Commodity Comments

Friedberg & Co. Ltd.

347 BAY STREET
TORONTO, ONTARIO, CANADA M5H 2R7
(416) 864-1195
CABLE: FRIEDCO TORONTO
TELEX: 06-23446

June 4, 1974

Strong deflationary pressures already at work in the grain and meat complex spilled over the international markets causing wide breaks in such commodities as Copper, Cocoa, Zinc, Silver and Gold. The cost of carrying inventory is becoming prohibitive especially when one factors in the vulnerability of today's high prices.

While inflation was the great equalizer of all commodity prices on the upside, the converse is true on a downside market. This partial truth ignores basic supply and demand analysis particular to the various commodity sectors but reflects, on the other hand, the belief that prices are a function of the value of money. As money becomes more valuable (evidenced by the high interest rates it commands), money-denominated goods become less so. If what we have postulated is in fact true, the dispantrybetween meat prices, now selling at mid-1972 levels, grain prices, down to mid-73 levels and 'internationals' still hovering close to their early 1974 levels is too great to persist for much longer.

Technical Trends

Cocoa	July '74	77.40
	May '75	56.80

Heavy and surprising deliveries in both New York and London late in the month of May broke the back of this amazing bull market and a sharp trend reversal set in. Steep uptrend lines were broken at below 9400 basis July '74 leaving behind downside gaps to attest to the strength of the bear move.

The declining open interest that accompanies the drop in prices indicates that liquidation is proceeding apace but no new short selling is yet evident. When coupled with the fact that downtrend lines remain intact, one must guess that the downside objective has as yet not been reached.

Short positions should be taken in the nearbys only, using 300-500 point rallies from any lows. Stops should be placed at around 8550 basis July '74.

Coffee	July '74	73.25
	London Robustas July '74 £ 558.	

The New York "C" contract has been unable so far to break out of its 7065-7550 trading range in spite of recent supporting operations by the 'other milds' group. Large coffee supplies in New York are reflected in the futures market's wide contango.

Robustas, on the other hand, have broken important support areas, including a year-long uptrend and thus look quite bearish.

Initiate short positions in the September '74 Robustas at market; sell September '74 New York "C" on a break below 73.50 on close.

Livestock Complex	August '74 Cattle	36.72
	August '74 Hogs	26.92
	February '75 Bellies	40.05
	September '74 Broilers	34.90

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347 Bay Street
Toronto, Ontario, Canada M5H 2R7
[illegible]
[illegible]
[illegible]

June [illegible], 197[illegible]

Strong deflationary pressures already evident in the grain and meat complex spilled over the international markets causing wide breaks in such commodities as Copper, Cocoa, Zinc, Silver and Gold. The cost of carrying inventory is becoming prohibitive especially when one factors in the vulnerability of today's high prices.

While inflation was the great stimulator of all commodity prices on the world, the converse is true on a downside market. This general truth ignores basic supply and demand analysis pertaining to the various commodity sectors but reflects, on the other hand, the belief that prices are a function of the value of money. As money becomes more valuable (evidenced by the high interest rates in [illegible]), money-denominated goods become less so. If what we have postulated is in fact true, the discrepancies between [illegible], now selling at mid-1974 levels, grain prices, down to mid-73 levels and 'pre-materials' still hovering close to their early 1974 levels is too great to remain for much longer.

Technical Trends

Cocoa	July '74	[illegible]
	May '75	56.10

[illegible] in the [illegible] of May [illegible] reversal [illegible]. Sharp upward [illegible] July '74 leaving behind downside gaps to attest to the strength of the [illegible] move.

The declining open interest that accompanied the drop in prices indicates that liquidation [illegible] selling is not evident. When coupled with the [illegible] that the downside objective has as yet not been reached.

Short positions should [illegible] only, using 300-500 point rallies from any [illegible]. Stops should be placed at [illegible] July '74.

Coffee	July '74	[illegible]
	London [illegible] July '74 [illegible]	

The New York '74 contract has been [illegible] of the [illegible] trading range [illegible] the 'other milds' group. Large coffee [illegible] in the futures market's wide [illegible].

Potatoes [illegible]

[illegible]

Initiate short positions in the September '74 [illegible] September '74 New York [illegible] on a break below 71.57 on close.

Livestock Complex	[illegible] '74 [illegible]	36.72
	August '74 [illegible]	26.50
	February '75 [illegible]	40.05
	[illegible] '74 [illegible]	[illegible]

[illegible]
[illegible]

[illegible]
[illegible]

[illegible]
[illegible]

Last month we indicated that long positions had to be closed out despite the relatively 'cheap' levels then prevailing. This timely piece of advice has saved us 900 points in Cattle, 750 points in Hogs, 900 points in Pork Bellies and 100 points in Broilers.

Reduced live animal marketings in the last few days coupled with unrealistically low levels may suggest a good sized rally ahead. This is supported by the fact that nearby June '74 Cattle is at an important long term support in the 36-38¢ area.

We foresee a fair rally in the livestock complex and would look to be a buyer on dips hoping to turn 200-500 points.

Keep in close touch.

Precious Metals	*July '74 Silver*	*493.50*
	July '74 Platinum	*208.00*
	July '74 Gold	*156.90*

Our bearish posture adopted last month in the precious metals has borne fruit. A failing corner in silver is likely to exert additional liquidating pressure when important technical supports are broken. Warehouse stocks have shown definite signs of being in an important uptrend having surpassed today 76 million ounces; the origin of the incoming silver can be traced partially to Indian exports and coin smelting. Financial consideration at work today make it highly uneconomic to 'sit' on silver inventories--thus the warehouse build-up.

Very much the same can be said for Platinum, in spite of the recent producer price hike to $190-200. from $170-180. prevailing since January 28th. Warehouse inventories continue to build up and heavy deliveries may be effected against the July '74 position.

Our sale recommendation in gold (breaking $166.75 on the London fixing) has also proved timely. See enclosed transcript of speech given by the undersigned on May 21st to a commodity seminar conducted in the city at the University of Toronto. We strongly believe that prices will move lower over the next few months.

Continue to short Silver and Platinum looking for them to reach the $2.80-3.00/oz and $145-165/oz mark respectively before year-end.

Soybean Oil	*July '74*	*28.32*

Appears to be churning above recent contract highs with the added technical damage of seeing its open interest move up unseasonally.

Would initiate short positions at these levels, risking 250 points on the upside.

Sugar #11	*July '74*	*24.53*
	March '75	*18.40*

For the past month, Sugar prices have resisted the general deflationary onslaught and have managed to scratch out gains of roughly 300 points.

F.O. Licht's revision of Sugar's Statistical position for the 1973-1974 season confirms our famous mid-73 prediction of a near balanced supply and demand picture. His balance shows a small 200,000-ton surplus; before year end,that figure will be revised once again leaving perhaps a small deficit.

Bullish news, especially by way of buying tenders, are coming too fast for our taste and we now prefer to take profits by selling out our long deferred positions.

Last month we indicated that long positions had to be closed out despite the relatively 'cheap' levels then prevailing. This timely piece of advice has saved us 900 points in Cattle, 750 points in Hogs, 900 points in Pork Bellies and 100 points in Broilers.

Reduced live animal marketings in the last few days coupled with unrealistically low levels may suggest a good sized rally ahead. This is supported by the fact that nearby June '74 Cattle is at an important long term support in the 36-37¢ area.

We foresee a fair rally in the livestock complex and would look to be a buyer on dips hoping to gain 200-400 points.

Keep in close touch

Precious Metals	July '74 Silver	493.50
	July '74 Platinum	208.00
	July '74 Gold	156.90

Our bearish posture adopted last month in the precious metals has borne fruit. A failing corner in silver is likely to exert additional liquidating pressure when important technical supports are broken. Warehouse stocks have shown definite signs of being in an important uptrend having surpassed today 75 million ounces; the origin of the incoming silver can be traced partially to Indian exports and coin smelting. Financial consideration at work today make it highly uneconomic to 'sit' on silver inventories--thus the warehouse build-up.

Very much the same can be said for Platinum, in spite of the recent producer price hike to $190-200 from $170-180 prevailing since January 20th. Warehouse inventories continue to build up and heavy deliveries may be effected against the July '74 position.

Our sale recommendation in gold (breaking $165.75 on the London fixing) has also proved timely. See enclosed transcript of speech given by the undersigned on May 21st to a commodity seminar conducted in the city at the University of Toronto. We strongly believe that prices will move lower over the next few months.

Continue to short Silver and Platinum looking for them to reach the $2.80-3.00/oz and $145-165/oz mark respectively before year-end.

Soybean Oil	July '74	25.32

Appears to be churning above recent contract highs with the added technical damage of seeing its open interest move up unreasonably.

Would initiate short positions at these levels, risking 250 points on the upside.

Sugar #11	July '74	[illegible]
	March '75	18.40

For the past month, Sugar prices have resisted the general deflationary onslaught and have managed to stretch out gains of roughly 300 points.

F.O. Licht's revision of Cuba's statistical position for the 1973-1974 season confirms our August 1973 prediction of a near balanced supply and demand picture. His balance shows a small 200,000-ton surplus before year end and that figure will be revised once again leaving perhaps a small deficit.

Bullish news, especially by way of buying tenders, has come too fast for our taste and we now prefer to take profits by selling out our long deferred positions.

We would be alert for an opportunity to begin shorting this market which, we believe is in the process of topping out.

Potpourri

Except for the long position in Canadian dollars, all European currency positions should be closed out...

Sell the British Pound if spot moves below 23850...

Where advisable, trade from the short side but do not pyramid...

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Albert D. Friedberg
Vice - President
Commodity Futures