friedberg & co. ltd.

INTERNATIONAL COMMODITY BROKERS
FOREIGN EXCHANGE DEALERS
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COMMODITY COMMENTS

December 6th., 1972.

March '73	*32.20*
December '73	*32.65*

COCOA: PART 11

The Bull Market in Cocoa is exactly one year old, and shows little sign of exhausting itself. Quite the contrary, we feel that the most profitable part is yet to come.

On July 6th., midway through the major advance, we pointed out that estimates of cocoa surplus for the 1971-73 season, had been systematically scaled down from 150,000 tons to almost nil. The basic error resided in the dramatic underestimation of demand, which aided by low prices, surged to an all-time record. At the same time, 1971-72, cocoa output, while record high, was less than anticipated. This near-equilibrium condition, when first recognized in early July, propelled prices from the then 27¢/lb., basis nearest contract, to nearly 34¢/lb., thus slightly exceeding our 33-33½¢/ lb. objective.

As the new 1972-73 season unfolds, one is struck with the pattern of crop over-estimates and subsequent downward revisions, that are made by knowledgeable "guesstimators." As late as the end of October, the U. S. Department of Agriculture (USDA) forecast 1972-73 (October 1 - September 30) world cocoa bean production at 1,547,600 metric tons, off only slightly from last year's record 1,552,900 tons. The USDA pointed out that with cocoa bean grindings estimated at 1,500,000 tons, current prices were reflecting "the possibility that 1973 could be a deficit year." Late in October, it was only a possibility with a low degree of probability.

A few weeks later, the Food & Agriculture Organization (FAO) of the United Nations forecast 1972-73 world cocoa bean production at 1,468,000 metric tons, 79,600 below the USDA estimate, Against its production estimate, the FAO looked for 1972-73 grindings to rise to a new high of 1,598,000 tons, up from 1,541,000 indicated for 1972. Deducting 1% for shrinkage, the anticipated FAO output falls 145,000 tons short of estimated grindings, suggesting a drop of almost 50% in the world cocoa bean carryover (the latter on October 1, 1972 was estimated at about 299,000 metric tons.)

Breaking down the USDA and FAO estimates, one finds: Ghana, 430,000 (USDA), 407,400 (FAO); Nigeria, 290,000 & 274,000; Ivory Coast, 205,000 & 185,000; Cameroons, 112,000 & 95,000; and Brazil, 185,000 & 200,000.

In the last few weeks, further downward estimates have been made. G. W. Joynson of London feels that Ghana's crop is short and not late thus accounting for the low cumulative main crop purchases to date. Their latest private report estimates that Ghana's crop may "fall significantly short of 400,000 tons." Total purchases for *the season to date (13th. week) are estimated at 223,056 tons running well below the comparative period last year.*

In Lagos today, the Nigerian Produce Marketing Company made the following statement: "Production prospects in Nigeria for cocoa have been disappointing. In the major producing areas, particularly western Nigeria, the last rainfall was on Ontober 6 and reports reaching the NPMC from these areas have indicated that poor rainfall has affected expected outturn for the crop. It is now expected that crop purchases will tail off rather sharply. This has necessitated reviewing very significantly downward the FAO figures given by Nigeria during the recent FAO meeting in Rome."

From a market point of view, it is of value to note that while a great deal of guessing goes into each estimate and therefore absolute levels are not totally reliable, most important is the direction of the guessing. A continuously downward revised world cocoa bean carryover for the year ended September 30th., 1973, in view of the already sizeable 50% drop forecast, can create a shortage psychology within the next few months and push prices close to their 1966 high of 44¢/lb.

Technical Considerations:

(a) Prices have managed to close above broken uptrends today (31.85 basis March) and even reassert themselves into the previous consolidation range.

(b) Deferred contracts are at within 30 points from their October - November downtrends; once through them, all meaningful resistance should have disappeared.

(c) Open interest contracted sharply in the 3-day 180-point shakeout, thus eliminating weak hands from the long side.

(d) Extremely heavy tenders against the spot December Contract in London (some 3312 originals and 323 retenders to date) have been very well held possibly indicating that physical cocoa was moving into strong hands.

(e) With Nigeria's dissappointingly poor crop, most Origins are believed to be sold out through June/August 1973, thus removing the largest source of hedge selling on the market.

Recommendation:

Buy March '73 or May '73 cocoa at the market. Our first minimum objective is 38¢. Eventually, we expect prices to challenge the 1966 highs of 44¢. Place protective stops under the 31¢ area.

TECHNICAL TRENDS

Copper:	*December '72*	*47.30*
	March '73	*48.40*

Our suggestion that short positions be closed on or before November 29th., copper's first notice day, proved accurate as December was bought at 46.40-46.75.

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Groundwork is being laid for a major bull market, but would prefer to await (a) quieter trading & (b) a drop of the still substantial 15,000 plus open interest. Stay in close touch.

Cotton: — *March '73* — *32.73*

Buy March '73 or May '73 at market for a 200 point move challenging recent highs.

Live Hogs: — *February '73* — *29.90*

April '73 — *26.85*

Remain firmly long and raise stops to 29.50 and 26.50 respectively.

Lumber: — *January '73* — *142.20*
March '73 — *142.50*

Plywood: — *January '73* — *147.90*
March '73 — *141.70*

It would not surprise us to see these two markets test their recent highs. Buy January '73 lumber or plywood for a quick trading turn placing stops 600 points under the market.

Orange Juice: — *January '73* — *46.70*

March '73 — *47.70*

Prices are beginning to break out of a potentially very bullish base formation. Aided by the frost season in Florida, orange juice could be an outstanding mover. Buy at market.

Silver: — *December '72* — *192.80*

March '73 — *195.70*

The long term bull market is intact. The most recent gold / silver divergence we noted two weeks ago at their respective correction lows gave us the clue to this extended upside run.
Contact us for daily trading suggestions.

Wheat: — *December '72* — *258 5/8*

May '73 — *251 3/4*

After an almost perpendicular 30¢/ bu. climb, it is prudent to nail down profits. Sell at the market and stand aside.

International Monetary Market

Deutsche Marks: — *December'72* — *31.316*

March '73 — *31.470*

Groundwork is being laid for a major bull market, but would prefer to await (a) quieter trading & (b) a drop of the still substantial 15,000 plus open interest. Stay in close touch.

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	May '73	151 3/4.

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International Monetary Market

Deutsche Marks:	December '72	31.316
	March '73	31.470

June '73	*31.550*

Another increase in short term German money Market rates is beginning to provide some strong support for the spot DM.

We prefer to close out now all our short DM positions and nail down profits of well in excess of $4000 per contract.

Japanese Yen:

December '72	*.33308*
March '73	*.34552*
March '74	*.36900*

The sale of deferred Yen positions intrigue us; the risk-reward ratio is stupendous. Basically, the forward premium of the March '74 contract amounts to 10.8% over Spot, fully discounting a possible revaluation. Should this revaluation not take place, the premium will accrue to the seller. In dollars and cents, no revaluation would mean $8980 profit per contract; 12% revaluation (a liberal estimate) would mean a $1012 loss. Margin required is $2500 and the contract size is 25,000,000 yen.

For those with more sensitive stomachs, may we suggest the sale of March '74 vs. the purchase of March '73.

Albert D. Friedberg
Vice-President
Commodity Futures.

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June '73   31.550

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March '73	.34552
March '74	.36900

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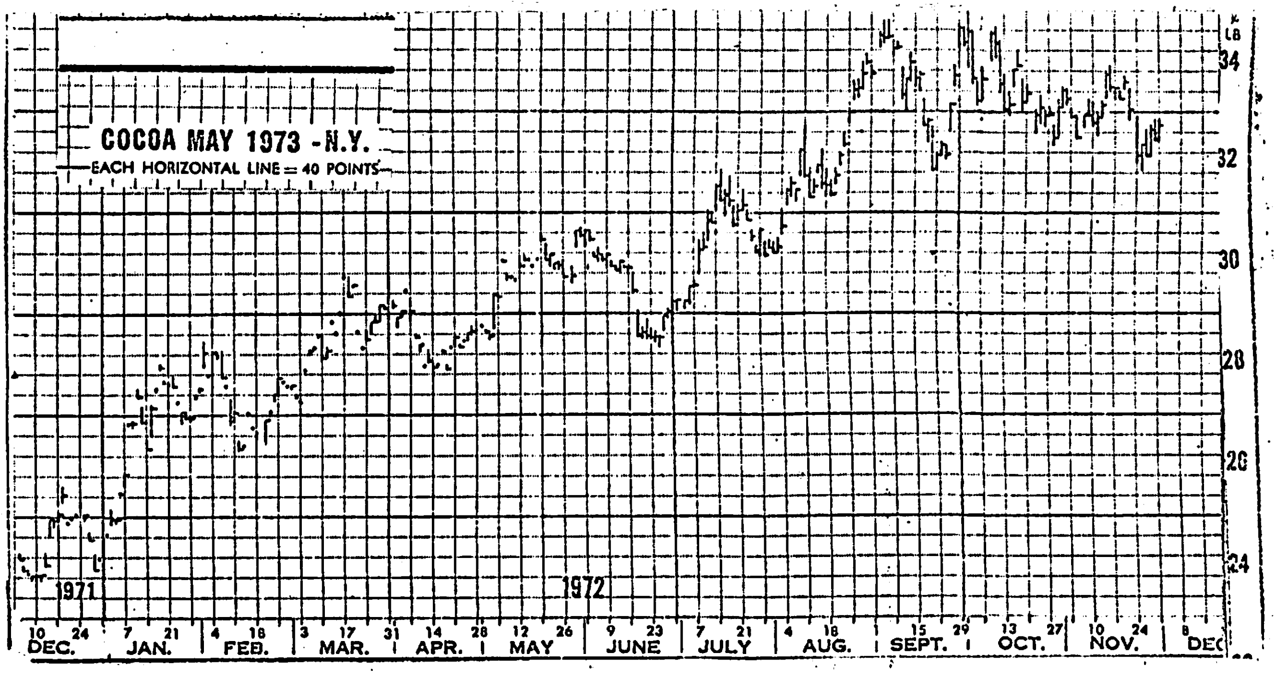
All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.



Courtesy from Commodity Research Bureau Inc.