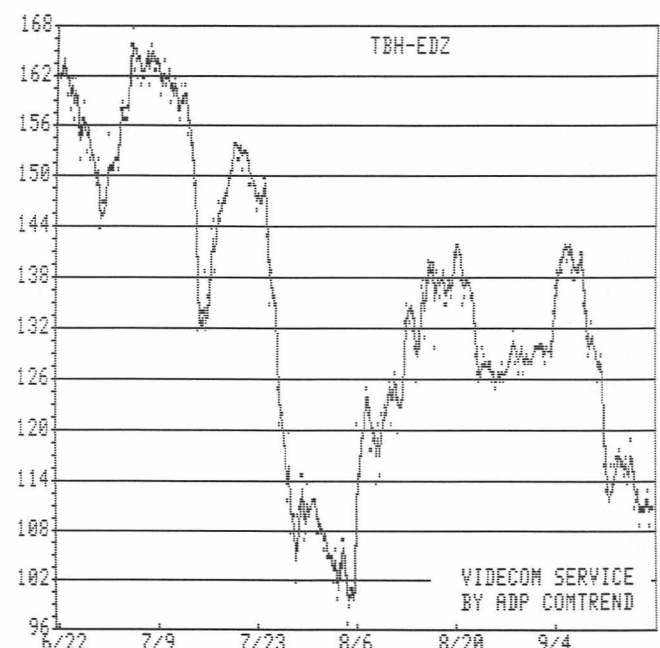


Chart 16



# Grains and Oilseeds

Soybean prices remain very weak relative to corn prices, with new-crop soybeans having fallen to only 2.1 times new crop corn despite a more normal 2.3:1 ratio. This is attributable to strong demand for US corn, particularly for tight supplies of old-crop corn for domestic use as well as strong export demand for new-crop corn, largely from the USSR. At the same time, export demand for soybeans is dismal. Total 1983-84 exports, at about 770 million bushels (mbu.), were down 21.4% from 980 mbu. in 1982-83, owing to a drop in total soybean supplies (carrying plus production) in 1983-84 to 1,912 mbu., 22.4% below 1982-83 total supplies of about 2,465 mbu. For 1984-85, export commitment for soybeans to date are just over half what they were at this time last year for 1983-84, primarily because of high prices for US soybeans in terms of about any currency except the US dollar. Corn export commitments, on the other hand, are 206% of year ago levels!

*So where are grain and soybean prices headed?* Corn is headed almost definitely higher within the next couple of months, as export demand remains excellent in spite of the rising levels of the US dollar. Soybean prices, we believe, are headed *higher too*, but only if export demand for US soybeans resumes. Given the US dollar will probably peak by the middle of 1985, export prices during the course of 1984-85 may fall in foreign currency terms, causing increased export demand, when carryover supplies of corn and soybeans at the end of 1984-85 are already forecast to be *relatively* low at 1,016 mbu. of corn and 260 mbu. of soybeans.

If at any time during the 1984-85 season the US dollar depreciates rapidly, corn export could rocket back up to the levels of 1979-80 and 1980-81, when export exceeds 2,300 mbu., while soybean exports could approach 900 mbu. once again. At present, corn exports in 1984-85 are forecast at 2,100 mbu. and soybean exports at 800 mbu.

Grain production was revised September 12 and supply and demand revised correspondingly on September 13 as indicated in Chart 17. The soybean production estimate, while only 28.6 mbu. above the average trade estimate, was considered very bearish, and soybeans fell the limit on September 13. Weather in most of August was very dry in many corn and soybean growing areas. Kernel filling in corn was reduced somewhat, leading to a smaller-than-expected 116 mbu. (1.5%) reduction on the September 12 production forecast. Soybean pod setting suffered to a greater degree, although the September 12 estimate was reduced only 7.4 mbu. (0.4%) from a somewhat underestimated August 12 forecast. Dry weather through the first week of September should cause later estimates to be reduced further. Even though beneficial rains have fallen in many soybean areas in the second week of September, over 50% of the crop was past being helped by late rains by about September 9.

The USDA again raised its forecast of Soviet grain imports in 1984-85 to a record equalling 46 million metric tons

(mmt) from 43 mmt last month and 32.9 mmt imported in 1983-84. This followed the September 12 reduction in Soviet grain production to a projected 175 mmt from 180 mmt last month. The new estimate includes 24.0 mmt (882 mbu.) wheat, unchanged from last month but up from 20.5 mmt (753.4 mbu.) in 1983-84, and 21.0 mmt (826.8) of coarse grains, up from 18.0 mmt (708.7 mbu) last month and almost double 1983-84 imports of 11.5 mmt (452.8 mbu).

On September 11, the US announced the USSR could import up to 22 mmt of US grain in 1984-85, 10 mmt more than the maximum permissible level without US consent to additional purchases. To date, the Soviet Union has booked over half its projected wheat imports and a little over half its projected coarse grain purchases for the July 1984 to June 1985 season.

**STRATEGY:** *Buy December corn at 2.85, placing stops at 2.74. Well-financed traders should buy November soybeans at the market and again at 5.90, placing stops at 5.60.*

*We also recommend buying December corn and selling December wheat, at the market, as a spread. Place stops at 72¢, wheat over corn, with an objective of 30¢, premium wheat. The bearish supply-and-demand outlook for wheat suggests lower wheat prices, at least relative to corn.*

Chart 17

September 12, USDA Crop Production and September 13 Supply & Demand Reports

	1984/85		1983/84	
	Sept. 13. expected	Aug. 13	Sept.13	Aug. 13
<u>CORN</u>				
Beginning stocks	713	587	3,120	3,120
production	7,552.0	7,528 (7,366-7,650)	4,166	4,166
Total supply	8,266	8,256	7,288	7,287
Feed use	4,100	4,100	3,765	3,875
Food, indust. seed	1,050	1,050	975	975
Exports	2,100	2,050	1,835	1,850
Total use	7,250	7,200	6,575	6,700
Ending stocks	1,016	1,056	713	587
<u>SOYBEANS</u>				
Beginning stocks	110	95	345	345
Production	2,027.6	1,999 (1,968-2,039)	1,567	1,567
Total supply	2,138	2,130	1,912	1,912
Crush	990	990	983	980
Exports	800	800	740	760
Seed & Feed	68	70	66	66
Residual use	20	20	13	11
Total use	1,878	1,880	1,802	1,817
Ending stocks	260	250	110	95
<u>ALL WHEAT</u>				
Beginning stocks	1,394	1,394	1,515	1,515
Production	2,571	2,500 (2,485-2,524)	2,420	2,420
Total Supply	3,968	3,925	3,939	3,939
Food use	645	645	635	635
Seed use	97	97	101	101
Feed use & residual	325	375	380	380
Export	1,525	1,475	1,429	1,429
Total use	2,592	2,592	2,545	2,545
Ending stocks	1,376	1,333	1,394	1,394

Chart 18

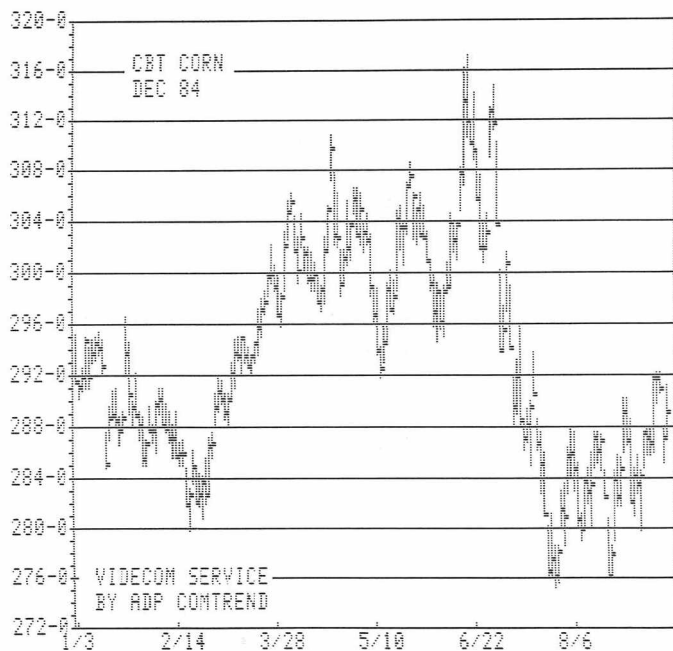
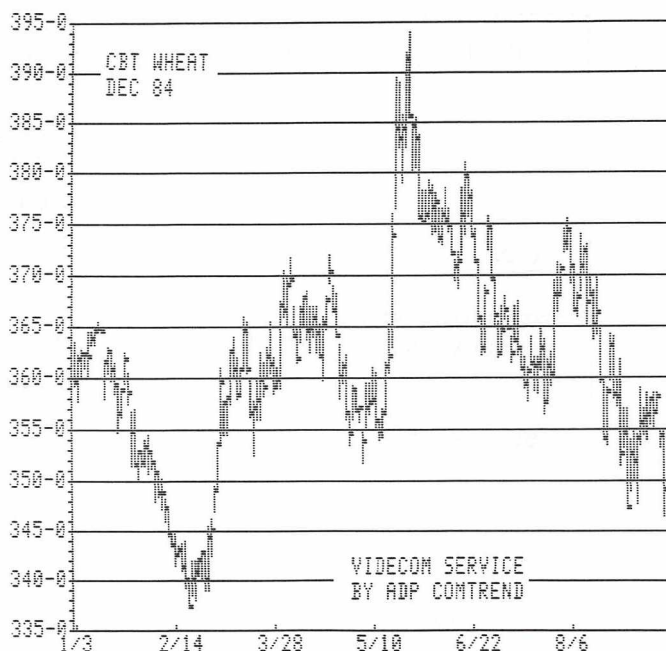


Chart 19



# Livestock

As we indicated in last month's *Comments*, we have been awaiting an opportune moment to establish long positions in cattle. Meanwhile, cattle and hog prices have continued lower. Deferred cattle futures, however, have approached a two-month uptrend line that may provide support for cattle futures, which have traded in a 4¢ range since the beginning of 1984.

During autumn, cattle prices display seasonal weakness associated with rising slaughter as "non-fed" (i.e., rangeland) cattle from western US pastures are sent to slaughter before winter arrives, when feed costs rise substantially. At the same time, feedlot placements tend to rise sharply, particularly in November and December, so some of these rangeland cattle are placed in feedlots for winter feeding. The resulting price weakness from these factors, coupled with considerations regarding liquidation of cattle-breeding inventories, which we discussed in last month's *Comments*, set the stage to buy February and April 1985 live cattle contracts before the inevitable weather problems that plague feedlot operators through the late winter, send cattle prices higher.

In addition, cattle slaughter from feedlots is expected to fall contraseasonally in the fourth quarter of 1984 from the near-record fourth quarter of 1983 levels.

The September 14 monthly seven-state cattle-on-feed report is seen in Chart 20. The higher-than-expected placements and resulting higher-than-expected number of cattle on feed as of September 1 were construed as bearish, and should send cattle prices a little lower in the next few days, also setting the stage for buying cattle futures.

On September 20, the USDA will release its quarterly 10-state hog and pig report as well as its monthly pork belly

storage stocks report. The hog report is apparently expected to be somewhat "constructive" (positive) to prices, although current price trends do not display such optimism. Early expectations are for all hogs and pigs to be about 9% below September 1, 1983, levels — about the same percentage as on June 1, 1984, compared with a year earlier; for breeding numbers to be 7% below last year, compared with breeding numbers June 1, 1984, at about 9% below the year before; and for market hogs to be 10% below last year, about in line with the June 1 percentage. We suspect that the kept-for-breeding numbers in the report should be lower than expected owing to a lack of incentive to increasing breeding inventories and production plans (i.e., low prices, relatively high feed costs, and tough credit conditions), sow slaughter numbers that hint at breeding inventory liquidation rather than accumulation, and the possibility that breeding inventories in the June 21 hog report were overstated.

Frozen pork belly stocks still remain a burden to the pork market. Stocks as of September 1 are likely to be reported at over 50 million pounds (mln. lb.) as opposed to the 30 mln. lb. we hypothesized in our July *Comments*, owing to lacklustre bacon demand this summer. Frozen pork bellies placed in storage before October 1 are not deliverable against the February 1985 and later contracts, so cash market prices must fall to a level sufficient to induce consumption of these supplies before the "new crop" of pork bellies begins moving into storage later this fall. Otherwise, February pork bellies will fall as a result of not only sufficient new-crop supplies but also discounted "old-crop" supplies' displacing higher priced fresh bellies.

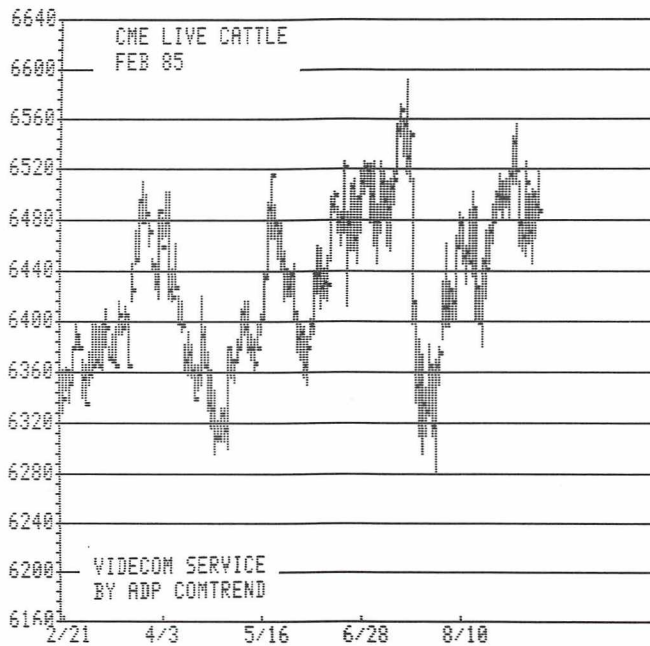
**STRATEGY:** Buy February cattle for long-term (five-month) positions at the market, placing protective sell-stops at 63¢, close only.

Chart 20

Sept.14, monthly 7-State Cattle -On-Feed Report

	1984	1983	$\frac{1984}{1983} \%$	Expected
On feed Aug. 1	6,811	6,861	99.5	
Placements -Aug.	1,665	1,582	105.2	102.6 (97.5-110)
Marketing -Aug.	1,668	1,651	101.0	100.6 (98-103)
Other Disappearance	61	88	69.3	
On feed Sept. 1	6,747	6,704	100.6	99.8 (98-102)

Chart 21



## Hotline Update

**August 20:** Our August 19 newsletter recommends stop at 618, good anytime, on November soybeans. As this level has been triggered today, we recommend to sell all long positions in November beans at the market.

**September 7:** We are very satisfied with the positions as per our newsletter of August 19 and fully expect to realize our final objectives, particularly with regard to the stock index futures and the currencies.

Please note that the Canadian dollar has completed a massive downside weekly reversal. Hedgers should reenter the market on the short side, placing initial stops at 7675, close only.

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