



— Friedberg & Co. Ltd. —

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

Commodity Comments

February 5, 1975

A COMMODITIES' PORTFOLIO: the long and short of it

At this stage of the business cycle, a portfolio of commodity positions is the trader's best chance for survival and profits.

The strange (but, nonetheless, severe) recession that engulfs the Western world lies atop an unusually strong undertone of inflation and inflationary expectations. This allows for small price firmness in individual categories within the framework of overall inventory liquidation. Furthermore, inventory liquidation is cushioned by (a) apathetic but steady consumer demand; (b) negative interest costs and (c) supply 'shortages'. The price sensitivity (or elasticity) of consumer demand is evidenced by the recent pick up in auto sales when given a 5-15% rebate. The urge to liquidate is tempered when funds to 'hang on' can be obtained at below prevailing rates of inflation. Finally, commodities such as coal remain in such short supply as to preclude any thoughts of liquidation. It is important to note that inventory liquidation stops at the point where re-accumulation is expected to become profitable because continued over-production, and therefore additional supplies, is cut back sharply. As an example, whereas 500,000 tons of copper present a formidable supply overhang at present rates of consumption, this copper is now under re-accumulation because profit thereon is expected to exceed the cost of holding it (12% including storage) until it is fully absorbed as necessary cutbacks in output diminish current supplies vis a vis current demand.

A portfolio of commodities would look to be long those goods that have already been liquidated to levels where re-accumulation can be expected and would look to be short those commodities that are still targets of potential liquidation, i.e. the financial cost of holding excess supplies until they are cleared from the market is expected to exceed the return from the sale of such supplies. Such is presently the case of sugar, where supplies are becoming increasingly more burdensome relative to present consumption levels and the financial cost of holding these inventories until equilibrium is reached will surely exceed the price to be realized at that time. The great unknown is the merchant's time span for calculating holding periods. Mortals, however, are not known to toy with 'long term' ideas...

The judicious use of both fundamental and technical factors will help pinpoint those two extreme areas. For emphasis sake we shall discuss this month's commodities under the heading of recommended long and recommended short positions.

RECOMMENDED LONG POSITIONS

<u>Copper</u>	May '75	53.90
	3 months London Wirebars	£530

Good basing action at fantastically depressed levels is evidence that liquidation is running out. Bulging LME warehouses (in excess of 160,000 tons) are expected to increase yet by 20-30,000 tons making for an all-time record. Prices, nonetheless, are statistically so cheap that re-accumulation can be undertaken with the conviction of recovering holding costs and earning a profit within the next 12 months.

One should consider that (a) a massive six-year support level occurs at 45-51 cents/lb. and (b) in terms of European currencies, Copper is today 26% cheaper than in 1970, or the equivalent of only 38¢ U.S. !

The December '75 - March '76 spread at 180 points is at full carrying charges and, as such, represents an almost no risk spread: buy Dec. '75 vs sell March '76.

Better yet, buy December '75 Copper at the market and be prepared to sit it out.

February 5, 1975

<u>Currencies</u>	June '75 Deutsche Mark	42.135
	June '75 Swiss Franc	39.535
	June '75 Dutch Guilder	40.900
	June '75 Japanese Yen	33.630

Strong intervention on the part of the Federal Reserve has been the only obstacle to the rapidly depreciating U.S. currency. With trade prospects growing dimmer for the U.S. as its huge 1972-74 agricultural export boom comes to an end (via lower-gain prices) and short term capital flows rejecting the ever lower structure of U.S. interest rates, little improvement can be seen in the external value of the U.S. dollar.

The Japanese Yen may yet become the new Rising Sun among the currency constellation as Japan succeeds in reversing its trade deficit despite massive oil imports. Also tight monetary and fiscal policies in Japan are expected to last longer than in Western Europe so as to offset the expected 'labor spring offensive'. Small long positions in the Yen are now advisable.

Technically, the Deutsche Mark and the Swiss Franc are undergoing a severe correction from the 43.60 and 41.80 peaks reached a few days ago. How long Central Bank intervention will keep those currencies from attaining yet higher levels, which in our opinion is a certainty, remains to be seen. We therefore advise cutting back 50% of present long positions. Keep in close contact as to when these positions may be reinstated.

<u>Wood Complex</u>	May '75 Lumber	141.00
	May '75 Plywood	129.00

Both lumber and plywood have had a substantial 1500-1700 point rise since our Commodity Comments of last January 6, 1975. Firming cash prices, sharply descending interest rates and a bull market in stocks are fuelling the present Wood advance. Prices are consolidating at these levels before they catapult forward a further \$15/\$20 per 1000 board feet. Housing starts in the U.S. are at a rock bottom 850,000 units, 1,500,000 units below basic demand. The 1975-1977 upswing in housing should see a catch up rate of 2,500,000 - 2,700,000 units.

Lumber and Plywood are a must in any commodity portfolio as they will remain far and away the most dynamic upside market for the next 3-6 months.

RECOMMENDED SHORT POSITIONS

<u>Grains and Oilseeds</u>	May '75 Wheat	3.93 1/2
	May '75 Corn	3.17 1/4
	May '75 Soybeans	6.10 1/2
	May '75 Soymeal	129 1/2
	May '75 Soybean Oil	29.43

The short-sale recommendation in the above put out last month has shown very large profits and in certain instances met our downside objectives in less than 3 weeks! Wheat dropped 60¢/bu, Corn 55¢/bu, Soybean \$1.50/bu (came within striking distance of \$5.50 target), Soymeal \$30/ton and Soybean 7¢/lb.

Lower grain and oilseed prices are still in store but trading profits should be nailed down looking to reinstate on sharp rallies to major downtrend lines. Long term short positions in Soybean Oil should not be disturbed.

<u>Livestock Complex</u>	April '75 Cattle	37.75
	April '75 Hogs	41.80
	May '75 Porkbellies	68.90

Exactly as anticipated last month, livestock prices collapsed and gave us profits of 400-800 points on all three of the above. We remain bearish on cattle and would look to sell June '75 cattle on scale up from present levels to 4150 with protective stops at 4200.

<u>Precious Metals</u>	April '75 Gold	176.80
	May '75 Silver	4.194
	April '75 Platinum	150.50

A massive top formation in gold is finding support at the 170-174 area but repeated rallies increasingly lack conviction. The U.S. became a net exporter of gold in the month of January, a clear indication of lack of interest on the part of its citizens. The popular Krugerrand has lost most of its 14% premium of late December and will mean more South African bullion sales and less coin minting in the next few weeks and months. Gold's insensitivity to the eroding U.S. dollar and sharply lower carrying costs makes us believe that the next major move is downward.

1951-52	1950-51
1950-51	1949-50
1949-50	1948-49
1948-49	1947-48

1951-52

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

1951-52	1950-51
1950-51	1949-50

1951-52

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

1951-52	1950-51
1950-51	1949-50
1949-50	1948-49
1948-49	1947-48

1951-52

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

1951-52	1950-51
1950-51	1949-50

1951-52

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

The following table shows the results of the various projects carried out during the year 1951-52. The total amount of work done was 1000 hours, which is a 20% increase over the previous year. This was due to the fact that the number of staff members was increased from 5 to 6.

If in step with general commodity price, gold could easily drop 30% from its highs and still remain above its very long term uptrend.

Sell July gold at these levels (180-181.00) with protective stops \$7/oz. higher.

Silver prices continue to find support in the low 400 area but we suspect that the rug is about to be pulled from under. Remain short May '75 Silver and add on any 20-30¢/oz. rallies.

Rustenburg Mines, the world's largest platinum producer, announced today that it will reduce platinum output at its mines by 25% to 900,000 ounces per year. This move if closely followed in the industry, will contain the ultimate lows to the \$125-\$130/oz. area.

<u>Sugar #11</u>	March '75	34.35
	September '75	31.21
	May '76	24.90

Sugar prices are now digging deeply into the 32-36¢/lb area basis nearby, an area of good support last August and September.

We have little doubt that, in time, prices will break down further from this area and ultimately attain our stated objective of 15¢-18¢ basis September '75.

The shortage of the last half of 1974 has turned into a glut: Japanese Sugar refiners and traders have cancelled, resold or deferred shipment of between 220,000 and 240,000 tons of raw sugar, mostly spot delivery because of low domestic demand. It is estimated that stocks of imported raws are over 100,000 tons in excess of the normal 500,000 ton level while refined Sugar is anywhere between 50,000 and 100,000 tons in excess of normal levels.

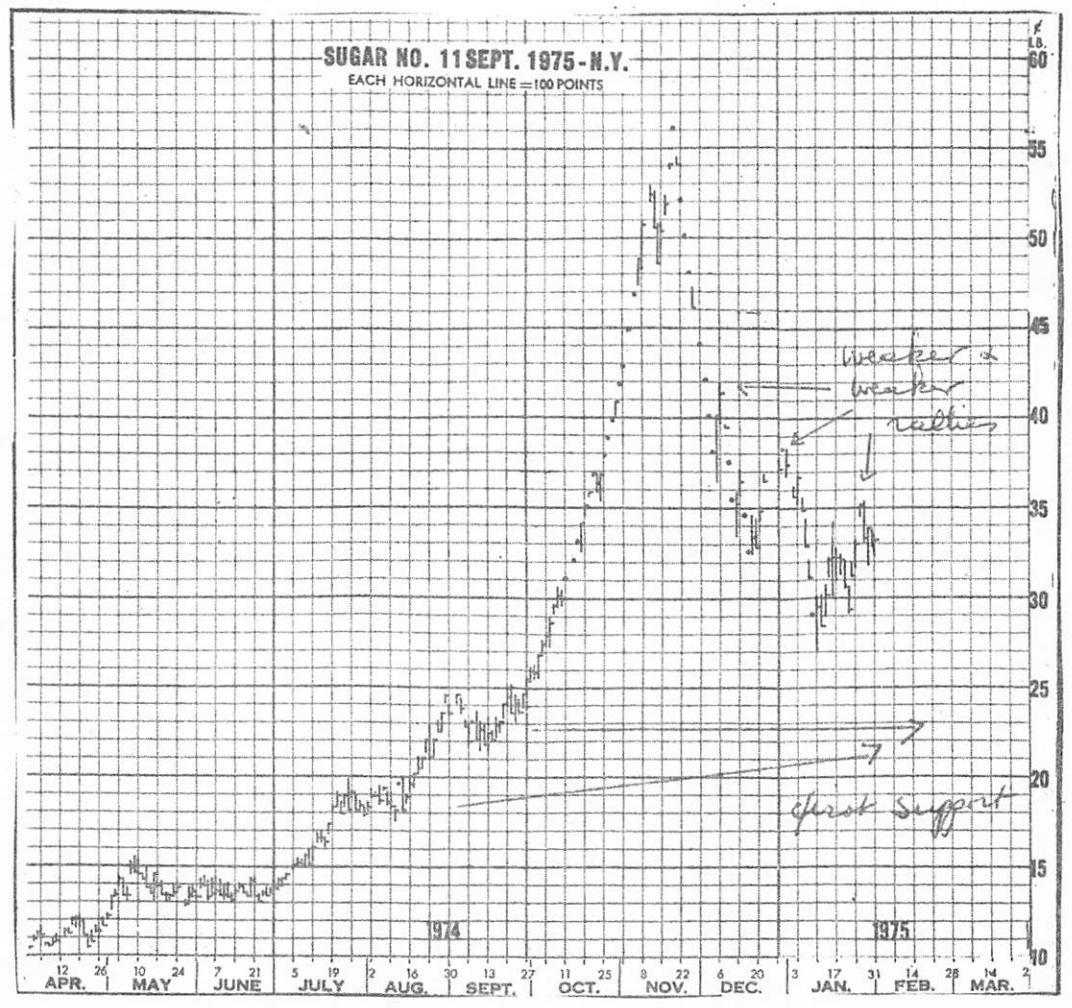
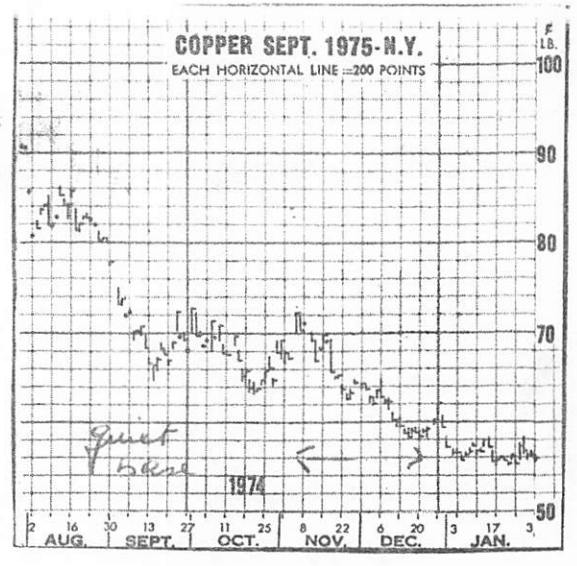
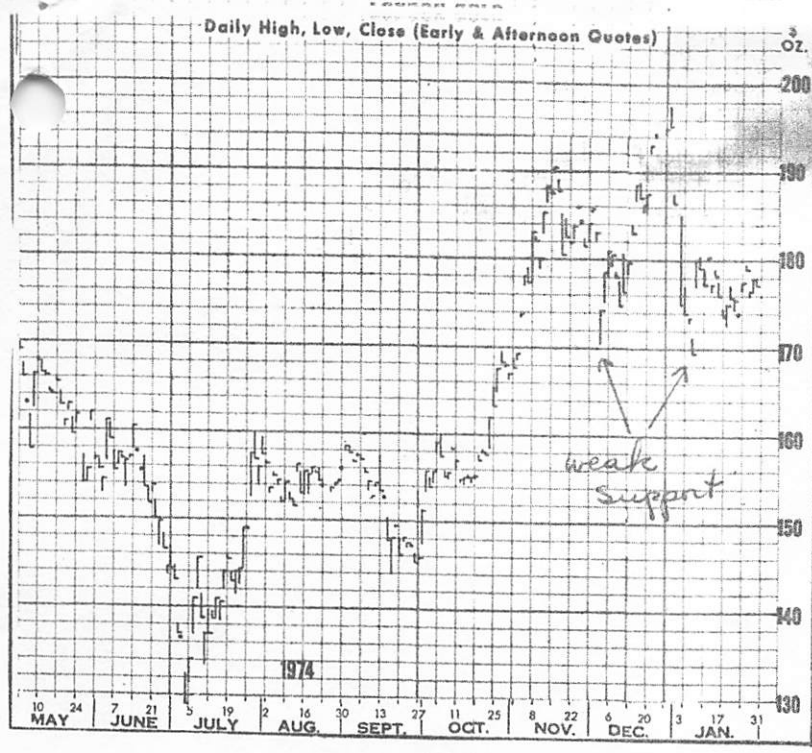
Inventory liquidation in Sugar may still have a long way to go as excess supplies become relatively larger to current rates of consumption. Last month we indicated that 1974-75 will see consumption down to 77,500,000 tons; we now think that 75,000,000 tons is a more likely figure, leaving a net increase in stocks for the end of the season of roughly 5,000,000 tons, almost one month of consumption and a total carryover equal to 23-25% of consumption. Obviously, these figures are very bearish.

Remain heavily short and add on rallies; keep the short September '75 long May '76 spread put on at 1000 points; it will reverse to a premium on May 1976.

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.



Reprinted from
COMMODITY CHART
SERVICE,
Published by
COMMODITY
RESEARCH BUREAU,
INC.

