

FRIEDBERG & CO. LTD.

FOREIGN EXCHANGE DEALERS
COMMODITIES FUTURES BROKERS
FINANCIAL SERVICES

34 ADELAIDE ST. W.
TORONTO 1, ONTARIO, CANADA
TEL. (416) 864-1195
CABLE ADDRESS FRIEDCO TORONTO

COMMODITY COMMENTS

October 17, 1972

Is "King Cotton" Dead ?	December '72	27.05
	March '73	27.55

In the preceding 1971-72 season, cotton prices enjoyed their best bull market since the early 50's. Nearby contracts moved up from 26 cents to 44 cents/lb., a gain equivalent to \$9,000 per contract of 50,000 lbs. This gain could have been accomplished on a \$1250 margin.

The reason behind this dramatic move was to be found in the :

(a) disappearance of the huge cotton carryover stocks prevalent in the mid-60's.
(b) increased worldwide usage of cotton both absolutely & relative to its competitive man-made fibers. A carryover in excess of 16.8 million bales was whittled down in the 1966-72 period to a 20-year low of 3,300,000 bales due mostly to poor crops. The recent shift towards a "natural" feel, increased popularity of denim & corduroy products & a slowing in the rate of additions to capacity in the non-cellulosic fibers helped cotton to restore - at least partially - its traditional demand.

High prices stimulated increased plantings & the shortage factor in the bull market gave way to expectations of burdensome supplies. From a nearest contract high of 44¢ and 37½¢ (average monthly price for middling 1 1/16 Spot value) prices plummeted to their present level - 27¢ for both the nearest contract & the Spot Memphis value.

Will supplies be as burdensome as the collapsing price structure implied or has the market overreacted & an excellent long term investment is in prospect ? We think the latter possibility is closer to be true. We now attempt to substantiate this view.

Statistical Picture

The Latest October 12nd USDA estimate of outturn projects a total of 13,680,000 bales of 480 pounds each, net weight , for the 1972-73 season. Adjusting to the 490 pounds bales (directly comparable to other USDA data), cotton supplies in 1972-73 would total about 16,725,000 bales including imports, the new crop & the carryover. By contrast, the USDA projects usage at 11,650,000 bales. This includes 8,100,000 bales for domestic consumption, 3,500,000 bales for export & 50,000 bales destroyed. Based on the foregoing, carryover as of August 1, 1973 is projected at 5,075,000 bales,

an increase of almost 1,800,000 bales over last season & the first such increase since the 1969-70 season. It should be noted, however, that the carryover of 5,075,000 bales is still the lowest level since the Korean War, with the sole exception of 1970-71 & 1971-72.

Statistical Questions

a) With the exception of 1962 & 1963, years of very large crops, USDA October forecasts have consistently overestimated final outturn, sometimes by as much as 1,000,000 bales (1966). An error of this size could make the difference between availability & shortage.

b) U.S. cotton exports are projected at 3,500,000 bales up from 3,229,000 bales last year. Hopes for large scale sales to China, as predicted by Secretary of Agriculture Butz, improved Japanese demand reflecting the almost 20% appreciation of their currency vis a vis the U.S. dollar (making U.S. export cotton that much cheaper) & resumption of PL480 sales (its demise accounted for an export drop of 400,000 bales last year) could put total exports at above 4,000,000 bales-a 500,000 bales crucial difference.

c) High quality cotton - staple of the deliverable kind - is far scarcer, according to preliminary figures - than in the 1971-72 period. This factor contributed to the 150 point premium of the expire October contract over Memphis Spot. This situation may recur again in the December contract, especially in view of the meager level of certificated stocks.

Inflationary Considerations

The 25-27¢ range prevailing during 1969-70, a period of fair availability & the most recent low, must be adjusted for the generally inflationary price trend. At the wholesale level, a 7-8% premium is reasonable & thus a 26.75-29.20 range on a nearest contract basis.

Government Policies

A strong possibility exists at this time of the U.S. Government purchasing cotton on the open market as a means of shoring up sagging prices. Agriculture Department officials felt that a decision on this matter would be forthcoming before the end of October.

The "plan" envisions the purchase of lower quality cotton as medium & higher grades enjoy good world demand.

This support plan, if brought into effect, reinforces our belief that the 26.60-26.90 December '72 area is a low of considerable significance.

Technical Considerations

As we enter the third month of a base building process, one notes the drop off in volume & the extraordinary contraction in open interest; these 2 facts carry highly bullish implications although, to be fair, are not absolutely precise as to the timing of an upswing.

A slight uptrend has been formed in this base, showing good support at around 26.90 basis December '72 & 27.30 basis March '73.

- Trading strategy** - For the short term trader only, we advise purchases of December in the 2670-2705 area & sales in the 2735-2750 area. This process may be repeated so long as the market remains within the given limits. Mental stop losses & stop buys are recommended at the extreme limits.
- Investment strategy** - Purchase of deferred May '73 or July '73 contracts at present levels & look for a minimum 200 point gain. A follow up report will evaluate the possibilities of further gains.
- Trades** - N. Y. Cotton Exchange.
- Hours** - 10:30 A.M. - 3:00 P.M.
- Contract Size** - 50,000 pounds.
- Margin required** - \$1,000 per contract.
- Round term commission** - \$46.00
- Minimum move** - 1/100 of 1¢ = \$5.00
- Maximum move** - 2¢ per day = \$1,000.

Conclusion

We foresee a 26.60-29.20 range for the nearest contract during the next few months. With December '72 trading at 27.05, purchases of cotton future at the present time offer investors a low risk situation coupled with an interesting recovery potential.

TECHNICAL TRENDS

<u>Cocoa</u>	December '72	32.89
	December '73	33.29

Remain long; continue to buy December '72 Cocoa vs the sale of December '73 Cocoa as the spread is narrowing.

<u>Copper</u>	December '72	48.55
---------------	--------------	-------

Remain short; protective stops should be left as per our previous suggestion, 48.75 close positions if at any time open interest climbs 200 contracts or more on rallies.

<u>Platinum</u>	July '73	141.10
-----------------	----------	--------

A new base is being formed. Stand aside for the moment.

<u>Silver</u>	December '72	181.40
---------------	--------------	--------

Short term fluctuation have given rise to a good trading market. Short positions have been covered on moves to 17730-17850 basis December '72 as volume lacks conviction on the downside.

Contact us for daily trading suggestions.

Note : A great deal of interest has been generated by our Silver Options. Literature on these sophisticated vehicles will be available on request.

Conclusion

We forecast a 36.60-39.20 range for the nearest contract during the next few months. With December '73 trading at 37.05, purchase of cotton future at the present time offers investors a low risk situation coupled with an interesting recovery potential.

TECHNICAL TRENDS

Cocoa
December '73 32.89
December '73 33.39

Remain long; continue to buy December '73 Cocoa at the sale of December '73 Cocoa as the spread is narrowing.

Copper
December '73 48.52

Remain short; protective stops should be left as per our previous suggestion, 48.75 close positions if at any time open interest climbs 200 contracts or more on rallies.

Platinum
July '73 141.10

A new base is being formed. Stand aside for the moment.

Silver
December '73 181.40

Short term fluctuation have given rise to a good trading market. Short term positions have been covered on moves to 177.30-178.50 basis December '73 as volume lacks conviction on the downside.

Comments for daily trading suggestions.

Note: A great deal of interest has been generated by our Silver Options. Literature on these opportunities which will be available on request.

Zinc

London 3 months £ 154.00

Still awaiting breakout our £156.00 before going long.

INTERNATIONAL MONETARY MARKET

Deutsche Marks

December '72	31.270
March '73	31.450
June '73	31.680

The Bundesbank's recent increase in its Lombard rate was a case of too little, too late to combat accelerating inflation in West Germany. Of course, the rate must be low enough to deter renewed capital inflows. Steering between these 2 evils, the DM must continue to weaken vis a vis the U.S. Dollar. Remain short.

Albert D. Friedberg,
Vice-president
Commodity Futures.

All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.

