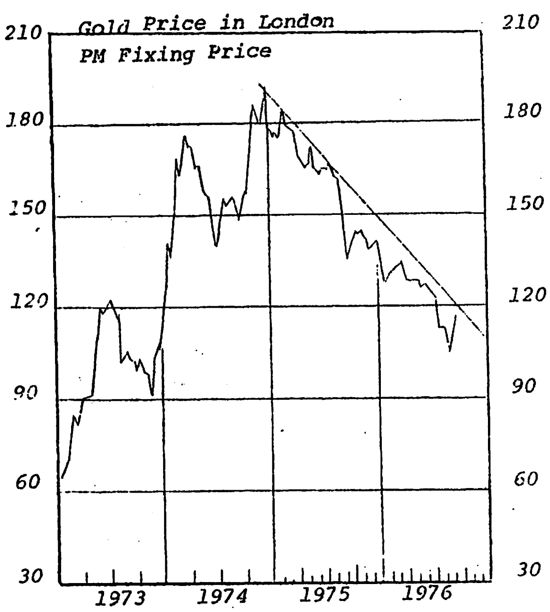
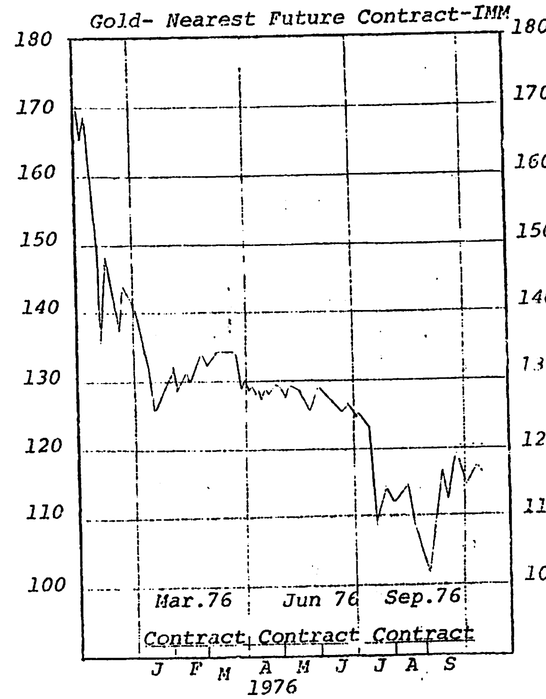
Friedberg & Co. Ltd.

347 Bay Street
Toronto, Ontario, Canada M5H 2R7
(416) 864-1195
Cable: Friedco Toronto
Telex: 06-23446





Commodity Comments

November 4, 1976

<u>Friedberg Commodity Index</u>

End Sept.	30	206.20
End Oct.	29	209.61
Net change +1.65%		

<u>GOLD</u>

"A time to buy"

At long last the Bear is dead. The carnage was brutal: from a high of $197.50/oz. in late December 1974 to a low (fixing) of 103.50 in August 1976; the yellow metal lost almost 50% of its value & retraced nearly 60% of its 1971-1974 Bull Market gains. In the process, gold corrected its glaring overvaluation vis a vis the commodity price level (see Sept. 23, 1975 Commodity Comments where we 'compute' a $98/oz 'value') and moved into the catagory of fairly priced.

Following we list the reasons why we feel gold has seen its ultimate lows:

a) TECHINICAL - 1. As the above charts show, the long term downtrend line connecting the December 1974 highs to the subsequent rally tops was decisively broken in October as spot gold advanced through the $118-120 barrier. Needless to say, the significance of the upside breakout, in the face of continuing pessimism is enormous;

2. The breakdown from the huge & ominous head & shoulder top took place at anywhere between $122 & $124/oz. Prices have not only moved back up to the neckline but, in fact, they have climbed above it, thus closing a huge four months' bull trap.

3. The single most potent depressant on the gold market was the IMF's decision to dispose of 50 million ounces (split evenly between outright sales & return to members). However , and here is the catch, it is axiomatic that a market will always move defensively in anticipation of an unfavourable development but will never discount that same development twice, i.e. while it is actually taking place.

Let us now examine, in chronological order, the market's reaction to the IMF's words & deeds.

On September 1, 1975, the IMF announced that it will sell 25 million ounces subject to ratification by its members. The P.M. fixing on the day of the announcement was $154.60, down $7.31 from the previous close.

By April 15th 1976, date an which the IMF was said to be nearing final agreement on terms governing the sale, the P.M. fixing was $127.75. Participants had had seven and one-half months to consider the negatives and concluded that the $127.75 level would 'clear the market'.

On May 6th, 1976, the IMF announced the auction of 780,000 ounces to be offered on June 2nd, the first of 8 auctions to be held every 6 weeks for 4 years. The actual setting of the date (it now was to become reality) had practically no effect on the market: the P.M. fixing was $126.90.

It was obvious that the market was 'comfortable' with that level and fully believed that nearly 800 tons (almost a full year of South African production) could be disposed of in just 4 years, in addition to the additional potential supply arising out of the return of an extra 25 million ounces to member countries. This market conclusion was arrived at after a full eight months of 'deliberations'.

IMF Auction Boxscore

	Date	Ozs. Sold	High Bid	Low Bid	Average	Total Bids (oz)
First	June 2, 1976	7[illegible]0,000	134.00	126.00	126.98	2,368,000
Second	July 15, 1976	780,000	126.50	122.05	123.02	2,114,000
Third	Sept. 16, 1976	780,000	114.00	108.76	109.40	3,662,400
Fourth	Oct. 27, 1976	779,200	119.05	116.80	117.71	4,200,000

Why, then, did the auctions take place at prices below $126-128/oz? Most probably because of the extreme weakness showed by the general commodity price level which went into a tailspin on or about the first week of July (coinciding with gold's breakdown below the initial $122-124 support). Quite probably because of South Africa's well publicized payments difficulties and the bearish marketing implications it created. Least probable , but not to be dismi ssed lightly, the possibility that the market was 'allowed' to drift down by the BIS (and its members) after the 2nd auction to: a) test the Central Bank demand & thus, marketability of gold, as an [illegible] asset, de facto b) accumulate bullion at the lowest possible price.

Prices have now returned to the 'old' equilibrium level set in April-May 1976. If our theory is correct, the forthcomming auctions will take place at prices which will average, at least, $126.-128./oz.

November 4, 1976

B) PSYCHOLOGICAL: The August lows were made at a time when leading publications, such as the Economist, Citibank's Economic Week, & Merrill Lynch were discussing gold's dim prospects, and the possibility that it could sink to as low as $60/oz. Such deep pessimism, in retrospect, is the forerunner of bull markets.

C) FUNDAMENTAL: The 1976 supply and demand equation for goldS (arrived at by using 1975 figures compiled by Consolidated Golds Fields Ltd.) would show an approximate consumption shortfall of 400 tons. When including Russian sales of 300 tons & Central Bank Sales of 150 tons (including IMF). This shortfall must be absorbed by either the private (investment and speculative demands) or the Central Bank sector, or both. A firming price trend would encourage private absoption, which last year amounted to 415 tons. In the coming months, this predisposition will be reinforced by the potentially inflationary consequences of a Carter presidency. In addition , Central Bank demand may begin to develop in the Middle East, where sterling balances held by OPEC members are being liquidated. These balances amount to just over $3 billion, which at $125/oz would buy 24 million ounces (750 tons) of gold. Although the above example is just hypothetical, it is instructive enough to illustrate the potential cushion in the $110-125 area that has now developed.

Selected OPEC Members

Reserves Position at Aug. 1976

(in million of SDR's)

	Gold	SDR's	Reserve Poisitions in the Fund	Foreign Exchange	Total	% Gold of Total Reserve
Iran	131	61	1,058	6,620	7,870	1.66%
Kuwait	159		740	655	1,553	10.24%
Nigeria	20	61	334	4,662	5,077	.39%
Saudi Arabia	108		2,306	19,239	21,652	.50%
United Arab Emirates	n/a		114	1,414	1,528	n/a
Venezuela	391	126	962	5,415	6,894	5.67%

It is still much too early to pinpoint the timing or the magnitude of the developing bull market. The Carter presidency may not create real inflationary pressure until, perhaps, mid or late 1978. Also, the U.S. Treasury may once again decide to hold its own auctions at a later date, should prices perk up. The important thing is, however, that a new bull market has been born & serious investors cannot afford to be left out.

Last month we suggested that traders establish long positions at market (then,$116/oz) looking to sell at $125-130; traders may take a profit. Investors should buy deferred positions, preferably December 1977 in either Comex or IMM. The 1-year premium is as low as it will ever be, 4.8%, urely cheaper than the carrying charges incurred by the average investor.

We remain very bullish on Platinum & Palladium while we are still neutral on Silver

******December '77	Comex Gold	125.20
****December '76	Silver	431.30
******January '77	Platinum	156.00
******September'77	Palladium	55.30

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	****** December '76	132.25
	****** March '77	126.25
	****** Ldn-July '77	£1792

This roaring bull market continues unaffected by deflationary trends in the overall commodity price level. U.S. imports of cocoa and chocolate products during September were as follows, with comparisons, according to Census Bureau figures, in lbs.

U.S. SEPT COCOA CHOCOLATE PRODUCT IMPORTS

WASHINGTON, OCT 28 - U.S. IMPORTS OF COCOA AND CHOCOLATE PRODUCTS DURING SEPTEMBER WERE AS FOLLOWS, WITH COMPARISONS ACCORDING TO CENSUS BUREAU FIGURES, IN LBS.--

	COCOA BEANS	COCOA BUTTER
Sept'76	44,007,136	4,218,513
Aug '76	46,715,653	2,577,181
Sep '75	38,982,517	3,406,385
Jan-Sep '76	446,021,760	40,787,619
Jan-Sep '75	358,331,138	22,424,071
	UNSWEETENED CHOCOLATE	UNSWEETENED COCOA
Sept'76	6,535,234	15,613,698
Aug '76	4,856,351	11,888,816
Sep '75	2,867,038	11,961,394
Jan-Sep '76	34,573,904	124,420,308
Jan-Sep '75	13,478,501	99,492,659

Previous U.S. grinding figures, showing a 5% gain in the 3rd quarter of 1976 over the 1975, period clearly understate comsumption as an increasing amount of cocoa is being imported in processed and/or semi-processed form from the exporting nations. Hershey raised the price of a chocolate bar by 5¢ while it increased content by 12%; a particularly bullish development. Instead, it is quite unlikely that unit sales at the retail level should decline, resulting in increased cocoa consumption.

Ou initial target of $1.40/lb for December '76 has almost been achieved. While we caution that price setbacks could now become more severe, we see as yet no impending end to the bull market. The market is still highly professional with little public participation. Weakness in sterling has acted as a depressant to the market due to profit taking in the London market. Notwithstanding the above, cocoa's fundamentals should, in the long run, only react to its 'dollar' level - the closest approximation to a 'real' international price.

Remain firmly long, adding on 1000 point setbacks only. Raise stops to 115.00 basis Dec '76 close only, (obviously, this market is for position players only!).

COFFEE

***** December '76 177.00
***** March '77 169.40
***** London (Robustas) January '77 2172.00

Crude imports into the U.S. in September at 126,500,000 lbs. were subtantially lower than the September '75 figure of 335,000,000 million lbs. The year to date figure is now slightly under the comparable period last year. The spot December '76 position has now reached our $1.80/lb target and is beginning to give signs of exhaustion. No new long position should now be undertaken and sell stops in N.Y. should be activated at 1.58 basis March'77. Option buyers in London have fared particularly well over the past months and should look to lock in profits should the January '77 position drop below £1980/ton.

COPPER

*** December '76 57.00
**** March '77 58.20

We'll just reiterate the advice given last month (with December'76 selling then at 63.80): 'the market does not, as yet, show any signs of bottoming out and we would not rule out a further downslide move'. Remain sidelined.

COTTON

****** March '77 81.62
****** July '77 79.62

The Census Bureau cotton consumption report showed a slight drop in the average daily consumption rate to 25,023 bales from 26,203 bales in the preceeding four week period and the 26,568 bales in the corresponding year ago period's report. The present rate of usage works ou to a yearly domestic mill consumption of 6.7 million bales, slightly less than our 7.5-7.75 million bales forecast for the entire 1976-1977 crop year. With final user demand growing at a steady 4-5% p.a. rate, and relatively low mill inventory position, raw cotton purchases should begin to improve rather dramactically over the coming 6 months.

Deferred 1977 deliveries are slowly 'sneaking away' into new high ground giving the entire complex a very bullish undertone.

Remain firmly long, leaving stops at 500 pts below last month's entry levels.

GRAINS:

** December '76 wheat 2.72¼
** December '76 corn 2.50¼

Last month we suggested that seasonal considerations indicated a possible 'low' for both Corn & Wheat in about 4-6 weeks (beginning to mid-November) and expected to cover short positions at such time.

Due to the recent serious breakdown in Corn prices, we feel that prices may be headed for substantially lower levels yet. Therefore, remain short but lower protective buy stops on Dec '76 Wheat to $2.85/bu and $2.62/bu for Corn.

November 4, 1976

INTEREST RATES FUTURES

****	December '76 GNMA	97.17
****	March '77 GNMA	96.18
***	December '76 TB	94.97
***	March '77 TB	94.69

Carter's victory sent tremors through the bond market today, offering perhaps a good opportunity to re-establish long positions in GNMA's a at reasonable levels. Buy March '77 GNMA at 95 1/2-3/4 and on a scale down, if given the opportunity. Short March '77 TB's were stopped our at 94.50 as per previous suggestion, and we would remain sidelined.

SUGAR

* March '77	8.11
* July '77	8.52

Sugar consumption for the week ended October 23 took a dive for the worst; only 197,715 short tons were delivered compared with a revised 200,348 tons a week earlier and 209,528 tons in the corresponding week a year ago.

The recent tripling of the U.S. import duty on sugar will have the effect of putting an umbrella over corn fructose which should continue to penetrate the total sweetner market in the U.S. It has recently been estimated that \$3/bu corn is competative with 6¢/lb sugar, With domestic sugar over 11¢/lb, and corn down to \$2.50/bu, we wonders if sugar will go even lower than our long-standing prediction of 6¢/lb.

Recent strenght has come mostly from speculators trying to divine a bottom, thus making this market that much more vulnerable. We fully expect that in the next few weeks prices will crash the recent spot lows of 7.5¢/lb and should head to the low 6¢/lb. Should the open interest not contract significently (by at least 10-15,000 contracts) in the subsequent decline, the ultimate lows may yet be seen in the 4¢/lb area.

Add agressively to short positions and place protective buy stops at 900 basis March '77, on close only.

WOOD COMPLEX

******	January '77 Plywood	180.20
*****	January '77 Lumber	174.30

The construction boom in the U.S. is on but financial publications will try to find any kind of pretext rather than acknowledge the fact. Housing starts surged 18% in September to an annual rate of 1,810,000 units while permits increased 11% to a 1,430,000 annual rate. Single family units, at 1.3 million units, are running just under the boom levels of late 1972 while multifamily starts have come to life, jumping 48% to a 415,000 unit rate. Our target of 2,000,000 units (annual rate) by mid-1977 is well within sights.

A sharp narrowing of the forward premium in Plywood speaks of a coming shortage; this should be confirmed in a few weeks when nearby positions move above deferred ones. At that point, the most dynamic part of the bull market will begin.

Our first objective of \$200 for January '77 Plywood should be achieved within the next eight weeks; we now raise our sights on the March-May 1977 positions and look for a minimum \$230 per 1000 board feet.

We continue to prefer Plywood to Lumber, although the latter should also participate in the upswing. Add to previously established long positions in January '77 Plywood at market.

Canadian Dollar Dec. 76: 102.23 Mar. 77: 101.31 June 77: 100.60

	72/73	73/74	74/75	75/76
Chartered Bank CD$ Major Assets (total) Sep/Sep.% Gain	18.02	20.57	14.09	17.26

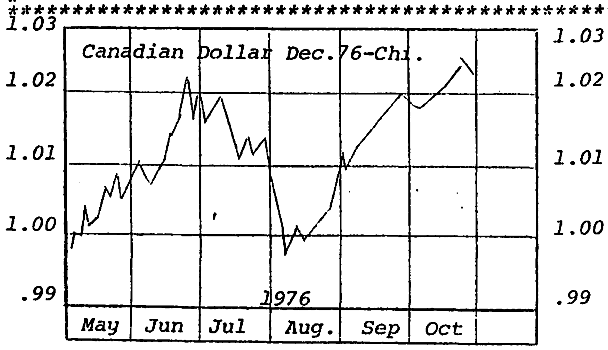
	May	Jun	Jul	Aug	Sep	** 1975	** 1976
*Money Supply %							
Narrowly defined	10.29	10.93	8.83	7.69	8.9		
More Broadly (M2)	20.02	19.19	17.44	16.98	16.99		
M3	17.14	17.00	16.30	16.95	15.63		
Balance of Trade (mln $)	+150	-52	-80	+349	+271	-893	+606
*Gen.Bank Loan % (percentage growth)	20.53	24.89	22.25	21.16	21.74		
*CPI (all items) %	8.9	7.8	6.8	6.23	6.50		
*Food price Index %	6.23	3.08	1.02	-.53	-.48		

	Oct. 1	Oct. 8	Oct.15	Oct.22	Oct. 28
*** Exchange Rate -Trade Weighted %	3.55	3.32	3.47	3.59	3.97
Euro Deposit %					
1 month	9 3/16	9 3/8	9.	9 1/8	9.
3 month	9 3/8	9 1/2	9 1/4	9 1/4	9 1/8
6 month	9 3/8	9 5/8	9 1/2	9 5/16	9 1/4

Open Interest (Oct. 28): 760 Average Volume (Oct.76): 61
Contract Size: CD$100,000.00 Margin Required: US$ 2,000.00 Round Turn Commission:60.00

COMMENTS: There has been a slight drop in short term yields in the past few weeks which explains the 'reversal' in the Spot exchange rate from an intra-day high of 103.24 to 102.61 recently. Similarly, the 1 year forward discount has narrowed to 295 points. The most successful anti-inflation gains produced so far have been in the largely uncontrolled food sector while continuing damage to business confidence is being created by wage, price & profit controls. Monetary aggregates such as M2 & general bank loans as well as Federal spending continue well out of control. Powerful latent inflationary pressures remain in the system which should begin to cause massive shortages (if controls are not lifted soon) or huge price increases towards the end of 1977.

Although we are still long March '77 CD$, we are beginning to feel uncomfortable & therefore advice placing a close 101.00 protective stop, on close only.

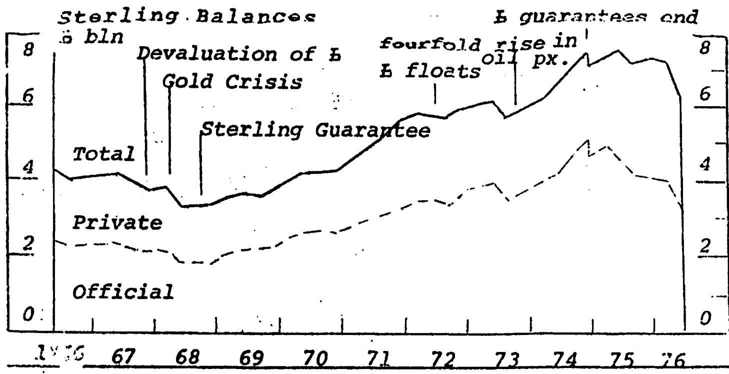


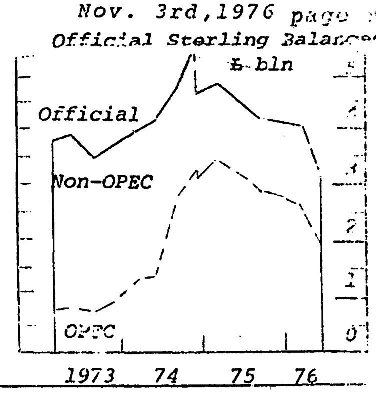
U. S. Dollar

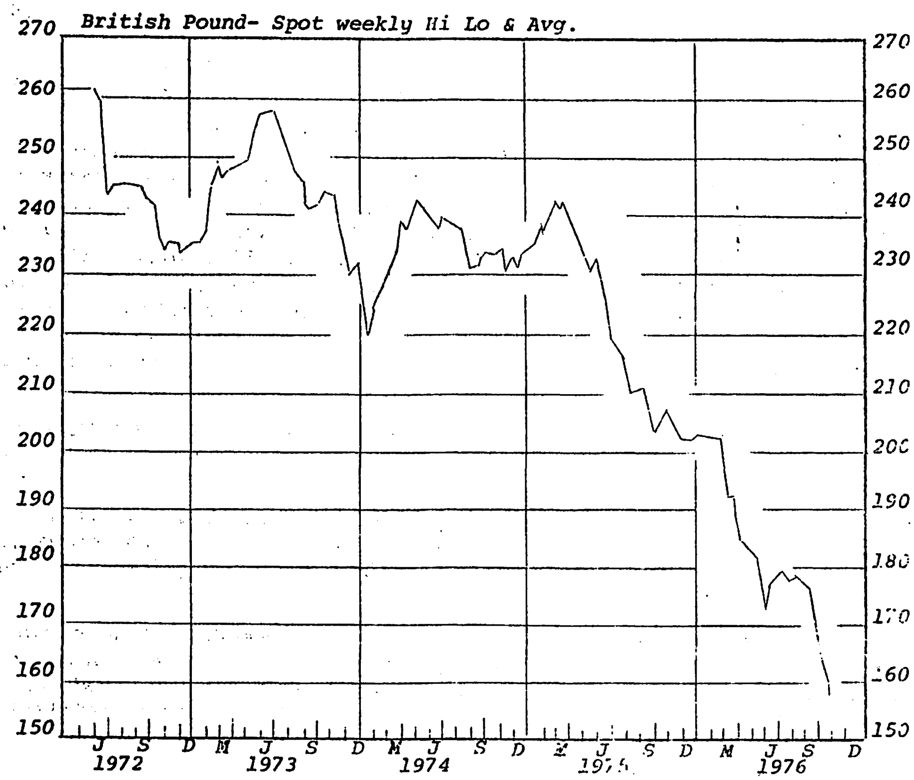
	May 76	Jun76	July76	Aug.76	Sept76	** 1975	** 1976
Balance of Trade (mln $)	+395.60	-377.30	-827.10	-757.70	-778.90	+7,278	-3,411.80
*Money Stock %	5.5	4.2	4.5	4.5	4.3		
*Bank Loan & inv't %	5.2	5.0	5.0	5.4	5.6		
*C.P.I. %	6.21	5.92	5.42	5.58	5.5		

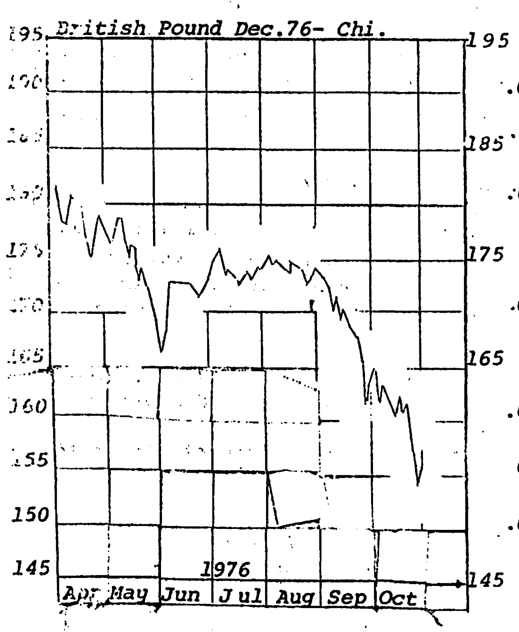
	Oct. 1	Oct. 8	Oct. 15	Oct.22	Oct. 28
*** Exchange Rate- Trade Weighted %	-2.80	-2.91	-2.62	-2.42	-2.39
Euro Deposit %					
1 month	5 5/8	5 5/8	5 3/8	5 5/16	5 5/16
3 month	5 3/4	5 9/16	5 3/8	5 3/8	5 7/16

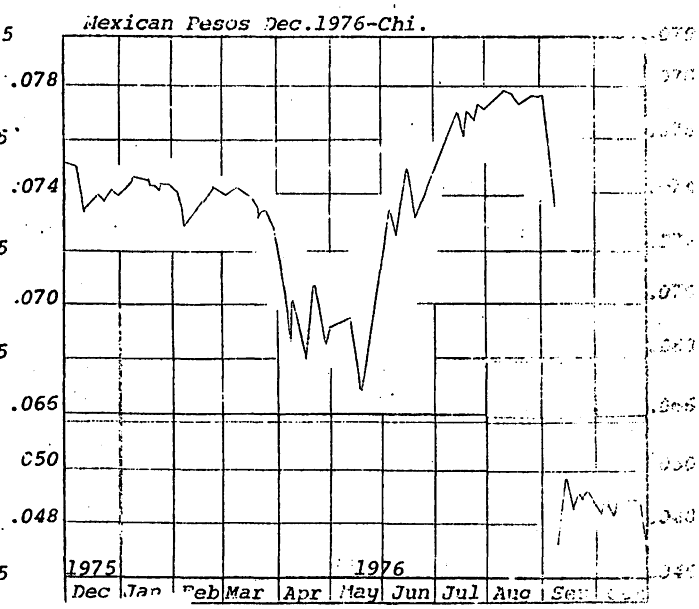
* over year ago same month.
** cumulative figures for the period Jan.-Sep.
*** appreciation or depreciation(-) from 18-12-71


Sterling Balances
£ bln
Devaluation of £
Gold Crisis
Sterling Guarantee
fourfold rise in oil px.
£ floats
£ guarantees end
Total
Private
Official
8
6
4
2
0
67
68
69
70
71
72
73
74
75
76


Official Sterling Balances
£ bln
Official
Non-OPEC
OPEC
1973
74
75
76


British Pound- Spot weekly Hi Lo & Avg.
270
260
250
240
230
220
210
200
190
180
170
160
150
1972
1973
1974
1976


British Pound Dec.76- Chi.
195
185
175
165
160
150
145
1976
Apr
May
Jun
Jul
Aug
Sep
Oct


Mexican Pesos Dec.1976-Chi.
.078
.074
.070
.066
.048
1975
1976
Dec
Apr
May
Jun
Jul
Aug

British Pound — Dec. 76: 159.35 Mar. 77: 154.5
June 77: 150.25 Sep. 77: 146.00 Dec. 77: 143.65

	Spot/ Dec.76	Spot/ Mar.77	Spot/ June77	Spot/ Sept.77	Spot/ Dec.7
% Discount from Spot(annualized)	6.51%	9.83%	10.10%	10.22%	9.28%

	June 76	July 76	Aug.76	Sep.76	Oct.76	** 1975	** 1976
Balance of Trade (mln STG)	-360	-527	-293	-365	N/A	-2,018	-2,585
* W.P.I. %	14.94	15.60	15.30	16.0			
* Retail Price Index	13.79	12.85	13.78	14.31			
Reserves (mln US$)	5,312	5,370	5,029	5,158	4,703		

	Oct. 1	Oct. 8	Oct. 15	Oct. 22	Oct. 28
*** Exchange Rate Trade Weighted %	-42.47	-42.64	-43.04	-42.91	-45.40
Euro Deposit %					
1 month	17 5/8	17 7/8	22 1/2	19 5/8	20 3/8
3 month	16 7/8	17 3/8	20.	19 3/8	21 1/8

Open Interest (Oct.28): 1770 Average Volume: 278
Contract Size: BP 25,000.00 Margin Required: US$2,500.00 Round Turn Commission: US$60.00

COMMENTS: An auspicious & timely return to a sensible interest rate policy was negated by reports (later denials lacked forcefulness) that the IMF was looking at a 1.50 parity as one of the pre-conditions for its $3.9 billion loan. Sterling plunged through its previous low of 1.63 & found no support until it hit 1.56. The $455 million drop in British monetary reserves during October indicates that there was little or no Bank of England support on the way down from 1.63, as the fall in reserves can be mostly attributable to the underlying current account deficit & items such as oversees aid & defence expenditures.

We now fear the stale orthodoxy of the IMF-further currency depreciation can only cause further panic selling of £ balances & inflation while do absolutely nothing but harm British terms of trade.

The stage is now set for a recovery of £. The missing ingredients are: a) a no-strings attached IMF loan (particularly with regard to what the exchange rate 'should' be), & b) a further cut in public spending with the acquiesence of the left wing of the Labour Party.

Speculators stand aside - do not sell short; commercial hedgers may wish to cover some of their future Sterling payments by buying March '77. A much clearer picture will emerge over the next 3 weeks & once the IMF team has completed its task.

Mexican Peso — Dec. 76: 36.00 Mar. 77: 33.10 June 77: 30.80
Sep. 77: 28.70 Dec. 77: 26.40 Mar. 78: 25.00

	Spot/ Dec.76	Dec.76/ Mar. 77	Mar. 77/ June 77	June 77/ Sep. 77	Sep. 77/ Dec. 77	Dec. 77/ Mar. 78
Forward Disc. (Annual Basis)	38.96%	32.22%	27.79%	27.27%	32.06%	21.21%

Open Interest (Oct.28): 1,663 Average Volume (Oct.76): 52
Contract Size: MP1,000,000 Margin Required: US$ 6,000.00 Round Turn Commission: $60.00

COMMENTS : As we prognosticated last month, capital outflows continued heavy despite conciliatory official talk. As a result, the Mexican Central Bank refloated the Peso last Wednesday & the rate sank to a new low of 26.53 to the dollar from the previously maintained 19.80 to the dollar.

The Mexican situation is bleak & hopeless & we strongly feel that extensive debt moratoriums will be declared in the ensuing months on the more than $20 billion of debt owed to international institutions & private holders.

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

Albert D. Friedberg
Vice-President
Commodity Futures