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COMMODITY COMMENTS

May 22nd, 1973

THE END ?

For the past 6 months, frustrated bulls, perennial bears & fascinated observers have called AN END to the great 1971-1973 Bull Market in commodity prices. Their prophecy of doom, while sensible by historical standards, was thwarted by their failure to comprehend the deeper raison d'etre. Above & beyond all fundamentals was the depreciation of paper money. It was not as much a Bull Market in commodities as a Bear Market in money.

Some currencies fared worse than others. And so, the U.S. dollar sunk lower & lower awash in a sea of paper whose main tributary, the Federal Reserve Board, bowed to the inevitabilities of political pressure. But there were others. Continental Europe's monetary engines were working at full blast; the U.K. recorded a monetary expansion unheard of this side of the Equator; Canada & Japan inflated at rates even unsustainable by their productive capacity.

In the commodity jargon, money traded at a full contango with short term rates almost half long term ones. The steep upward sloping yield curve indicated the huge availability of money for immediate use & repayment while those anchoring themselves to it for longer periods of time demanded a growing inflation premium. These large availabilities of short term financing at sub-normal rates of interest stimulated the purchase & carrying of goods whose prices, in the long run, were a cinch to follow the route of long term rates. Both had the same rationale.

While it has not been our practice to philosophize about markets- & in fact our recommendation have been confined to plain buy & sell suggestions based on trend analysis - we feel it is appropriate to conceptualize what has taken place so as to better understand the inevitable changes in trend. Having established that our present 18-24 months Bull Market in commodities was primarily the other side of a rapidly depreciating coin, we must recognize that a credit contraction, by putting a premium on money (reflected in a backwardation or inverse yield curve) is likely to create commodity liquidation.

In the last two weeks, the Federal Reserve Board has openly moved to tighten credit by boosting reserve requirements & lifting interest rate ceilings on large CD's. More importantly, it has lowered reserve requirements from 20% to 8% on U.S. banks Eurodollar. borrowing making it easier for them to borrow abroad & thus affecting worldwide costs of money, The effects of *a credit contraction, even a minor one, will affect the whole gamut of commodity prices. At first, money in "weaker" commodities will flow out to sustain the high prices of the "stronger" ones. At last, even the mighty will fall.*

Which are the weaker & which are the stronger? Surely those that command the greatest public participation & carry the heaviest load of speculative interest are weakest. Surely, weakest too, are those that are subject, and fairly sensitive, to industrial demand. In this category one finds the metals (precious & base).

The converse is true for the stronger commodities: trade interest is far larger than public or speculative interest & the demand factor is less volatile. In this category one finds most of the foods (including grains, livestock & cocoa). Sugar, cotton & the wood complex lie somewhere in between as the former two command a respectable & growing speculative participation but are not that highly sensitive to industrial demand; the converse is true for the latter.

Last but not least, the U.S. dollar may begin, very shortly, to recover some of its relative losses vis a vis European currencies.

Following is our usual trend analysis, the ultimate arbiter of investment decisions.

TECHNICAL TREND

Cocoa	*May '73 (Expired)*	*59.75*
	July '73	*57.35*
	Sep. '73 (London)	*£533.oo*

The breathtaking advance continues; any setbacks must be considered only temporary so long as public partcipation does not become heavy. This obviously cannot take place in daily limit rises.

Remain long but careful.

Copper	*July '73*	*72.50*
	Jan. '74	*70.30*

We traded this market from the short side but never really took a heavily bearish stance. Better so as trends seem to have turned upwards.

We prefer the sidelines inkeeping with above remarks.

<u>Corn</u>	July '73	1.90
	Dec. '73	1.79 7/8

On trend & higher.

Remain firmly long, but move sell stops to 1.75 basis July '73.

<u>Coffee</u>	July '73	68.13

Remain long. Move protective stops up to 63,50 basis July '73.

<u>Cotton</u>	July '73	50.38
	Oct. '73	47.45
	Dec. '73	44.45

Beginning to look quite toppy. Long term positions (initiated in the high 20's) may be closed out.

Traders can begin establishing short positions on rallies above 46.00 basis December '73 & risking season's highs.

<u>Gold</u>	London Second Fixing	110.50
	July '73 (Winnipeg)	113.00

The spectacular rise has rewarded longs very handsomely.

We would begin treading with caution in view of our opening remarks & therefore advise selling gold if the London Fixing goes below $104.00.

<u>Live Cattle</u>	Oct. '73	46.37
<u>Live Hogs</u>	Oct. '73	37.25
<u>Bellies</u>	July '73	56.97

We continue to remain long as chart trends point higher while reason points to the Livestock group as almost the last victim of a potential credit contraction.

<u>Platinum</u>	July '73	157.50

A sluggish companion to gold & silver.

Our long positions are showing profits of $10-15/oz., but we'd like to protect them by moving our stops up to 152.00 basis July '73. on close only.

<u>Silver</u>	July '73	249.00

Once again London has come in as a heavy seller in the 250.00-255.00 area basis July '73.

We prefer to take profits at these levels & buy again if July '73 moves above256.00 , on close only.

Canadian Silver Coin

	Low	High
Spot	1140	1200
July '73	1170	1230
Sep. '73	1210	1260
Dec. '73	1220	1275
Mar. '74	1240	1315

Canadian silver coins represent a limited risk approach to silver investing & an unusual play on a disappearing commodity.

Each bag consists of $1,000 face amount of Canadian silver coins in the form of half dollars, quarters, or dimes. Each $1,000 in face amount of Canadian silver coins contains approximately 585 fine troy ounces of silver. In essence, then, an investor buying one bag of Canadian silver coins (spot or forward) will enjoy a limited downside risk (as the bag cannot fall below its monetary value of $1,000 no matter how low silver goes) while at the same time he can benefit from a rise in the price.

Long term silver bulls with an aversion for high risks and a penchant for numismatic value would be well advised to consider this form of investment. Forward contacts can be purchased with a margin equal to the difference.

Coins so far failed to move in line with world silver prices, at least in Canada.

Its silver bullion equivalent today was $1448 or fully $248 over its ask price. That represents a 17% discount.

Silver coins in circulation have dropped off considerably as Gresham's Law makes itself felt. Nonetheless, investors are urged to be patient before its full value will out.

Rubber

July/Sep. '73	24.75	bid
July/Sep. '74	24.35	bid.

The spread is beginning to widen in our favor as nearbys lead the advance.

Long outright positions may also be taken at market in view of the very constructive chart pattern developing.

World Sugar #11 Sep. '73 10.34

We are long, as per our previous Commodity Comments suggestion, at 8.90. The huge rise in the open position has us somewhat worried but, nonetheless, the trend is up.

Maintain long positions with stops at 9.70 basis Sep. '73.

Zinc 3 months £214.50

In keeping with our prefactory remarks, we'd like to establish a short positions in Zinc. It has had a spectacular rise (from lows of £130 to recent highs of £218.)

We recommend the purchase of put option on the LME ZINC for £6/ton. Contract calls for 25 tons.

Albert D. Friedberg
Vice-President
Commodity Futures

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