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Commodity Comments

July 28, 1976

Summer Pangs

Last month we prefaced our comments with a warning that 'a very typical July/August peak may be in the offing and we therefore advise caution'. The warning came none too soon. From top to bottom and inside of 2 weeks, Soybeans dropped $1.40/bu, Silver 80¢/oz, Platinum $20/oz, Gold $16/oz., Pork Bellies 8¢/lb, Lumber $15/1000 board feet, Cotton 18¢/lb, and so on. The Commodity Research Bureau Futures Price Index suffered one of its biggest one week declines on record. For the unwary bulls, it turned out to be a bloodbath.

Partly responsible for the June-July mini-boom that ended in ruination for many was the appearance that Commodity prices were poised for a new run to the sky. This false appearance was given by the CRB Futures Price Index when it handily topped the July 1975 peak of 223, thus signalling a resumption of the long term bull market begun in 1971.

We had a 'gut' feeling that the 'breakout' was false and set out to prove it by devising our own Friedberg Commodity Index (see page 5). A quick glance at the chart of the new index reveals that a) we are still more than 30% off the 1974 peak b) the May-July '76 rally did not come close to bettering last year's peak, c) the pattern of descending rallies is still intact and d) by the end of July, overall prices are perilously close to making 3-year lows!

But it stands to reason. A blow-off such as the one experienced in 1974 has a good chance of remaining unchallenged for many years - sometimes even an entire generation. Whether it will be the former or the latter will be decided at the polls in November of this year. Tune in...

We will continue to adopt a numerical rating system which will be placed alongside the specific commodity heading.

6 (******)	Very Bullish
5 (*****)	Bullish
4 (****)	Neutral-Bullish
3 (***)	Neutral-Bearish
2 (**)	Bearish
1 (*)	Very Bearish

A split rating will indicate our opinion for each particular month as to its expiring value.

Cocoa	******	September '76	92.95
	******	December '76	89.20
	******	March '77	86.00

A recent report by the ICO indicated that the 1975/76 deficit would be smaller than the originally anticipated 33,000 ton shortfall. A similar such report issued by G & D, a week earlier, validated such thinking. Most of the revisions came in the wake of the lower than anticipated U.S. grindings figure for the last quarter, 6.7% v.s. an expected gain of over 10%. The West German figures, however, up 3.3%, served to steady up this market at the lower end of its trading range and a further lift was given with reports that Holland used 119,000 T of Cocoa beans in 1975 compared with 115,000 the year before. This 3.5% rise in usage was the sharpest increase among the top 4 processors, according to the Dutch Cocoa and Cocoa Products Association's Statistics. Consumption in the Soviet Union increased by 1.4%, in West Germany by less than 1% and in the U.S. it declined by more than 10%.

Despite the disappointing grindings figures (only a rough proxy for consumption) manufacturers' offtake in the U.S. remains good, especially now that Sugar prices, an important confectionary ingredient, are falling (see Sugar). U.S. imports of Cocoa and chocolate products during June were as follows, with comparison, according to Census Bureau figures, in lbs:

	COCOA BEANS	COCOA BUTTER
June '76	43,657,274	4,419,318
May '76	47,922,973	4,712,633
June '75	41,794,963	4,203,230
January-June '76	318,741,397	28,985,495
January-June '75	254,228,471	14,605,319
	UNSWEETENED CHOCOLATE	UNSWEETENED COCOA
June '76	2,576,401	11,754,390
May '76	3,155,232	11,659,408
June '75	2,041,902	7,741,327
January-June '76	20,373,017	83,688,268
January-June '75	7,452,201	61,403,102

Due to an apparent (we do not share this view) easing in nearby supplies the September position lost a great deal of the premium over the more deferred months. As an example, the September '76/December '76 switch is now trading at 300 points, down from last month's 730 points and the all-time high of 1040 points. The September '76/ March '77 switch is down to 695 points from last month's 1150 points. This narrowing disturbed chart support points which were based solely on September '76, and triggered a sale at 89.00, as previously suggested. Our clients, however, were informed that the December '76 and March '77 uptrends remained intact all through the decline and therefore the bull market was still in force.

Reinstate long positions, if stopped out, in the December '76 and March '77 deliveries. Our present target is now well in excess of $1.15/lb. for nearby; place protective stops at 8200, close only, basis December '76.

Copper	*****	September '76	76.10
	*****	December '76	78.00

Since last month, prices have virtually remained at a standstill in spite of the brief spurt in early July which saw new contract highs posted at 80.50 basis December '76. The technical position of the market has been much improved of late as evidenced by the healthy 6000 contract drop in the open interest. Relative to other metals, particularly Silver, Gold and Platinum, Copper has held up very well to the heavy onslaught of speculative liquidation.

We expect prices to continue to climb for the balance of this year and would not be surprised to see December '76 Copper reach close to $1/lb by year-end.

Remain long; raise protective stops to 7450 basis December '76, on close only.

Grains	**	December '76 Corn	2.69 1/2
	**	December '76 Wheat	3.63

The USDA now believes that total grain production in Western Europe will amount to less than 125.00 million tons, almost 6.0 million tons below last year's poor output and about 17.0 million tons less than was anticipated before severe drought conditions caused heavy crop losses. For the EEC, total grain imports in 1976-77 are now estimated at 27.7 million tons compared with 24.0 in the past season. Of those imports, the Department estimates that 22.4 million tons will be in the form of feed grains, compared with 17.9 million tons during the 1975-76 season, while wheat imports will decline slightly to around 5.3 million tons from 6.1 million tons imported last season (Reuters). The 1976/1977 U.S. Corn crop should easily accomodate such needs and still allow for significant inventory rebuilding.

The longer term trend in both Corn and Wheat is clearly downward and we still expect prices to reach $2.25/bu and 3.25/bu respectively.

Sell December '76 Corn and Wheat on 20¢/bu rallies from any lows.

Interest Rates Futures	*****	September '76 GNMA	95.27
	*****	December '76 GNMA	94.23
	****	December '76 TB	93.87
	****	March '77 TB	93.31

Now that the consensus has shifted back to an expectation of lower interest rates, we are beginning to moderate our previously maintained bullishness. In an 'Interest Rate Forecast' (May 26) we catagorically rejected the then prevalent view that interest rates would go higher as a result of the Fed's effort to rein the excessive money supply growth. We posited that rates were already too high in view of the very poor loan demand, that Bank Credit growth was absolutely not excessive, that the vague and hard-to-define money supply was being influenced by extraneous factors and, that, in fact, rates would top at 7 1/4% for the prime rate, 6% for TB, and 8.75% for Triple-A utilities. (Copies of the forecast are available on request). Except for the TB forecast where rates did not even get over 5 5/8%, our scenario was exactly on target.

	[illegible]	[illegible]
June '75	13,557,27[illegible]	[illegible]
May '76	[illegible],073	[illegible]
June '76	[illegible],965	[illegible]
January-June '76	21[illegible]	[illegible]
January-June '75	2[illegible],371	[illegible]
	[illegible]	[illegible]
	CHOCOLATE	COCOA
June '75	4,976,[illegible]	[illegible]
May '76	5,[illegible]	[illegible]
June '76	[illegible] 902	[illegible]
January-June '76	[illegible]	[illegible]
January-June '75	[illegible],552,[illegible]	[illegible]

Due to an apparent (we do not share this view) [illegible] December position lost a great deal of the premium over the more deferred months. As an example, the September '76/December '76 switch is now trading at [illegible] points, down from last month's 700 points and the all-time high of 1000 points. The September '76/March '77 switch is down to 650 points from last month's 1150 points. In a [illegible] chart support points which were based solely on September '76, and triggered a sale at 85.00, as previously suggested. Our clients, however, were informed that the December '76 and March '77 [illegible] remained [illegible] and therefore the bull market was still in force.

[illegible] and create long positions, if stopped out, in the December '76 and March '77 deliveries. Our present target is [illegible] well in excess of $1.15/lb. [illegible] stops at 8200, close only, basis December '76.

Copper [illegible] December '76 [illegible] 76.10
[illegible] December '76 [illegible]

Since last month, prices have [illegible] in spite of the brief spurt in early July which saw new [illegible] at 80.50 basis December '76. The technical position of the market has been much improved [illegible] as evidenced by the healthy 6000 contract drop in the open interest. Relative to other metals, particularly silver, gold and platinum, copper has held up very well to the heavy onslaught of speculative liquidation.

We expect prices to continue to rise for the balance of 1976 [illegible] and would not be surprised to see December '76 [illegible] by year end.

Remain long, raise protective stops to 7400 basis December '76, on close only.

Grains [illegible] December '76 Corn [illegible]
[illegible] December '76 Wheat [illegible]

The USDA now believes that total grain production in [illegible] will amount to less than 125.00 million tons, almost 8.0 million tons below last year's poor output and about 17.0 million tons less than was anticipated before [illegible] conditions caused heavy crop losses. [illegible] are now [illegible] at 27.? million tons compared with 26.? in the last season. Of these imports, the department estimates that 12.? million tons will be in the form of feed grains, compared with 17.? million tons during the 1975-76 season, while wheat imports will decline slightly to around 5.2 million tons from 6.1 million tons reported last season (Reuters). The 1976/1977 [illegible] would [illegible] allow for significant inventory rebuilding.

The longer term trend in both corn and wheat is definitely upward and we still expect prices to reach $3.75/bu and $4.50/bu respectively.

Buy December '76 corn and wheat on 20¢/bu rallies from any lows.

Treasury Bills Futures [illegible]

[illegible]	December '76 [illegible]	94.??
[illegible]	[illegible]	93.??
[illegible]	March '77 [illegible]	[illegible]

Now that the economic [illegible] lower interest rates we are beginning to modify our previously [illegible] 'Interest Rate Futures' (May '76) [illegible] supply [illegible]. We [illegible] loan demand, [illegible] bank credit [illegible] hard-to-define money supply [illegible] fact, [illegible] would [illegible] 7 1/4 [illegible] utilities. [illegible] increase when [illegible] did not [illegible].

Excellent profits were realized by buying December '76 TB at 92.60 and September '76 GNMA at 94.00

When forecasting interest rates, more so than in any other market, moving against the crowd pays off. We moved against the crowd and benefitted handsomely. Now, with everyone agreeing that rates can only go lower, we are beginning to get a bit uncomfortable. As the economy recovers, business loan demand should slowly begin to improve in the months ahead (notice the recent pick up in commercial paper outstanding and regional banks loan demand), and possible collide against the still gigantic borrowing requirements of the Federal Government. We confess that we are also uneasy about the possibility of a Carter presidency.

Treasury bill profits should be taken at present levels (for a net $3000 profit on $2000 margin) while September '76 GNMA positions should still be retained for a further move to 97-98. Stops, however, should be carefully raised to 95.00, insuring a profitable trade. Short positions may be undertaken on March '77 TB at 93.75 (a yield of 6 1/4%) if given the opportunity.

Precious Metals	**	*December '76 Comex Silver*	*464.50*
	**	*December '76 IMM Gold*	*114.90*
	*****	*January '77 Platinum*	*171.80*
	*****	*December '76 Palladium*	*54.50*
	*****	*September '77 Palladium*	*57.40*

Following on the footsteps of a collapsing grain market, silver prices tumbled from a high close of 525 to an intra-day low of 445.00, basis December '76, easily piercing in the process the well established March-May-June uptrend. Attesting to the 'thinness' of the short position - which normally acts as a cushion in a decline - was the spectacular drop of over 60¢/oz in just 4 trading sessions! We foresaw this vulnerability last month when we observed that 'the technical underpinnings of the market are quite fragile as an enormous amount of shortcovering has taken place in the 4.70-5.10 area basis December '76.

Where do we go from here? Firstly, the January-March uptrend and the two May reaction lows should provide a good support against further erosion. Secondly, the severity of the recent decline makesthe case for a technical correction well nigh inevitable. We would therefore prefer to cover short positions and initiate modest long positions at these levels with a target of 4.80-5.00 basis December '76.

Last month we reiterated our long standing view that gold prices will reach an ultimate bottom in the $90-$115/oz area basis spot. While the recent drop was particularly severe, it still did not have the characteristics of a climatic bottom. In the next few months we will deal with gold in much more detail as we approach what will turn out to be a first class buying opportunity. Suffice it to say for the moment that we do not advise as yet covering previously established short positions.

Having sold Platinum in the 180-182 area basis January '77 (see Commodity Comments, June 30), we are now ready to move back to the long side.

Due to cutbacks in production implemented by the world's two largest platinum producers, Rustenburg & Impala, global output has declined to an annual rate of around 2.3 million ounces. J. Aron and Company estimates that usage will exceed production by approximately 800,000 ounces during 1976. Unused capacity should be able to take care of this potential shortfall, albeit at rising prices, for the balance of 1976 and part of 1977. Should usage, however, continue to increase at the present rate, a tight supply situation may develop towards the end of 1977. We would, therefore, expect prices to work significantly higher over the next 18 months, reaching perhaps an ultimate target of $300/oz.

Buy October '77 Platinum at market, taking advantage of the relatively low 7% p.a. carrying charges implicit in the futures prices.

Having taken partial profits in Palladium at $60/oz, basis December '76, as suggested last month, we are prepared to re-enter this market from the long side once again.

Buy September '77 at market.

Sugar	*	*September '76*	*12.07*
	*	*October '76*	*12.51*
	*	*March '77*	*13.16*

The moment of truth has arrived. For months (20 months, to be exact) we have been repeating over and over again the same theme: The Bear Market in Sugar is not over yet. Despite rampant bullishness on the part of nearly all U.S. and U.K. Commission Houses, we have stood fast on our belief that Sugar prices would hit an ultimate low of 6-8¢/lb before any meaningful recovery took place. So in order to further anger the bulls and

Excellent profits were realized by buying December '76 [illegible] at 93.00 and September '76 GNMA at 93.00.

When forecasting interest rates, we [illegible] than in any other market, moving against the prevailing [illegible] against the trend and have lived [illegible]. Now, with evenly [illegible] apparently that rates can only go lower, we are beginning to get a bit uncomfortable. As the economy recovers, business loan demand should slowly begin to improve in the months ahead [illegible] commercial paper outstanding and regional bank loan [illegible], and possibly collide against the still gigantic borrowing requirements of the Federal Government. We confess that we are also uneasy about the possibility of a larger [illegible].

Treasury bill profits should be taken at present levels (for a net $2000 profit on $2000 margin) while September '76 [illegible] should still be retained for a further move to 97.00. Stops, however, should be raised to 95.00, insuring a profitable trade. Short positions [illegible] on [illegible] '77 [illegible] of 6 1/2% if given the opportunity.

Precious Metals	*	December '76 Comex Silver	455.50
	**	December '76 IMM Gold	111.00
	****	January '77 Platinum	171.50
	****	December '76 Palladium	56.00
	*****	September '76 Palladium	57.00

Following on the footsteps of [illegible], silver prices tumbled from a high close of 521 to an intraday low of 443.00, basis December '76, easily plunging in the process [illegible] established [illegible]. [illegible] to the 'thinness' of the short position [illegible] as a cushion [illegible] was the spectacular drop [illegible] over 60¢ [illegible] trading [illegible]. We forecast this vulnerability last month [illegible] that the technical underpinnings of the market are quite fragile [illegible] of [illegible] has taken place in the 4.70-5.10 area basis December '76.

Where do we go from here? [illegible] the [illegible] and the two-day reaction lows should provide a good [illegible] further [illegible]. Secondly the severity of the recent decline [illegible] a technical correction [illegible] inevitable. We would therefore [illegible] short positions and initiate modest long positions on a close [illegible] 4.00 [illegible] December '76.

Last month we reiterated our long-standing view that gold prices will reach an ultimate bottom in the [illegible] area. While the recent drop was particularly severe, it still did not have the [illegible] of a climactic bottom. In the next few months we will [illegible] and [illegible] we approach what will turn out to be a first-class buying opportunity. Suffice it to say for the moment that we do not [illegible] previously established short positions.

Having sold Platinum in the [illegible] January '77 (see Commodity Comments June 30), we are now ready to move back to the long side.

Due to cutbacks in production [illegible] the world's two largest platinum producers, Rustenburg & Impala [illegible] has declined to an annual rate of around 2.3 million ounces. In [illegible] estimates that usage will exceed production by approximately 200,000 ounces [illegible] should be able to take care of this potential shortfall [illegible] for the balance of 1976 and part of 1977. Should usage, however, continue to increase at the present rate, a tight supply situation may develop towards the end of 1977. We would, therefore, expect prices to work significantly higher over the next 18 months, reaching perhaps an [illegible] target of [illegible].

Buy October '77 [illegible] at [illegible] of the [illegible] low 72 [illegible] carrying charges [illegible] the [illegible] months.

[illegible] partial profits [illegible] suggested last month, we are prepared to reverse this and go from the long side once again.

Buy September '77 at market.

Sugar	*	December '76	13.[illegible]
	*	October '77	13.93
	*	March '77	13.[illegible]

The demand of [illegible] supply [illegible] (20 months), to be exact) we have been repeating over and over again the same thing. [illegible] in Sugar is now over. Despite [illegible] on the part of nearly all U.S. and U.K. commission houses, we have stood fast on our belief that sugar prices would make an ultimate low of 8-8 1/2¢ before any meaningful [illegible] took place. We [illegible] the bulls and *encourage the bears, we'll reiterate our position: massive bull liquidation lies ahead of us and prices will be cut nearly in half.*

For the week ended July 17th, the USDA reported deliveries of 245,700 short tons compared with 294,500 short tons in the corresponding week a year ago (this despite lower real prices, as deflated by the CPI). For the month to date, total deliveries fell 88,000 tons short of last year while for the year to date, deliveries were still 375,000 tons lower than during 1974! The spectacular rise to 66¢/lb during 1974 had the effect of permanently (?) cutting the general intake of sugar (it was later learned that it is detrimental to your health) and, particularly, the cane and beet derivative was shown to be extremely unreliable. A great deal of switching has been induced to the normally cheaper and more reliable Corn derivative. The old adage that 'Power corrupts, absolute power corrupts absolutely may be applied to Sugar in a somewhat modified form: "High prices ration out demand, super high prices super-ration (i.e. kill) out demand...' Lacking economic sophistication, the Sugar Interests, particularly the Latin American producers, have tried as much as possible to hold up prices (albeit,in vain). The present and growing glut will only be mopped up with super-low prices.

Acting as a catalyst for the recent drop, was an announcement in mid-July that Brazil will re-enter the World Market to sell close to 1 million tons of Sugar. These sales, reportedly, would be made at any price, as Brazil is in dire need of foreign exchange. In the meantime, rains in Europe has improved the outlook for White Sugar production and the total output loss in France, U.K., Belgium and Germany may not exceed 1.5 million tons. As we stated last month, this loss will be more than offset by an increase of 2.5 million tons in the Cane producing areas such as Brazil, Argentina, Australia, South Africa and Mauritius. Furthermore, the U.S.S.R. has launched an all out effort to increase Sugar production this year from last year's disastrous 7.4 million tons. The official plan calls for an increase of 1.5 million tons. Finally, the recent improvement in the outlook for world production prompted F.O. Licht to revise upwards his recent estimate for 1976/77 to 82.7 million tons. If realized, it will mean an increase in carryover stocks to close to 20 million tons, representing a burdensome 24% of yearly consumption.

Technically, the market is laboring under the weight of heavy hedge selling and a very vulnerable long position , mostly in the hands of speculators. The combined N.Y.-London open commitment total over 11,000,000 tons (!) of Sugar, or roughly 65% of carryover stocks. When the speculative element, who is presently helping to carry world stocks, realizes that there is a few million tons more of Sugar looking for a home, it will begin unloading its wares.

Continue to build up a short position in Sugar futures. As we stated last month, the September '76/October '76 switch, then at 30-35 points, was expected to widen. Since it now stands at 44 points, and given that the October '76-March '77 switch is still too narrow (at 65 points), it would pay to concentrate on selling October '76. Spreaders may wish to sell October '76-Buy September '77 at 70-75 points or better, premium the deferred.

Wood Complex	*****	*September '76 Plywood*	*149.40*
	*****	*January '77 Plywood*	*154.10*
	*****	*September '76 Lumber*	*154.30*
	*****	*January '77 Lumber*	*157.00*

The June housing starts report underlined the lacklustre nature of the recovery. Starts, at an annual rate of 1.49 million, were 4% higher than in May but permits authorizing new housing, eased slightly to a 1.12 million annual rate in June. Significantly, multi-family starts (5 units or more) increased to a 275,000 rate, the fourth consecutive rise. It is in this sector that the hopes for a housing boom rests. With a national vacancy rate below 5.5%, rental accomodations have begun to tighten up and augur well for future construction.

Last month we downgraded our near turn outlook forthe Wood Complex as we expected a 'final $5-15/1000 board feet shakeout'. This shakeout materialized and saw September'76 Lumber drop from 164.20 to just under $150 while September '76 Plywood dropped from 153.90 to 142.00.

We strongly believe the lows of the correction have been seen and advise purchases of January positions at market.