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## COMMODITY COMMENTS

August 28th, 1973

### Topping out or shaking out ?

The month of July saw the culmination of one of the greatest bull markets in history. By the second week of August, commodity prices retreated sufficiently to give the staunchest bull reason for concern.

As we have been pointing out for the past 2 months, the seeds of destruction were being laid by ever increasing interest rates. These had the effect of strengthening the U. S. Dollar vis a vis European currencies thus removing a strong speculative prop from under the market. Also higher money rates militated against carrying large inventory positions & slowed down significantly consumption. The mechanics of the "strangulation" process have been well detailed in past issues ( "The End" May 22nd, & the July 24th issue ) & we are now only concerned with a) determining whether it is "all over", & b) a defensive investment posture.

Have we topped out? The answer is, probably yes, if we mean the entire commodity spectrum. The averages, if one may refer to them as such, have given a distinct signal of a breakdown. Any investment decision, then, must be geared towards selling the weakest ( or most vulnerable ) element in the total at the appropriate time & with the minimum amount of risk. While until now it has been good policy to buy on breaks, it has now become good policy to sell on strength. Therefore short positions may be taken only if good sized rallies appear. An easier & less risky approach to selling short would entail the use of bear spreads. Typically, a bear spread involves the sale of a nearby contract month which may be selling at a premium & a simultaneous sale of a deferred contract which is selling at a discount. The rationale is simply that near contracts sell at a premium to deferred ones only if a tight demand situation has developed. Whereby the user must pay a premium for cash or physical availability & the seller must be content with accepting a lower prices for his hedges into the future because "everyone knows" that eventually prices must come back down. To paraphrase the above, the normal condition in the commodity world is for forward contract to sell at a premium over cash (i.e. silver futures) & thus cover the carrying costs incurred by the holder of the physical commodity. Therefore, if the reverse has taken place, it is because abnormal circumstances have created a world in which carrying physical is an advantage. This can only be a temporary aberration.

Our technical trends section will analyze a number of commodities and recommend, where advantageous, certain bear spreads.



TECHNICAL TRENDS

Cocoa

December '73 58.85

A two-week secondary top in cocoa bounded by a low of 68¢ & a high of 74¢ finally gave way indicating a long slide down. The decline seem to have been arrested, especially in the deferred contract. December Cocoa in London appears to have stabilized at between £560 and £600 and a good upside correction may be indicated

Traders wishing to take a protected long position for a quick upside move may buy 4 September '74 Cocoa against the sale of 3 December '73 Cocoa - stop on the extra December positions should be placed at 55.85.

Long term players should consider buying September '74 & selling December '73 at 700 points or better premium on the nearby December. In a protracted bear market, the premium may disappear altogether thus giving us a profit potential of \$2100 per spread. Margin required is \$1000.00.

Copper

December '73 76.00

Here again, a secondary top and a breakdown below the 30.00 support area provided the clue to the final top. Figures just released for the month of July indicate that world refined output exceeded deliveries to fabricators thus increasing refined stocks by 41,000 short tons. It can only confirm the technical reading.

We like the short December '73 - long July '74 spread at 680 points or better premium on the December or, alternatively, short March '74 - long September '74 @420 points or better premium on the March. The latter is less risky but less juicy. Again here we are looking for at least the disappearance of the premium. Margin required is a mere \$500 & therefore the leverage is great.

Corn

December '73 2.59 1/4

We are out over 2.50 as per previous suggestion. Have no spread recommendation.

Stay on the sidelines.

Cotton

December '73 78.35

This market has given us a huge profit since first recommended at 51 cents. Long positions should have been closed out today after a heavy reversal. An interesting bear spread here is the sale of old crop December '73 and the simultaneous purchase of new crop October '74 (1200 - 1225 pts) or December '74 (1700 pts). Margin for the spread is \$3,000.00

This market is at an all-time high and bear spreads could become a smashing success.

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<u>Live Cattle</u>	February '74	52.37
<u>Live Hogs</u>	February '74	49.55
<u>Pork Bellies</u>	February '74	78.30

Our last issue indicated that we were looking for a sale "anytime in the next few days". The opportunity presented itself in the last week of July when the livestock group had a fast 6¢ move, topping out at 62.37 for February '74 Cattle, 58.85 for February '74 Hogs and 83.80 for February '74 Bellies. Bear spreads in the livestock group don't carry as much potential as in other commodities and we therefore recommend none. However, in view of the obvious top made in these commodities, short position can be taken on sizable upside reactions only.

Keep in close contact.

<u>N. Y. Silver</u>	December '73	263.00
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A clear break of the 290.00 support area signalled the beginning of, at least, a sizeable correction ( July 24th, 1973 issue ).

Current talk of large September deliveries on the part of Mexico which reportedly has been moving about 5 million ounces into Comex Warehouses plus an increasing cost in carrying silver positions due to rising interest rates and finally a stronger U.S. Dollar, have put silver bulls on the defensive. Industry stocks for the second quarter of this year have been reported to be down to 41.5 million ounces, a bullish figure as it indicates that the restocking process has not taken place as yet

We feel that this market is dictated by technical and psychological factors & will be little influenced by fundamentals. A strong support has developed at around 2.60 basis December '73 & deferred months have consistently closed higher than what a 50% retracement from the April lows to the July highs would represent. Therefore, a close below 2.60 basis December '73 could bring this market back to its long term uptrend (at around 2.40) while a successful test of the present phase (Thursday will be first notice day) will signal a major upside reaction. Bearishness is high (bullish) but open interest remains stubbornly high (bearish).

Buy December silver at market and place stops below 260.00.

<u>Canadian Silver Coins</u>	September '73	1300 - 1410
	December '73	1330 - 1440
	March '74	1370 - 1500
	July '74	1410 - 1550

This market continues to dry up. Will sellers reluctant, the market now needs a 20-30¢ up move to close the discount to bullion.

This is by far the best long term investment for high risk averters.

<u>N. Y. Sugar</u>	March '74	8.32
	September '74	7.95

A severe shakeout took prices down a little over 100 points since our last suggestion. We remain friendly to this market in view of the huge liquidation in open interest and the widespread bearishness building among commission houses. Investment accounts should concentrate heavily in the September '74 position.

Remain firmly long without stops.

Rubber

October/December '73	35.50 - 35.90
July/September '74	31.80 - 32.05

The last reaction down did not find much support at the previous lows (38.00 basis October/December '73) and the slide has continued ever since.

Long position should be closed out on 2 - 3 p. reactions. Alternatively, sales at these levels may be made with the simultaneous purchase of Call Options on 1975 position now going for roughly 4.5 p.

INTERNATIONAL MONETARY MARKET

Gold

London Second Fixing	104.00
October '73 (Winnipeg)	106.70

Our sale recommendation of July 24th was nearly perfect as gold broke the \$114.00 and subsequently plunged to as low as \$90.00 (London) and \$92.00 (October '73 Winnipeg). A good upside reaction is now taking place but feel that it is still too premature to buy back long positions.

Traders may use stop buys at 110 and 115 (basis London).

Long term investors should only re-enter the long side on a move above 120.00.

Deutsche Marks

December '73 .40920

Swiss Francs

March '74 .33700

Sales recommended here in our last issue (if gold broke \$114.00) were made in the 42500 area for the DM and the 35500 area for the SF.

Would accept partial profits here.

Albert D. Friedberg  
Vice-President  
Commodity Futures

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