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# COMMODITY COMMENTS

September 20, 1972

December '72 48.65

**Copper:**

In little less than two weeks prices plummeted down more than 500 points before recovering slightly to 48.65 basis December. The sell off, hesitant at first but gaining in strength as prices broke important chart points, was accompanied by heavy volume & a contraction of the still-out-of-the-ordinary level of open interest. Catalysts for the drop were a distinctive bearish undertone in other metals, such as Silver & Platinum, poor physical business & a continued increase in LME Warehouse Stocks, now over 168,000 tons.

In our September 5 issue, we pointed out some of the "anomalies" then taking place in the Copper market as prices rose. Chief among them was LME's refusal to narrow its 100-150 point discount to Comex & the poor scrap price picture. We suggested taking profits at once. A sale at that time would have brought 52.00 for December, a very satisfactory bail-out.

Long term investors should remain on the sidelines. Traders may wish to initiate short positions at these levels with buy stops at 49.75.

LME 3 Months £155.50

**Zinc:**

This is got to be the "hottest" metal around.

U.S. slab zinc producers' shipments (including metal obtained from the U.S. Government Stockpile) in August were reported by the Zinc Institute at 71,477 short tons, 8,229 above July and up 11,597 from a year earlier. Domestic smelters output of slab zinc in August fell to a six-month low of 62,098 tons, 1253 below July.

On August 31, producers' stocks at smelters stood at 23,460 tons, 3220 below July 31, & close to the seven-year low of 21,221 tons last May 31. Were it not for metal released by the U.S. Government's stockpile, stocks at smelters probably would be exhausted.

Buy 3 months LME Zinc on a breakout above £156. Margin required: $600, round turn commission $65.

*Gold:* London's Second Fixing $65.00

*Silver:* December '72 173.00

The peaceful consolidation in Gold prices that kept bullion in a narrow $65-$67 range was suddenly jolted this past Friday & Monday as prices tumbled to a low Fixing of $61.25 before recovering to the $63.00 area. Reasons given for the sharp decline ranged from Soviet sales (to finance their huge grain imports) to resumption of South African selling to a strengthening of the U.S. dollar. In our oppinion, the latter is probably the closest to the truth. For the past months we have been advocating the sale of DM futures (i.e. purchase of U.S. dollars) on the assumption that the parities were going to be maintained, & therefore, speculative liquidation & short covering would see to a bull move in U.S. dollars. Foreign Exchange intervention on the part of the Federal Reserve to the tune of $32 million (but many times larger offerings) & a slight improvement in the U.S. balance of payments have begun to take their toll on U.S. Dollar Bears. Forward DM rates (as measured by the March '73 DM on the IMM) have fallen from 32.200 to 31.864 & prospects appear good for further liquidation.

The strengthening of the U.S. Dollar is slowly removing the imperativeness for restoring gold convertibility. In fact, the degree of gold undervaluation would be irrelevant in a world of dollar shortage, such as existed in the late 40's & early 50's. Although this situation does not exist at the present time, the direction towards increasing dollar acceptability takes the pressure off the convertibility issue which, in the long run, cannot be attained except by Gold at between $70-$140/oz.

Moscow Narodny Bank in London suggested in a financial survey today that the accumulation of gold reserves by South Africa has been the "motor force" in the recent rise of the free market Gold price. South African Gold reserves have risen from 331.4 million rand to 395.0 million rand since May, which would have reduced total world wupplies by 18% assuming that other sources remained constant. The survey estimates that a price of $50 per ounce would prevail at the moment if all South African Gold was put on the market. If rising demand should push the price through $70, however, supplies will expand greatly as American and other ores become profitable.

In conclusion, the bloom is off the Gold bull market & a retracement to the $50-$55/oz. area is a likely possibility.

The Silver market, devoid of any artificial supply problems, sensed this situation a bit sooner & went in a tailspin that took December '72 from $1.94 to $1.67 in less than 2 weeks. Adding to the aforementioned was the Bureau of Mines release slowing that while combined Comex & Chicago visible stocks decreased by 13 million ounces during the first half of the year, industry stocks increased by 8 million ounces--a total net decrease of 5 million ounces or 10 million ounces on an annualized basis. The market was being counting on 50 million annually.

Long positions were stopped out above 190.00 December as the uptrend was broken. Presently, rallies should be held back at the 17600-17800 area & present good short selling opportunities with stops at 18200.

Platinum: January '72 142.00

Another victim of the lack of fresh stimulus & the softer trend in the precious metals complex.

Place protective stops on long positions at 138.00.

## TECHNICAL TRENDS

Cocoa: December '72 31.29

Stopped out from long positions (established at 27.25) at 31.95. Reinstate long positions on December managing to close above 32.40.

Cotton: March '72 27.83

Stopped out at 27.70 but we moved back in as most options held from breaking their recent lows. Four month downtrend has finally been broken, thus signalling a temporary halt to the Bear Market.

Place protective stops at 27.15.

Soybean Oil: December '72 9.75

Sorry, prices plunged to new lows automatically triggering our stops at 9.87 basis December '72. Although we feel bruised, we console ourselves with the thought that even in Commodities, to err is human.

Stand aside.

## INTERNATIONAL MONETARY MARKET

Deutsche Marks: December '72 31.578

Short position first advocated at 32010. Profit to date:432 points per contract or $2160 on a $2500 margin. Remain short; add by selling forward options still selling above 31.760.

Note:COMMODITY COMMENTS is now published on a semi-month basis.

Albert D. Friedberg,
Vice-President,
Commodity Futures.

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