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Commodity Comments
March 10, 1975

NO DEPRESSION: A Commodity Trader's Prognosis

While the gloom thickens, the markets do their own thing. Industrial commodities, in particular, have firmed up of late at prices ranging anywhere between 35% and 60% of the former highs registered during 1973 and 1974.

A cogent arguement can be made that final bottoms have already been seen and, if this is so, a depression is not in the cards. Consider that each and every one of the so called industrial commodities, namely, Copper, Zinc, Rubber, Plywood and Cotton are selling today higher than in early January, a time when economic statistics were pointing to a deepening recession: retail sales, adjusted to inflation were 7% below the year before, unemployment had jumped to a catastrophic 8.2% from just near 5% 4 months prior, industrial production had dropped at an alarming negative 35.3% annual rate from a positive rate of 3.9% last August, Gross National Product was sinking (in 1958 constant dollar) at an annual rate of 9.1% in the fourth quarter of 1974 v.s. + 2.4% fourth quarter of 1973 and housing permits issued in January had dropped to 670,000 units, lowest figures ever to be compiled. Against this bleak background, the industrial group remained steady and, in certain instances, advanced. Most likely, inventories had undergone a massive liquidation and its rate of change was slowing. An outstanding example has been the auto industry. From a enormously onerous 100-day supply (seasonally adjusted basis) of unsold cars in November, dealer stocks were down to a 75-day supply in late February. True, price cutting in the form of rebates was responsible for this performance, but then, again, it proved that lower price levels can help clean up what appears to be insurmountable supplies.

The above Comments are not meant to be rampantly bullish on the overall commodity price level: they try to portray a picture of strength in a certain sector of the market and thus make a case against the common fear of worldwide depression.

Recommended Long Positions and Follow Ups:

Copper	*May '75*	*58.10*
	3 Months London	*£565*

Since our last buying suggestion, Copper prices have advanced approximately 500 points (5¢/lb) and are now pausing for a renewed upside move.

LME warehouse stocks have been dropping steadily week after week with the latest reading at 164,625 tons, minus 1700 tons. Heavy production cutbacks on the part of U.S. producers, 5-10% cutbacks by CIPEC countries and a better financing arrangement for Japanese smelter surplus stocks, are beginning to 'eat' into available inventories. Good consumer interest by West German interests should be followed up by other strong currency countries as their economic decline slows or comes to an end.

We strongly advise to retain present long positions and now feel that they should be increased at present levels.

Cotton	*July '75*	*42.45*

King Cotton is stirring up again. With heavy switch-over to Soybeans expected for 1975 (to be confirmed on the March 17th USDA planting intentions report), a 'target price' of 45¢/lb talked about in Westington and a better sales outlook for apparel shaping up in the U.S., we feel that cotton prices will move up gradually from these levels and attain a more normal 52-55¢/lb level by early Spring.

Interestingly, the early January '75 low of the July '75 option was 38.50/lb compared to today's 42½¢/lb level -- a strong arguement that the recession is not deepening, just merely soft-landing.

Buy July and October '75 Cotton at market.

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Recommended Long Positions and Follow Ups:

Copper — May '75 58.10
3 Months London 5565

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LME warehouse stocks have been dropping steadily week after week with the latest reading at 164,625 tons, minus 1700 tons. Heavy production cutbacks on the part of U.S. producers, 5-10% cutbacks by CIPEC countries and a better financing arrangement for Japanese smelter surplus stocks, are beginning to 'eat' into available inventories. Good consumer interest by West German interests should be followed up by other strong currency countries as their economic decline slows or comes to an end.

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Cotton — July '75 42.45

King Cotton is stirring up again. With heavy switch-over to Soybeans expected for 1975 (to be confirmed on the March 17th USDA planting intentions report), a 'target price' of 45¢/lb talked about in Washington and a better sales outlook for apparel shaping up in the U.S., we feel that cotton prices will move up gradually from these levels and attain a more normal 52-55¢/lb level by early Spring.

Interestingly, the early January '75 low of the July '75 option was 39.50/lb compared to today's 42¢/lb level -- a strong argument that the recession is not deepening, just merely soft-[illegible].

Buy July and October '75 Cotton at market.

<u>Orange Juice</u> July '75 51.20

Despite the fact that there are no weather factors that can influence the orange crop at this late date and despite the record crop expected, we feel that prices are slowly bottoming out in this region and advise building up long term bull positions at those extraordinarily depressed levels.

Stepped up consumption (growing at better than 14% annually for the last 10 years), an eventual crop failure (the law of inevitability?) and bargain basement prices make our risk/reward ratio look very attractive.

Accumulate July and November '75 Orange Juice at these levels.

<u>Rubber</u> October/December '75 29.90 - 30.00 p.

With a low going back last November of 25.50, rubber prices have been firming up of late despite all the 'bad' news of catastrophic car and truck sales. Resistance is indicated at around 31.50 - 32.00 p. while good support now exists at 29.00 pence.

We strongly suggest the purchase of October/December '75 Rubber on dips to 29.00 p. or on a breakout above 32.00 pence. London call option may be available for 1976 contracts.

<u>Wood Complex</u> May '75 Lumber 130.00
May '75 Plywood 125.00

During the last 4 weeks, prices corrected approximately 10% from their highs but have subsequently firmed up. Irregular delivery procedure in the lumber contract has forced us to switch present long positions in lumber to the better plywood contract.

We continue to look for a dynamic bull market in Plywood and advise retaining and adding to present long positions. Our eventual target is well in excess of $175 per 1000 board feet.

<u>Zinc</u> 3 Months £332.

Coming down from a high of over £900 in 1973-1974, zinc prices crashed and found bottom at a more reasonable £295/ton in early January. Ever since then, prices have recovered and continue a 'good looking' base action between £320 and £335. A slow and gradual improvement from these levels should begin now. Long term investors may be wise in intiating purchases here with a view to reaping a handsome profit within 6-9 months. Our first target is £400.

<u>Neutral Positions</u>

<u>Currencies</u> June '75 Deutsche Mark 43.170
June '75 Swiss Franc 40.855
June '75 Yen 34.980

Our long positions in Deutsche Mark and Swiss Franc have paid off in a great way. Long at 37.00 and 34.00 respectively (basis nearby) we advised liquidating 50% of longs last month at 42.10 and 39.50. We would now eliminate completely long positions in both the Deutsche Mark and the Swiss Franc because: (a) their competitive trade position (particularly the Swiss Franc) has deteriorated rather sharply in the last 2 months; (b) the 'J' or 'Hump" effect of their de facto revaluation <u>may</u> be coming to an end (particularly for the Deutsche Mark); (c) the interest rate differential working against the U.S. dollar promises to narrow in the months ahead (it is already getting large in favor of the U.S. vis a vis the Swissy, almost 3 percentage points in the 3 months maturity); (d) the possible break up of the OPEC oil cartel could be substantially more bullish psychologically and otherwise for the U.S. dollar and (e) The Deutsche Mark attained the old historical high of 44¢ an area of strong resistance. A substantial decline may now ensue in these 2 currencies but any short positions <u>must</u> be covered if new highs are made.

The Japanese Yen has performed very well of late and promises to move higher throughout the next few months. Retain long positions established in the 33,600 area.

<u>Recommended Short Positions and Follow Ups:</u>

Livestock Complex April '75 Cattle 36.40
June '75 Cattle 36.87

We remain very bearish on Cattle prices and now expect June '75 to sell at 30-32¢/lb. We feel that beef consumption has a strong correlation to employment levels, which may easily decrease over the next few months in spite of our expecting a deceleration in economic decline. Federally inspected slaughter is running well ahead of last year and is expected to remain so for yet a while.

Remain short June '75 cattle with protective stops at 39.50.

Grains

	May '75 Soybean Oil	25.30
	Sept. '75 Soybean Oil	23.25

Our steadfast and tenacious bearish outlook on Soybean Oil has rewarded us with nearly 12¢/lb.

We continue to look for lower levels but would be prepared to cover on what may look like a climatic decline.

Remain short May Soybean Oil with stops at 27.60. Cover, if given the opportunity, at 21.00 or below.

Precious Metals

	April '75 Gold	176.90
	May '75 Silver	445.00
	April '75 Platinum	153.50

Once again gold prices are trading at the critical 175-177 area after having rallied up to 187 and in the process stopped our shorts.

Our London fixing chart broke today an 8 months' uptrend commencing with the important reaction low of $128/oz last July. The penetration has as yet not been substantial enough to warrant a short sale signal; however, prices must hold previous reaction lows of $172.50-173.50. Should they fail, short positions may be reinstated looking for an eventful move to $140-150/oz. Important support areas, to quote one of our most outstanding colleagues in the business, are, the $170.60 level at which the French are currently valuing their currency; the $153 level which was the lowest bid accepted by the GSA and finally the $127 mark that represents technically the high of 1973, the bottom of the 1974 reaction and finally the collateralized price for the West German loan to Italy.

Silver prices remain locked in a gigantic consolidation range dating back to February 1974 when the price reached in excess of $6.50/oz. The present trading range has narrowed considerably, as rallies are checked at the 4.50-4.80 area and support is uncovered in the 380-400 level. While we remain long term bears on Silver and expect to see a more realistic $3.00/oz level this year, we should temper our outlook in view of the above stated regarding industrial commodities. We therefore recommend stops at 4.85 closing only, basis July 1974, 1975

Platinum prices are groping for a bottom in the $125-$150/oz area and are being stabilized by continued production cutbacks on the part of South African producers. Remain on the sidelines.

World Sugar(or 'Anatomy of a killing')

	May '75	26.20
	Sept. '75	24.28
	May '76	20.90

After riding this spectacular bull Market on the upside (from a low 8¢/lb to over 40¢/lb) we have managed to ride the 'return to orbit' from an initial short position in the high 50's to present levels.

Our previous Comments written at the time Spot March was trading at 35.00 said. "We have little doubt that in time, prices will break down from this area and ultimately attain our stated objective of 15¢-18¢ basis September '75... remain heavily short and add on rallies; keep the short September '75 - long May '76 spread put on at 1000 points (premium September '75); it will reverse to a premium on May '76".

We still remain quite bearish but advise covering 1/3 - 1/2 of short nearby positions via the purchase of July 76 Sugar at 20-21¢ and on a scale down. The short Sept. '75 - long May '76 straddle (now down to a mere 340 point premium)is inexorably moving to a cantango

Albert D. Friedberg
Vice - President
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