Commodity Comments

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Commodity Comments

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INDUSTRIAL COMMODITIES: in the bargain basement

The most important influence on the course of sensitive industrial commodity prices is the rate of change - and not the absolute level - of economic activity. This relatively simple truth eludes the bear contingent in Copper, Cotton and Plywood.

Let us elaborate somewhat. Most market participants agree that the economy is still in a recession - but is this recession deepening at an accelerated rate or is the rate of decline slowing down? Recent economic data suggests that the latter is taking place. While U.S. unemployement rose to 8.7% of the labor force in March, 28 industries out of 175 reported an increase in employment, up from just 15 the previous month. In the automobile industry, for example the unemployment rate dropped to 17.5% in March from 20% in February while the rate in the textile mill products industry fell to 13.7% in March from 16.9% a month ago and the rate for lumber and wood products workers declined to 11.9% in March from February's 12.9%. Obviously, the improvement in these long depressed areas will have a strong bearing on the near term movement of related industrial commodities. One could enumerate various other developments such as the recent strong showing of retail sales, the sharp increase in consumer installment debt in February versus the October-January decline, the 1.3% increase in manufacturers' new order in February, the restoration of better inventory/sales ratio in durable goods industries (particularly appliances) and so on. A look at West German leading indicators compiled by the Munich-based IFO Institute's Business Climate reveals that economic recovery-and not just a lessening of reccessionary forces - may have begun this month. Few economists will dismiss West Germany's economic power and the influence it can have in lifting its trading partners out of the doldrums.

*Perhaps even more significant than the analysis of real economic data, is a look at prices themselves. Last month we posited the beginnings of economic recovery by the firm undertone shown by Copper, Cotton, Plywood, Rubber and Zinc. A more scientific measurement of price behavior is provided by the BLS index of 13 industrial raw materials. *This index, carefully selected because they are widely used in further industrial processing, freely traded in an open market and extremely sensitive to changing conditions in those markets reached an all-time high of 238.4 on April 1974 (on a base of 1967 - 100) and then plumeted down to reach 180.1 by January 1975, the lowest level since mid-1973. Since then, it reached 181.1 in February and by the beginning of April stood at 185.4. *(The 13 materials are Steel, copper scrap, lead scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, resin, rubber and fallow.) The Federal Reserve Board compiles a similar index but assigns weights to each individual component based on their relative economic significance. This index has shown an even more remarkable recovery - a high point of 233.8 last April (on a base of 1971 = 100), a bottom of 164.6 in January and a recent reading of 170.6.*

On the economic evidence, one can conclude, therefore, that the momentum of the decline has been arrested and that as a result, downside pressure on industrial commodities has disappeared. Furthermore, on the price - behavior evidence, one must conclude that a major bull market is in the making (if only for certain commodities) and, therefore, a significant buying opportunity is at hand.

Recommended Long Positions and Follow ups:

Copper	*May '75*	*59.70*
	July '75	*60.80*
	3 months' London Wirebars	*£590*

Once again prices have managed to inch forward although finding some resistance at 62½ - 63¢/lb, the producer price.

U.S. fabricater stocks at the end of February stood at 495,1[illegible] short tons compared with 495,15[illegible] short tons in January 1975 as a result of a sharp decrease in deliveries to fabricators matching the sharp cutback in consumption. This evidence

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Commodity Comments

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INDUSTRIAL COMMODITIES - An Optimistic Viewpoint

The most important influence on the course of sensitive industrial commodity prices is the rate of change - and not the absolute level - of economic activity. This relatively simple truth eludes the best analysts in Copper, Cotton and Plywood.

Let us elaborate somewhat. Most market participants agree that the economy is still in a recession - but is this recession deepening at an accelerated rate or is the rate of decline slowing down? Recent economic data suggest that the latter is taking place. While U.S. unemployment rose to 8.7% of the labor force in March, 26 industries out of 172 reported an increase in employment, up from just 15 the previous month. In the automobile industry, for example the unemployment rate dropped to 17.5% in March from 19% in February while the rate in the textile mill products industry fell to 12.7% in March from 14.8% a month ago and the rate for lumber and wood products workers declined to 11.9% in March from February's 12.2%. Obviously, the improvement in these long depressed areas will have a strong bearing on the near term movement of related industrial commodities. One could enumerate various other developments such as the recent strong showing of retail sales, the sharp increase in consumer installment debt in February versus the January decline, the 3.5% increase in manufacturers' new orders in February, the resumption of better inventory/sales ratio in durable goods industries (particularly appliances) and so on. A look at West German leading indicators compiled by the Munich-based Ifo Institute's Business Climate reveals that economic recovery and not just a lessening of recessionary forces - may have begun this month. Few economists will minimize West Germany's economic power and the influence it can have in lifting its trading partners out of the doldrums.

Perhaps even more significant than the analysis of real economic data, is a look at prices themselves. This must be justified the beginnings of economic recovery by the firm undertone shown by Copper, Cotton, Plywood, Rubber and Zinc. A more scientific measurement of price behavior is provided by the BLS index of 13 industrial raw materials. (This index, carefully selected because they are widely used in further industrial processing, freely traded in an open market and extremely sensitive to changing conditions in those days it reached an all-time high of 248.4 on April 1974 (on a base of 1967 = 100) and then plummeted down to reach 180.1 by January 1975, the lowest level since mid-1973. Since then, it reached 181.2 in February and by the beginning of April stood at 185.4. (The 13 materials are steel scrap, copper scrap, lead scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, rosin, rubber and tallow.) The Federal Reserve Board compiles a similar index but assigns weights to each individual component based on their relative economic significance. This index has shown an even more remarkable recovery - a high point of 372.8 last April (on a base of 1971 - 1972), a low [illegible] in January and a recent reading of 174 [illegible].

On the economic evidence one can conclude, therefore, that the momentum of the decline has been arrested and that as a result, downside pressure on industrial commodities has diminished. Furthermore, on the price - behavior evidence, one must conclude that a major bull market is in the making (if only for certain commodities) and, therefore, a significant higher price trend is at hand.

Recommended Long Positions and Objectives

COPPER	May '75	[illegible]
	July '75	[illegible]
	3 months' London Metals	[illegible]

Once again prices have [illegible] quotations at 62¢ - [illegible] and previous prices.

U.S. fabricators' stocks of [illegible] compared with [illegible] deliveries to [illegible]. This evidence *points to a sharp change in momentum in the rate of accretion of surplus stocks. The fact that surpluses are very large could slow the steady improvement in prices but should no longer exert a downside pressure. Also on the positive side, the Bureau of the Mint announced a purchase program of 75 million pounds copper (33,482 long tons) over the next few months, enough to cover almost two thirds of the mint's estimated coin-making needs for the 12 months beginning this July 1. Finally, CIPEC countries meet tomorrow to decide on new measures to help support world prices, including an extended cutback in exports.*

The present short consolidation phase of Copper prices should be followed by a new and vigorous attempt to cross over the 63¢ mark. Since time is working on the side of the longs we see no risk in continuing to accumulate with impunity long positions at these levels looking for December '75 Copper to hit 85¢/lb.

Cotton July '75 44.07

A great bull market is underway. On the production side, a recent USDA survey indicated that U.S. farmers plan to plant only 10 million acres of cotton this spring, down from 14 million acres last year and the smallest since 1967 as a result of a more profitable switch over to crops such as soybeans and sugar. This should result in a total harvest of slightly less than 10 million bales.

The slow economic recovery already evident at some textile mills (along with their very low stock position) should take cotton consumption up to as much as 8.5 million bales annual rate by the second half of 1975 and perhaps more than 9.0 million by early 1976. If we couple this with the projected 3.8 million to 4.3 million bales export estimate made by the USDA for the new season starting August 1, a deficiency of 3 - 3½ million bales could take place by end of 1975 - 1976 season, bringing carryover stocks to just under 3 million bales. Such an occurrence would create the gravest shortage in the post-war and easily take back prices to the 1973 highs of $1/lb.

Continue to accumulate aggressively October '75 Cotton.

Orange Juice July '75 49.60

Hold long positions with stops at 48.00 close only basis July '75.

Rubber October/December '75 29.67 p.

West Malaysian stocks at end of January (including Government stocks) amounted to 217,985 tons compared with January 1974's 207,832 tons and stocks of rubber in Singapore fell to 56,694 tons from 69,059 tons in January 1974 reflecting extensive cutbacks in the face of slumping consumption. Also helping to understand the recent firm undertone of the natural rubber market is the sharp cutback in synthetic rubber output in Japan, as much as 28% below the year ago level.

With car assembly plans started to increase in both U.S. and Germany over the next few months, we expect rubber prices to gradually edge higher reaching 40-42 p. by late Summer of 1975.

Wood Complex May '75 Plywood 132.50

After reaching new highs early last week (138.40 basis May '75), Plywood prices have receded approximately $6/1000 board feet and should now be nearing once again the end of this correction.

This market has risen slowly but steadily ever since early October 1974 (from just under $100/1000 board feet) when we first suggested accumulating long positions. This significant advance has gone almost unnoticed by commodity speculators who are interested in turning a "fast buck" and who discourage easily from "poor fundamentals".

It can be definitely stated that the rate of change in inventory accumulation (unsold houses) has not only come to an end but, in fact, inventories have been diminished both absolutely and relative to the pace of new sales. This development coupled with extraordinary increases in liquidity levels at savings and loans associations should spur increased housing activity.

Remain long and add on present setback looking for an eventual target of well in excess of $175/1000 board feet.

Yen June '75 34.280

The much talked-about Labor Spring Offensive will come a cropper. Kanebo Ltd. and its 17,000 - member labor union reached agreement to freeze wages for a year to tide the company over the protracted recession. Kanebo Ltd. is Japan's largest cotton and wool spinning and synthetic textile making company and should strongly influence wage negotiations at other major textile firms. Japan's competitiveness will continue to improve vis a vis the EEC 7 the U.S. over the next business cycle.

Remain Long

Zinc. 3 months £331

Prices have remained very steady for the last 4 weeks as producers maintain output at reduced levels.

Prices have refused to break below the early January lows of £300 despite gloomy economic statistics, forming a powerful technical base.

Continue to accumulate and be patient.

Recommended Short Positions and Follow ups:

Currencies	June '75 Deutsche Marks	.42560
	June '75 Swiss Francs	.39430

Exactly as we said in our last issue of Commodity Comments, a substantial decline has taken place in the above Currencies with the Deutsche Mark dropping from 43.170 to 42.560 and the Swiss Franc from 40.855 to 39.430. It can be seen that the Swiss Franc has declined far more rapidly than the Deutsche Mark for reasons already outlined last month.

As the German economic recovery gathers momentum, its rising interest rate structure will partially offset its deteriorating trade position thus cushioning its decline vis a vis the U.S. dollar. An interesting straddle would involve the sale of Swiss Franc vs the purchase of Deutsche Mark at the present 1.08 relationship. This ratio should move closer to the historical 1.15 level creating an opportunity to gain as much as 2000 points ($5,000).

Cover your Deutsche Mark short sales and switch short sales to the Swiss Franc. Short positions in Swiss Franc may be increased risking 40.800.

Livestock Complex	April '75 Cattle	42.17
	June '75 Cattle	42.40

A 'shockingly' bullish pig crop report helped cattle prices break up from their 8 months' decline. The advance was accompanied by sharply rising open interest and a bullish backwardation that saw April '75 cattle move from a 100 - point discount to a 250 point premium over August.

Our short positions should have been stopped out at 39.50 as previously suggested and we now prefer to sit on the sidelines.

Grains	May '75 Soybean Oil	27.82

Our last short position in the grain complex, namely Soybean Oil, was stopped at 27.60 as previously suggested-giving us a total profit of approximately 10¢/lb.

The next few weeks should continue to see some strength in the grain complex; we could be interested in first going long Soybean Meal and, subsequently, put out short positions in Soybean Oil in their proper ratios. Keep in close contact.

Precious Metals	July '75 Gold	176.00
	July 75 Silver	4.1580
	July 75 Platinum	149.50

Gold prices are slowly eroding as inflationary expectations cool off and the U.S. dollar recovers. We prefer the short side, with stops at 180 basis the London fix looking for an eventual drop to $145/oz.

The very large increase in Silver user inventories coupled with slow consumption is finally bearing down on prices and we expect them to break below the magic $4/oz. level very shortly. Remain aggressively short but lower stops to 4.65 (on close only) basis July '75.

Platinum prices are continuing to trade in the $150/oz area where they are being stabilized by production cutbacks. Prices could work $10-20/oz lower over the next few weeks but risk/reward ratios do not favor the taking of either long or short positions. Remain on the sidelines.

World Sugar	*May '75*	*24.70*
	Sept. '75	*21.98*
	May '76	*18.65*

Although we still remain somewhat bearish we would now prefer to cover all remaining nearby short positions via the purchase of July '76 in the 18-20¢ area.

The short Sept '75 - Long May '76 straddle now at 333 points has not improved much since last month (340 points) but should be maintained a while longer as we feel that a contango structure will prevail by early July '75.

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