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Commodity Comments

September 30, 1976

Friedberg Commodity Index

End August 31	*209.9*
End September 30	*206.2*
net change	*-1.6%*

"On Devaluation"

Webster defines paper as "a thin, flexible material in sheets made from rags, wood pulp, etc., and used to write or print on, wrap, etc." This definition is pertinent particularly as it applies, nowadays to money. The infamous distinction was the sole realm of the Latin American 'banana' republics. Sadly enough, in the last few months and years the 'watermelon' republics (and kingdoms) of United Kingdom, Italy, Mexico, & France have stolen the show. A nation cannot print paper money nor borrow forever. The lesson has as yet not been learned nor will it ever be learned so long as governments try to provide all services to all people and try to grow beyond a 'normal' rate of development.

To fight devaluation is to fight inflation. To fight inflation is to fight devaluation. Both constitute either side of the same coin. And the coin must be made scarce, desirable, reliable, expensive, If, as we repeatedly pointed out in the past, the United Kingdom (repressed) inflation was 13-15% per annum then money is plentiful, unattractive (for the lender) unreliable and cheap at 12%. It may be useful as a medium of exchange but, even then, it will tend to circulate ever faster, increasing aggregate demand and inflation. It surely cannot qualify as a store of value. The same can be said for Mexico, where prior to the fatal pre-Easter run (where Mexico lost a huge amount of reserves) money was available at 14-16% p.a. when inflation was running in excess of 25% p.a.!

But devaluations per se cure nothing. A country must submit itself to draconian belt tightening. It must forget its obsession with growth, it must allow that every 'good' or 'service' in the economy be produced efficiently, economically, at a profit...A nation must have a standard of living compatible with its own resources. The 'have-nots' would never have a balance of payments deficit if they consented to live according to their means. Raul Presbisch, one of the great Latin American liberal economists, once blamed economic crisis on the so-called "adverse movements of the terms of trade" that Latin American, and, all primary producers for that matter were undergoing vis a vis the industrial world. Nonsense! The terms of trade may have moved adversely but that was a sign that they must stop playing catch up with the rich nations. Their resourses, in dollars and cents, were diminished. Without greed or envy, there would be no 'balance of payments' crisis, no devaluation, no inflations.

The European devaluations of the late '40's and the French experience of 1958 were effective <u>only</u> because steps were concurrently being taken to limit growth to a sustainable path (made easy by the huge excess capacity of war-torn Europe) and to allow the private sector to allocate resources efficiently. That the enjoyable results were ephemeral was only clear testimony of the lack of durability in the excercise of will power for our styly of democracy.

Furthermore, not only are devaluations no panacea but, in the great majority of cases, they are self defeating. Domestic prices rise almost instantenously to cancel out any or all of the presumed beneficial effects on the country's external trade. Witness the huge 25-40% mark-ups in Mexican wares sold in department stores, the 23% raise in wages, etc. of the last few weeks. In Britain the price-wage freeze did not allow a rise to compensate for the previous down move from $2.02 to $1.77 Money, however, very much like water, found its way out. Out of the country! And the next round of depreciation ensued, from $1.77 to $1.63...There was only one way of keeping money in-shore and that was, as we had suggested, to raise the cost of sterling, to allow a positive rea rate of return. During July & August, a Bank RAte of 13-14% would sufficed; when it came a few weeks ago, it was too little , too late. Today, a minimum Bank Rate of 15-17% would help stabilize sterling while Callaghan's socialists make the full swing back to unfettered capitalism. For once the socialist leader grasped the situation better then the BAnk of ENgland. It is high time for the cheap money populist and expansionist to repent.

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Overall economic growth continues at a very subdued pace, finding most commodities in plentiful supply and there[illegible] quotes continue to come down. It is therefore not unusual to see that the counter-trending commodities are those that suffer from small crops and /or unusually light carryover levels.

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 (expired) 115.50
	******	December '76 120.95
	******	March '77 115.95
	******	London July '77 £1547.00
Option premiums	******	London July '77 £200.00 (for covered writing & buyers)

The cat is out of the bag. The ICO confirmed tonight the worst fears about the Ghana and Brazil crops. At 349,500 (against last years's 396,200) and 226,000 (250,000) tons, respectively, their shorfall represents 90% of the year to year decline in world output, now estimated at 1,424,000 tons versus 1,502,000 tons. Cameroon, Ecuador, Dominican Republic, Mexico and Papua New Guinea should show about 10,000 tons. Due to a variety of factors, but principally bad weather, little incentive and poor administravtive procedures (the latter two reason mostly applicable to the West Africa) supply is shown to be quite inelastic. We have repeatedly theorized on this point in the the past. Now it has become a reality.

On the demand side, the ICO forecasts world grindings of 1,490,000 tons unchanged from the 1975/1976 season. US grindings, the world's largest consumer, are put at 225,000 tons, unchanged from 1975/1976.

September 30, 1976

Recent Census Bureau figures presented below, belie these figures:

US AUGUST COCOA CHOCOLATE PRODUCT IMPORTS
(in lbs)

	COCOA BEANS	COCOA BUTTER
August '76	46,715,653	2,577,181
July '76	36,557,574.	5,006,430
August '75	27,969,605	2,470,130
Jan-Aug '76	402,014,624	36,569,106
Jan-Aug '75	319,348,613	19,017,686
	UNSWEETENED CHOCOLATED	UNSWEETENED COCOA
August '76	4,856,351	11,888,818
July'76	2,809,302	13,229,526
August '75	1,800,227	9,503,291
Jan-Aug '76	28,038,670	108,806,610
Jan-Aug '75	10,610,663	87,531,265

Furthermore, the ICO's estimate is one of final demand and ignores speculative inventory swings by powerful multinational manufacturers. In the very near future, a shortage psychology will grip consuming units adding demand to an already super-tight market.

Brief but severe shakeouts have continued to keep the Bull Market free of speculative excesses . While we can confidently say that the top is not in sight, it is most difficult to pinpoint a specific target in view of the fact that the market is now advancing in totally uncharted waters. We'll stick to the $1.40 objective for December 1976 but would begin raising our sights for the March'77 contract.

Add to existing long position on 500-1000 point setbacks from any high.

Coffee

***** December 1976 166,25
***** March 1977 159.07
***** London (Robustes) January 1977 ₤1795

Our bullish expectations were realized when nearby contracts broke out of a massive inverted head and shoulder bottom capable of propelling prices to a minimum objectives of $1.80/lb. basis nearby

Census bureau figures for August sill show a modest year to date gain in imports relative to last year.

Bull spreads, such as March/July are recommended, expecially for tax purposes. Covered option writing (recommended last month) has become less attractive due to a shrinkage of premiums. This naturally benefits option buyers. July 1977 calls are quoted around ₤240/ton.

Cotton

****** March '76 79.85
****** July '77 78.90

Cotton prices are shaping up for another bull-run and the ultimate highs may yet better the all time record 99¢/lb. set in 1973

The USDA has estimated that beginning world stocks for 1976/1977, at 23.4 million tons, would be down from an estimated 31.1 million tons the previous season, while 1976/1977 may see further drawing down of stocks of the order of 1.5 million tons. This forecast may be conservative in view of the difficulties being experienced by the USSR in its delivery commitments to Japan and inadequate inventories in Red China, Pakistan, and India. In addition weather experts are looking into the possibility of a killer frost to occur in the US sometime in October that could reduce the present 10,400,000 bale estimate even further. Given present crop prospects in the US, there is a good chance that ending stocks for the 1976/1977 season will dip below 3,000,000 bales and thus confront users with the tightest carry-over position since 1973.

Speculative liquidation has gone a long way toward restoring the needed base for a further advance.

Technically , a close above 81.00 basis July'77 will signal the beginning of the bull move.

Buy May '77 and July '77 at market, placing stops 500 points lower.

Copper

*** *December '76 63.80*
**** *March '77 65.30*

Last month with prices trading 5¢/lb. above present levels, we said that "downside vulnerability has increased with the stubborness of the open interest to contract significently on the 10¢/lb. decline. Chart advices have taken on a bearish overtone and a downside move to the 60-62¢/lb. range for December '76 is possible"

The market does not, as yet, show any signs of bottoming out and we would not rule out a further downside move.

Remain sidelined.

Grains

** *December '76 Wheat 2,88 1/2*
** *December '76 Corn 2.66 3/4*

A vicious Bear Market, particularly for Wheat, where we now show better than $1/bu. profit on previously established short positions.
The FAO estimates world output of wheat in 1976 at around 401 million tons, up 13% from last year and 8 million tons higher than expected in August. Most of the improvement is due to a relatively good Russian crop and bumper US and Canadian crops. Its coarse grain forecast, however, has been lowered to 697 million tons from the 703 million tons estimated in August. World carryover stocks of wheat and coarse grains, excluding the USSR and China, at the end of individual countries respective 1976/1977 crop seasons, are expected to aggregate about 118 million tons compared with 102 million in 1975/1976.

Seasonal considerations indicate a possible 'low' for both Corn and Wheat in about 4-6 weeks and we would expect to cover short positions at such time.

Interest Rates Futures

**** *December 1976 GNMA 97.04*
**** *December 1976 TB 94.63*
*** *March 1977 TB 94.29*

The bullish implication of the Ford strike have been partially cancelled out by an unusually large increase in the monetary aggregates and a fairly large build-up in the coporate calendar, just as AAA utilities are about to pierce the magic 8% level.

The Bull Market seems intact but we'd still prefer the scenario we painted last month, showing a 50 basis point setback before we resume the upward momentum.

We find the risk/reward ratio, at this time, unatractive for either the long or short side and therefore prefer to remain sidelined. Short March'77 TB's initiated at 93.75-94.25 should be maintained with stops at 94.50, on close only.

September 30,1976

Precious Metals

**	December 1976 Comex Silver	437.20
****	December 1976 Imm Gold	116.10
******	January 1977 Platinum	164.00
******	September 1977 Palladium	55.50

Silver prices rallied to the proximity of the 4.50 level basis Dec. '76 where the advance had been checked in previous occasions and prices retreated under the impact of soft non-ferrous and grain quotes. The market has turned dull and uninspiring and we'd prefer to ease out of our prematurely taken long positions if prices close below 4.20 basis December 1976.

Amid gloom and doom, gold prices held up rather well to the September 15th IMF auction of 780,000 ounces. Central Banks were thought to be sidelined and most of the buying was of a commercial and investment nature. Succesful bids ranged from $108. 76 to $114/oz, and the average price awarded was well in line with the London Morning Fix. The market seems to have struck an equilibrium level and barring additional selling from Central Bank sources (but taking into account further IMF auctions), a bottom of sorts may have been reached for this 22 months long Bear Market. Investors may go long at these levels, risking a close below 109,00 basis nearby, and setting an initial modest objective of $125-130/oz.

We presume that our special Platinum: Bullish Again report has already been received (copies are available on request). We have no further comments to make. Prices should bottom out in this area no later than the middle of October. Continue to accumulate deferred platinum and palladium futures.

Sugar

	October '76 (expired)	8.05
*	March '77	8.81
*	London August '77	£145.00

The Bear Market continues in full swing.

The Agriculture Dept. reported today that sugar deliveries for the week ended September 25 were 243,048 shorttons, raw value, compared with a revised 241,091 tons a week earlier and 207,995 tons in the corresponding week a year ago. No doubt, consumption has begun to increase at these levels, although we suspect a great part of the increase is merely speculative inventoru buying on the part of refineries.

Increased consumption notwithstanding, it is too late to save the market from a complete collapse. F.O. Light's second European beet sugar estimate puts output at 28,184,000 tons against 25,900,000 tons in 1975/1976 and a first estimate for 1976/1977 of 27,585,000tons. This estimate practically guarantees a world production surplus of 5,000,000 tons for 1976/1977 and a build-up of carryover stocks to almost 24,000,000 tons, roughly 28-30% of world consumption.

The recent trebling of the US import duty will increase competitive pressure in the world's raw market, already beset by lack of buyers.

The old maxim that in a Bear Market prices go lower than anyone had imagined possibly will prove to be true as far as sugar is concerned. While most of the recent decline can be attributed to selling pressure orginating in the physical market, little liquidation has as yet taken place in the futures market. The 'end' will come when panic selling develops in the terminal markets and cuts the open commitment by at least 75,000 contracts (N.Y. and London combined) It is impossible to pin point when this would take place but we are confident that our second downside objective of 6¢/lb. for March '77 will be fully realized in the near future.

Remain firmly short and add, by selling on strength, deferred deliveries.

September 30, 1976

Wood Complex

****** January '77 Plywood 165.30
***** January '77 Lumber 162.00

Fuelled by a red-hot cash market, plywood and lumber prices broke out of their 5 months consolidation and are now readying to challenge all time highs. The case for a continuing bull Market is extremely powerful. Housing starts and permits, up 11% and 7% respectively, have given every indication of having broken-out of their year-long stagnation.

Single family starts, at slightly over 1,000,000 units, remain very strong and are now being buoyed by a veritable Californian boom and emerging demographic factors. The very depressed multi-family sector showed a nearly 50% jump in starts, to a seasonaly adjusted annual rate of 284,000. Moreover, permits issued for the contruction of multi-family units climbed to 324,000 annual rate in August, another sign that this sector has come back to life. A relatively tight rental market across the US will insure a return of multi-family starts to the 500,000-700,000 annual rate level of 1969-1974 by mid-1977. Taken together, we feel that housing starts will reach the magic mark of 2,000,000 units within the next 9 months.

Our near term objective calls for Plywood prices to reach $200 per 1000 board feet within the next 3 months.

Continue to accumulate aggressively Jan. '77 and March '77 Plywood (and to a lesser degree, lumber) at these levels.

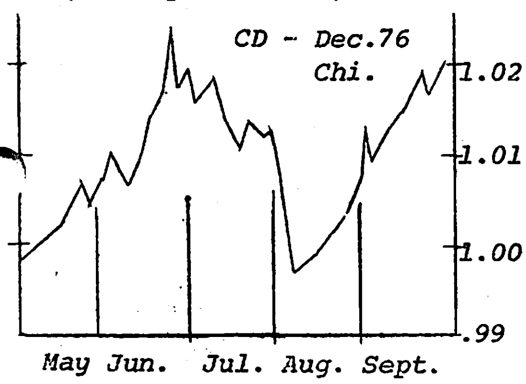
Canadian Dollar Dec. 76 : 101.87 Mar. 77 : 101.00 June 77 : 100.40

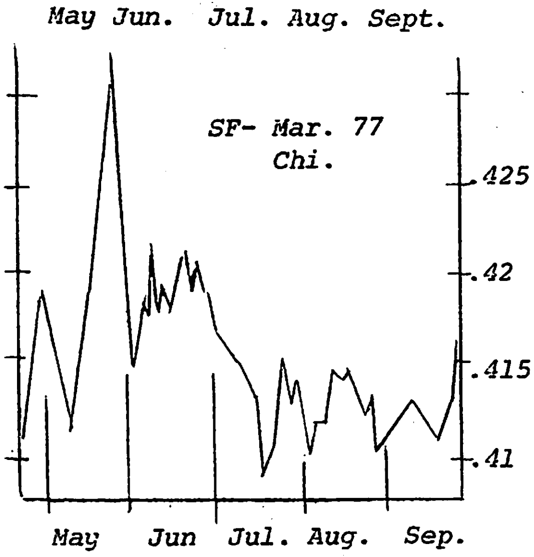
	May 76	Jun.76	Jul.76	Aug. 76	** 1975	** 1976
Balance of Trade (mln $)	+150	-52	-80	+193	-812	-13
* C.P.I. %	+8.90	+7.83	+6.80	+6.23		
* Gen Bank Loan % (percentage growth)	20.53	24.89	22.25	21.16		

	Aug.27	Sep.3	Sep. 10	SEp. 17	Sep.24
*Money Supply (M1)%	+5.49	+9.05	+7.58	+9.75	+6.33
*** Exchange Rate-trade weighted	+8.19	+8.49	+8.76	+9.01	+9.52
Euro Deposit					
1 Month %	9 5/16	9 5/16	9 1/4	9 1/8	9 1/8
3 Month %	9 11/16	9 7/16	9 1/2	9 3/8	9 1/2

Open Interest (Sept.30th): 671 Average Volume (Sept): 49 Contract Size : CD$100,000

Margin Required : $2000.00 Round Turn Commission: $ 60.00





COMMENTS : The high exchange value for the Canadian Dollar has had no deleterious effect on its trade balance, as some experts have been predicting. In fact, the cumulative trade deficit for 1976 is exactly $800 million dollars less than for the same 1975 period in spite of a substantially higher exchange rate. This is and will continue to be our belief : rising exchange rates are anti-inflationary & beneficial in the competitive sense, declinning exchange rates foster inefficiency and inflation. General Bank Loans continue to grow at an unsustaniable (& puzzling) pace forcing the Bank of Canada to keep a very tight rein on banking reserves. Although some cracks have already appeared in the long end of the market (mortgage and long term bond rates) money continues tight. The one-year forward discount remains in the 260-315 area & presages a firm Canadian Dollar.

Maintain long positions in March '77 CD taken at par. Sell only if the one-year discount narrows below 200 points.

Swiss Franc Dec. 76: 41.26 Mar. 77 : 41.64 June 77 : 42.00

	May 76	June 76	July 76	Aug. 76	** 1975	** 1976
Balance of Trade (mln SFR)	+182	+ 6	+ 83	-325	-1,421.80	+ 45.60
*C.P.I. %	+1.29	+2.20	+1.41	+1.59		

	Aug. 27	Sep. 3	Sep. 10	Sep. 17	Sep. 24
Reserves(mln SFR)	13,750	13,550	13,530	13,510	14,690
*** Exchange RAte Trade Weighted	+ 44.92	+ 53.98	+ 53.64	+ 53.39	+53.29
Euro Deposit					
1 Month %	1	1 1/8	1 5/16	1 1/4	1 5/16
3 Month %	1 1/4	1 5/16	1 5/16	1 5/16	1 3/8

Open Interest (Sept.30th): 1258 Average Volume(Sept): 123 Contract Size:SFR 125,000

Margin Required : $2,500 Round Turn Commission: $ 60.00

* over year ago same month.
** cumulative figures for the period Jan.- Aug.
*** appreciation or depreciation(-) from 18-12-71.

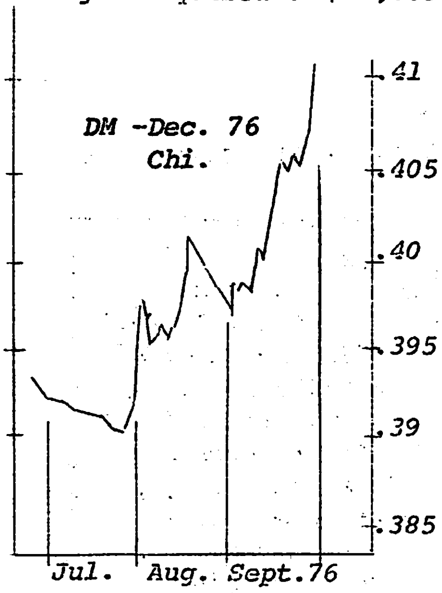
West German Mark

Dec.76 : 41.10   Mar.77: 41.22   June 77: 41.37

	May 76	June 76	July 76	Aug. 76	** 1975	** 1976
Balance of Trade (mln Marks)	+3,286	+2,150	+2,593	+1,210	+25,166	~~+18,807~~
* Cost of Living %	+5.0	+4.51	+4.22	+4.59		

	Aug.27	Sep. 3	Sep. 10	Sep. 17	Sep. 24
Net Monetary Reserves(mln Marks)	93,000	93,100	93,300	93,300	93,700
*** Exchange Rate Trade Weighted %	+26.43	+27.97	+28.35	+29.12	+29.84
Euro Deposit					
1 Month %	4 1/4	4 1/4	4 3/8	4 3/8	4 5/16
3 Month %	4 7/16	4 7/16	4 5/16	4 3/8	4 7/16

Open Interest (Sep.30) : 1916   Average Volume (Sept): 202   Contract Size : DM 125,000
Margin Required : $ 2,500   Round Turn Commission: $ 60.00



COMMENTS : On July 28th, with the SF/DM rate at 1.034 we advised liquidating long SF & moving into DM, then at 39.15 basis Dec. 76. The SF/DM rate now stands at .997, meaning that the DM has moved up 3 ½ % in relation to the SF &, at the same time, it has climbed 4.8% against the U.S. Dollar.

W. Germany can no longer afford to stay in the European snake at present parities for its money supply has begun to expand quite rapidly as a result of continued intervention. We suspect that a new realignment within the snake (or the demise of it) will take place shortly. The adjustment should be in the area of 3-7 %. The DM/SF rate should benefit psychologically. We expect that the DM will shortly challenge the all time high of 2.25/1 (.4450)

Remain firmly long.

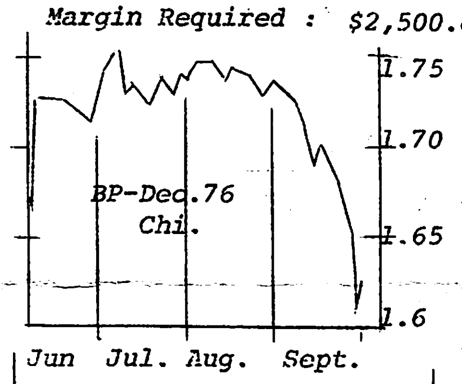
British Pound

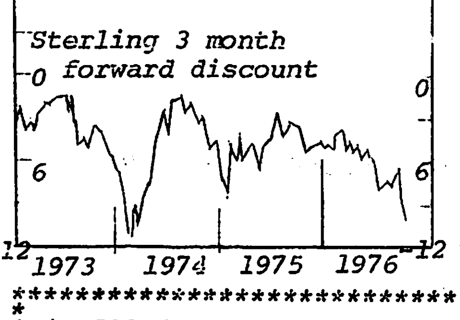
Dec.76: 162.55   Mar. 77: 158.70   June'77: 155.80

	May 76	June 76	July 76	Aug. 76	** 1975	** 1976
Balance of Trade (mln STG)	-342	-360	-527	-291	-1,813	-2,218
* W.P.I. %	+14.58	+14.94	+15.60	+15.30		
Reserves (mln U.S.$)	5,423	5,312	5,370	5,029		

	Aug. 27	Sept.3	Sept.10	Sept. 17	Sept. 24
*** Exchange Rate Trade Weighted %	-37.73	-37.78	-38.35	-39.41	-40.46
Euro Deposit					
1 Month %	13 3/8	14	15 3/4	14 7/8	14 7/8
3 Month %	13 5/8	13 7/8	14 3/4	14 1/2	14 1/2

Open Interest (Sept.30): 1032   Average Volume (Sept): 237   Contract Size:BP 25,000.00
Margin Required : $2,500.00   Round Turn Commission: $ 60.00





Comments : Last month we said ' the rocky £ descent to unfathomable depths has begun anew'. The avalanche came none-too-soon. The Bank of England committed 2 sins : a) it kept interest rates too low, too long, b) it "unofficially" supported the $1.77 parity making it quite obvious that they were the only buyers. It is the old maxim: strong bids attract large offers- holders were able to unload quite comfortably in the knowledge that it would not break the market. When the Bank finally stepped aside, it was a demonstration of weakness & selling poured in.

In the last few days, the Bank of England has moved to put on a squeeze on short dated maturities by working the Spot-1 month, Spot-3 months switches & by raising very short term sterling borrowing rates to as much as 20% p.a. Should the Bank follow-though & raise the rate to a record 15%, we feel that Sterling will stabilize at current levels & perhaps even move back to 1.70-1.75. The alternative will mean a continued deterioration regardless of massive stand by loans.

Our short March 77 at 1.72 & June'77 at 1.7050 recommended on July 28th & Aug/ 30th are showing profits of $3,500-4,000 per contract. We would now like to cover only if: a) the Bank rate is upped to between 14-15%, or b) Eurosterling rates for 3 month move up to 16-18% p.a.

* over year ago same month   ** cumulative figures for the period Jan-Aug.
*** appreciation or depreciation(-) from 18-12-71.

Sept. 30th, 1976

U.S. Dollar

Balance of Trade	May 76	June 76	July 76	Aug. 76	** 1975	** 1976
(mln $)	395.6	-377.3	-827	-757.7	+6,337	-2,632
*C.P.I. %	+6.21	+5.92	+5.42	+5.59		
*Money Stock(M1) (compounded annual rates of change)	5.5	4.2	4.4	4.4		
*Bank Loan & Inv't	5.2	5.0	5.0	5.4		

	Aug. 27	Sept. 3	Sept.10	Sept.17	Sept. 24
*** Trade Weighted Exchange Rate	-12.86	-11.93	-12.12	-12.30	-12.32
Euro Deposit					
1 Month %	5 1/2	5 3/8	5 1/8	5 3/8	5
3 Month %	5 5/8	5 5/8	5 9/16	5 1/2	5 3/8

Mexican Peso

Dec. 76: 48.60 Mar. 77: 47.13 June 77: 45.50
Sep. 77: 43.90 Dec. 77: 42.80 Mar. 78: 41.65

	1975				1976		1976						
	1	2	3	4	1	2	Jan.	Feb.	Mar.	Apr.	May	June	July
Int'l Reserves (mln US$)	1479	1399	1320	1533	1501	...	1424	1592	1501	...	...	...	...
Money, (bln Pesos)	95.3	100.6	103.5	109.6	...	...	110.32	...	...	...	...	...	...
[illegible] P. I. %	158	165	170	174	184	190	181	184	187	188	190	192	197
[illegible] P. I. %	169	173	180	186	194	199	190	194	197	198	199	200	201

	Spot/ Dec.76	Dec.76/ Mar. 77	Mar. 77/ June 77	June 77/ Sept.77	Sept.77/ Dec. 77	Dec. 77/ Mar. 78
Forward Disc. (Annual Basis)	13.13%	12.10%	13.83%	14.06%	10.02%	10.75%

COMMENTS : This has been the great currency success of the year. Although it began disastrously (as our June'76-Sept.77 bear spread widened from 1100 points to 2300 points!), it finally ended happily. First the spread narrowed in to 1250 pts at the expiration of the June '76, & then we advised selling Mar. '77 against the Sep.77 at 580 points. That spread could have been covered at less than 100 points on September 8th. Better yet, on June 30th, we advised selling Dec.76 at 75.00 or better, in anticipation of a 'run' in Oct-Dec, & looking for a profitable trade. The 'profitable' trade did not take place until after the devaluation, showing a profit of $28,000.00 per contract.

Mexico is now proceeding the way of its other Latin American neighbours. They have frozen most prices in a desperate but futile attempt to control inflation & they have, asininely, supported the forward market making it quite attractive to short further. The request for up to 600 million dollars in short term loans from the U.S. Federal Reserve & a further 1.2 billion dollars from the IMF indicate that dollars are still flowing out of the country. The foreign debt burden now becomes extremely onerous (40% higher in local currency) &, will, in all probabilly, have to be re-negotiated. The golden years for the Mexican economy are over despite the massive public relations campaign launched the day after the devaluation on Sept. 8th (7 days after the 40% downward float !). Mexico would still brag, in a full page ad in the Wall Street Journal that " a legacy of the Etcheverie era ... is the stability of the Peso ... the Peso has been extraordinarily strong ..." !

We suspect that Exchange controls will be imposed & therefore would prefer staying out of the market, in spite of the obvious bearish outlook.

Open Interest (Sept.30th): 1602 Average Volume(Sept): 192 Contract Size: MP 1,000,000
Margin Required · $10,000.00 Round Turn Commission: $ 60.00

* over year ago same month
** cumulative figures for the period Jan-Aug.
*** appreciation or depreciation(-) from 18-12-71

Albert D. Friedberg
Vice-President
Commodity Futures