



Friedberg & Co. Ltd.

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

COMMODITY COMMENTS

Friedberg Commodity Index

January 31: 226.80

February 28: 232.86

Net Change: +2.67%

Carter's budgetary proposals - the addition of \$30-33 billion to an already staggering 1977-78 fiscal deficit - has re-ignited inflationary expectations. The cumulative budget deficit of \$181 billion projected for the final quarter of 1977, will be four times as great and \$136 billion larger in size than the \$45 billion cumulative deficit reached in the corresponding quarter (eleventh quarter from the nadir of the previous recession) of the highly explosive cyclical expansion started in 1970.

If the Fed sticks to its self-imposed target for monetary creation of just 4 - 6% (basis M_1), short-term interest rates will soar upwards of 150 basis points and the prime lending rate, as a result, will move up to 8 - 8½% by the third quarter of 1977, thus choking off the recovery. If, on the other hand, the Fed monetizes the deficit, monetary creation will explode at a rate that will make the 1972-73 inflationary experience pale by comparison.

Standing at the crossroad of what may turn out to be the most momentous economic decision of the 70's, commodity prices have advanced nearly 15% since Election Day. Along the way, supply considerations have been ignored in an almost frenzied rush to convert cash into goods.

We do not profess to know what the Fed will do nor do we know whether Carter's economic team will reverse its stimulative game plan (an unlikely possibility in view of Congressional support). We do feel, however, that the Board is getting "hot" and that, inevitably, some sort of reaction will set in. Beware of the Ides of March.....

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

COCOA

***** March '77: 186.75

***** September '77: 172.10

***** London March '78: +2541.5

Comments by a leading U.K. manufacturer to the effect that chocolate consumption would be cut down by 10 - 15 percent, due to present high prices, was responsible for the sixth severe shakeout experienced by futures in their long eighteen-month bull market. We do not doubt the validity of the assertion, which is based on textbook economics. We question, however, the timing and magnitude of the cutback. Actual cutbacks will only take place at the consumer level once bear prices filter their way through retail prices. This will not take place until sometime in April. Furthermore, initial retail resistance should be offset to a

February 28, 1977

certain degree by panic restocking on the part of the manufacturers. Finally, a full-fledged descent cannot commence until the 1977-78 African crop is in full view - given the extremely low levels of present stocks. Here, September is the key date.

Technically, the market has not given any sign of being "toppy". Volume and open interest, by remaining well within their normal range, do not indicate important distribution. Prices, although advancing at a rapid clip, correct periodically and do not equate with a climactic blow-off. It should be noted, however, that the recent decline stopped well short of the important July - November - December uptrend, thus signalling an acceleration of the upward momentum. A look at recent option dealings leaves the impression that Commission Houses are still predominantly bearish - a bullish omen. Finally, public awareness of rising prices has, as yet, to reflect itself in the mass media (whereas coffee features prominently). Finally, forward months are still participating fully in the advance so that evidence of heavy hedge selling is still lacking. In all, a nervous but strong and mostly professional bull advance that shows no sign of exhaustion.

Having been long this market ever since the fateful Summer of 1975, at prices as low as 50¢/lb., we'd like to caution that, despite the above analysis, reversals in bull markets of this nature can be sudden and it is thus preferable to remain in a high state of "preparedness". Late March or early April and, once again, late August and early September could be "top" months.

Remain long and raise stop to \$1.60/lb. basis nearby.

COFFEE

**** March'77: 285.00

**** London Robustas March: £ 3,750

Boiling but turning rancid.

Accusations, proclamations, and recriminations over data are bandied between producers and consumers at all levels. We have applied our own clear-headedness and a look into the history books - 1954, the year of the last major freeze and consequent bull market - to cut through the maze and have arrived at the conclusions that the matador approaches this bull market.

Thus far, there has been no shortage of supply. To those who claim otherwise, we ask again, where is the backwardation? (Read January's letter re. cocoa and coffee). And there will never be a shortage. Before stocks are drawn down to the panic levels arbitrarily advertized by Brazil et al., resistance will set in at the consumer level (in 1959, it was as high as 25%), and the producers of the regulated market will see their stocks grow because they won't be able to sell their coffee.

We look anxiously to mid-summer, after the threat of another frost passes, for the deserved demise of the bean. Between now and then, prices should continue hysterically upward (a coffee chart looks evermore like the stock market of 1929) as roasters hoard to insure themselves against a possible dock strike in New York. (Imports of crude coffee during January were 7% higher than December and 20% higher than last year). Once the top is reached, prices could fall to the 80¢ range within eighteen months.

February 28, 1977

Prices are now within striking distance of our \$2.70/lb. target for September, 1977. As such, we now recommend:

1. Wait until the May - July period (once backwardation sets in), to sell short. For reasons too lengthy to enter into here, we prefer the sale of the September contract in London.
2. Purchase March '78. Put options (presently trading in the E535 per ton or \$4600.00 per contract range) on a £100 scale up during the next few months.

COPPER

**** May '77: 68.90
**** December '77: 72.00

The generally strong inflationary psychology now gripping most commodity markets kept the ongoing copper rally from fizzling.

In the fundamental background, the only optimistic note was sounded by figures released by the American Bureau of Metal Statistics showing that refined deliveries to fabricators amounted to 168,600 tons in January, up from 137,400 tons in December and from 137,900 tons last January. U.S. refined copper stocks declined 4500 short tons during January but were still 109,000 tons above last year's January. Copper stocks on the Comex rose to 203,500 tons from 100,100 tons twelve months ago. On top of present burdensome supplies of 2.1 million tons, excess production has been running at approximately 40,000 tons/month.

Prospects for a mid-summer general strike in the U.S. have been offsetting above negatives. A renewed rise in producer prices (as presently rumored) will once again be premature and could choke off the rally.

Remain sidelined.

COTTON

**** March: 76.65
***** October: 74.25

Last week, we recognized a tug-of-war in this recently rewarding market.

On the bullish side of the rope are:

1. Although the trend has softened since last writing, exports remain strong.
2. An improving U.S. economy implies firm domestic consumption.
3. Given this demand strength, stocks will be drawn down and next year's crop will be too low. The U.S.D.A. predicts a 10% increase in acreage and that figure may even be revised downward because drought conditions in California have seriously endangered irrigation facilities, the freezing of the Ohio and Mississippi rivers during last month's inclement weather could create flood conditions in the spring, thus delaying planting and cottons traditional substitution rival, soybeans, may be making a significant upside move between now and planting time.

February 28, 1977

Pulling for the bears are:

1. 358 notices have so far been issued against the March contract - too high.
2. India paid 74¢, (for Central American Cotton), in its global tender this week - too low.
3. Technically, the market suffered from an overbought condition, characterized by new, large speculative positions.

Our present thinking is that the bears will win this battle, but the bulls will win the war. As such, we recommend liquidating all nearby positions. Purchase 1977/78 crop year contracts on 1 - 3 hundred point dips.

We stand by our long-range prediction of \$1.00 cotton, but look to October for vindication.

GRAINS

*** March Wheat: 271
*** July Corn: 267.60

The International Wheat Council revised its estimate of world wheat output to 411.2 million tons -- 300,000 tons less than its January figure; yet still a record. Carryover stocks of the five major exporting areas - Canada, the U.S., Argentina, Australia, and the EEC remain unchanged at 61 million tons or 60.5% up from last year.

The U.S.D.A. increased its estimate of the 1976/77 world coarse grain production to 686.9 million metric tons, up nearly 4 million over its December estimate and 54 million over last year.

And so it goes - since last writing, fundamentals continue bearish and prices trend sideways within a 10¢ range.

One other significant factor has been everybody's eternal question mark - the weather. While we prefer to leave such considerations to the 11:00 o'clock news and/or ground hogs, times are such that it behooves us to tell what we know. The major area of concern is the Great Plains (extending into the Canadian Prairies) where below-average rainfall and extreme temperatures have aggravated drought conditions. Subsoil water reserves are generally low, and therefore, above average spring rains are being hoped for by farmers. Should these rains not occur, it's possible that yield and quality will suffer. Translated into prices, there are those who suggest adverse weather may cause as much as \$2.00 upside move. However, in the final analysis, we won't presume to predict the weather in the spring. We have a hard enough time with commodities.

Remain sidelined.

February 28, 1977

INTEREST RATES FUTURES

*** June '77 GNMA: 96.09
*** June '77 TB: 94.48

The expected technical "bounce" was much smaller than anticipated and yields climbed back to earlier lows.

Concern over the real possibility of Treasury (gigantic) borrowings "crowding out" private borrowers within the framework of a rigidly tight monetarist approach on the part of the Fed, should not be taken lightly.

If the crunch comes now, it will be painful for short-term rates (i.e., they will shoot higher) and slightly less for long-term rates but highly beneficial in the long run (9 - 18 months). If the crunch comes later, short and long term rates will drop off somewhat in the near future, but they will collapse in the longrun (9 - 18 months).

Either way, near term prospects are much too uncertain and much too dependent on the political will of Burns and Co.

Liquidate all long positions and remain sidelined.

PRECIOUS METALS

***** June Comex Gold: 146.0
***** May '77 Silver: 477.5
***** October '77 Platinum: 171.5
***** September '77 Palladium : 60.45

Last month, we stated that "a new attack is now being mounted on the formidable overhead supply between 134 and 140 basis Spot. Should the PM fix overcome 134, it is almost certain that \$140/oz. will be cleared too, paving the way for an extended run to \$150/oz." One week later, London gold made the long-awaited move. Breaking through \$140/oz. on the eve of a new IMF auction is a singular feat and attests to the extraordinary force of the bull move. The advance is being accompanied by rising commodity quotes in other pits and a psychologically inflationary crescendo. We do not love the scenario but prefer not to fight the tape and record maintaining a firmly long position. Put tight sell stops at \$139/oz. basis the London PM fix. Alternatively, take trending profits on a fast rise to 154 - 156 basis nearby Comex.

Having broken out of an extended seven-month base, Silver prices may be headed for a challenge of the 1976 highs - \$5.10/oz. basis Spot.

Silver may be bought for trading turns but stops should be maintained at \$4.56/oz. basis May, on close only and profits realized on 25 - 35¢ advances.

A classic longterm head and shoulder bottom just completed in Platinum may be the launching pad for sharply higher near term prices.

Retain long positions in Platinum and Palladium, as they will turn out to be exceedingly rewarding.

February 28, 1977

SUGAR

March '77 (expired): 8.30
* May '77 : 8.75
* September '77 : 8.80

March '77 Sugar expired uneventfully today, in spite of it coming in today with a sizeable open commitment, totalling 2256 contracts. After the close, trade sources indicated that as much as 90,000 tons (1800 contracts) of Argentine Sugar were delivered by three firms. The bullish hopes of mid-January were thus quickly dashed.

In the fundamental background, the U.S. Agriculture Department has proposed a reduction of U.S. import quotas to 4.2 million tons (compared with actual 1976 imports of 4.7 million tons) to cope with low and falling domestic prices. The objectives of the U.S.D.A., to raise internal prices to the 13 - 15¢/lb. area, will further open the door for HFCS (high function corn syrup), thus defeating eventual recovery.

On a global basis, F.O. Licht estimated that output in the season ending August 31 will total a record 87.6 million tons, 6% more than last year. Consumption was projected at about 83.2 million tons, merely 2% up from last season. Total carryover stock will approximate 30% of consumption, an exceedingly bearish percentage.

Prices have been able to maintain present levels only because of the recent renewal of inflationary fears. Any letup in the latter will force prices down to a more realistic 5.6¢/lb.

Remain short.

WOOD COMPLEX

**** March Plywood: 205.50
**** July Lumber: 202.60

An altercation has developed in the woods. On one side are solid, long term bullish factors. These are:

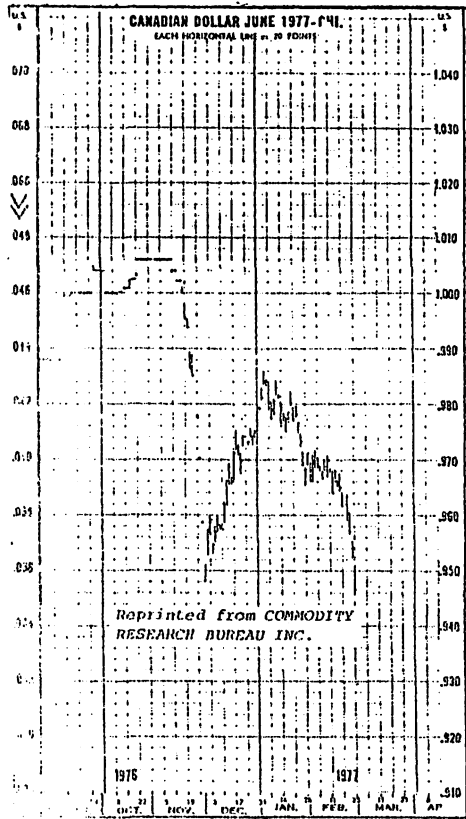
1. Stumpage costs continue high
2. Plywood production is presently operating at veteran 95-98% capacity and should reach 100% by the end of 1977.
3. Inventory positions are low, though growing.
4. Despite last week's rains, the drought on the west coast persists; therefore there exists the genuine possibility of major forest fires during the summer.
5. Labour costs, already "too" high in Canada could still go higher, both here and in the U.S., as contracts are due for renegotiations in June. Also, there is the threat of major strikes.
6. Demand should remain strong as a result of an improving economy and consequent construction activity.

Bearish factors are short term and technical. Essentially, the market is overbought.

Ultimately, the bulls will prevail in their struggle. However, not wanting to suffer wounds ourselves, we recommend liquidating all long positions until overbought condition is corrected. Wait until the current correction is completed - it should be in the \$10.00 - 20.00 range - before repurchasing.

Canadian Dollar Mar.'77: 95.60 June '77: 95.01 Dec.'77: 94.75

Last month, we indicated that "we are having second thoughts about a renewed cut in the bank rate in the near future..". Just as the latter was being published, the Bank of Canada cut its discount rate by 1/2% to 8%. So much for our prescience.



There is no doubt, however, that monetary aggregates are still growing at a very rapid (a dangerous) clip; recently M₁, the main laggard, has begun to pick up and now shows a year-over-year increase of over 5%.

Interestingly enough, as we indicated for most of last year, the one-year discount moving below 200 points, gave a very reliable sell signal; this took place in the aftermath of the latest Bank Rate cut.

Surely the Bank of Canada is aware of the tremendously inflationary consequences of the present depreciation and monetary policy. Surely 99% of advisory services looking at an 75-85-90¢ dollar cannot be right. We, therefore feel, that the Bank's next move will be to raise interest rates, if only slightly, and provide some comfort to the poor 22 million Canadian residents who saw their moneys erode an astounding 8%. (Especially in view of the fact that the U.S.\$ itself is not such a hard currency). Trade June '77 from the long side, placing stops at 94.00).

Reprinted from COMMODITY RESEARCH BUREAU INC.

	Sept. '76	Oct. '76	Nov. '76	Dec. '76	Jan. '77	1976	1977
Money Supply %							
Narrowly Defined	7.90	5.00	-1.36	1.67	5.05		
More Broadly (M2)	16.76	15.03	16.40	17.72	17.07		
M3	16.80	15.84	15.18	16.03	16.31		
Balance of Trade (mln \$)	+440	+200	-118	+180	+119	+1.13 (bln)	+1.19
* General Bank Loan % (Percentage Growth)	21.23	20.95	20.23	21.36	21.27		
* C.P.I. %	6.50	6.23	5.60	5.80	6.13		
* Food Price Index %	-0.48	-0.90	-1.70	-0.70	+0.72		
	Jan. 27	Feb. 3	Feb. 10	Feb. 18	Feb. 25		
*** Exchange Rate - Trade Weighted %	-1.02	-1.56	-1.70	-2.05	-3.87		
Euro Deposit -							
1 Month	8 1/8	8	7 11/16	7 3/4			
2 Month	8 1/8	7 7/8	7 13/16	7 3/4			
3 Month	8 1/8	8	7 13/16	7 7/8			
T-B Rate (90 Days)	8.04	7.73	7.65	7.66			

Open Interest (Feb. 28): 3829
 Contract Size: CD\$ 100,000.00
 Round Turn Commission: U.S. \$ 60.00

Average Volume: (Feb. 1 Feb. 22): 721.93
 Margin Req'd: U.S. \$ 2,000.00

February 28, 1977

British Pound Spot:Mar.'77: 171.10 June '77: 167.95 Sept.'77: 164.40 Dec.'77: 162.60

In the week of disclosure of January's horrendous trade deficit, Sterling sold down to \$169.00 before a determined intervention by the Bank of England managed to firm it up to the \$170.50 - 170.90 range. In the latest maneuvering, the Bank resorted to widening the forward spreads by purchasing Spot and selling 30, 60, 90, and 120 days. This technique is an implicit acknowledgement that domestic interest rates have fallen much too far.

Inflation in the past few months has accelerated despite the presumed success in Stage II of pay policy and the enormous rate of unemployment. Clearly, this is a delayed effect of Sterling's earlier depreciation.

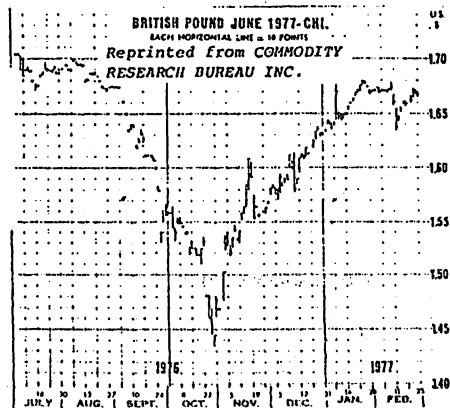
The cost of February's intervention will become known in the next few weeks. More of the same should take place over the next three months as inflation and trade figures (including the North Sea bonanza) worsen and labor unrest grows. Since the Bank's upside limit is \$1.72, speculators selling Sterling are only risking a backwardation, which, in real terms, is equivalent to a contango.

	Spot/ Mar.'77	Spot/ June'77	Spot/ Sept.'77	Spot/ Dec.'77		
% Discount from Spot (Annualized)	12.6	12.6	13.34	11.4		
Balance of Trade (mln SGT)	Sept. -376	Oct. -354	Nov. -510	Dec. -215	Jan. -545	1976 1977
*W.P.I. %	16.00	16.26	17.72	17.80	19.52	
* Retail Price Index %	14.31	14.74	14.97	15.06	16.57	
Reserves (mln US\$)	5.158	4.703	5.156	4.129	7.196	
	Jan.27	Feb. 3	Feb. 10	Feb.18	Feb.25	
***Exchange Rate - Trade Weighted %	-40.07	-40.27	-40.33	-40.92	-40.72	
Euro Deposit % -						
1 Month	13 3/8	13	13 5/8	16 1/2		
3 Month	12 7/8	13	13 5/8	16 1/2		
6 Month	12 1/8	12 1/2	13 1/8	16		

Open Interest (Feb. 28): 1092 Average Volume (Feb. 1 - 22): 120.36

Contract Size: BP 25,000.00 Margin Required: U.S. \$ 2,500.00

Round Turn Commission: US \$ 60.00



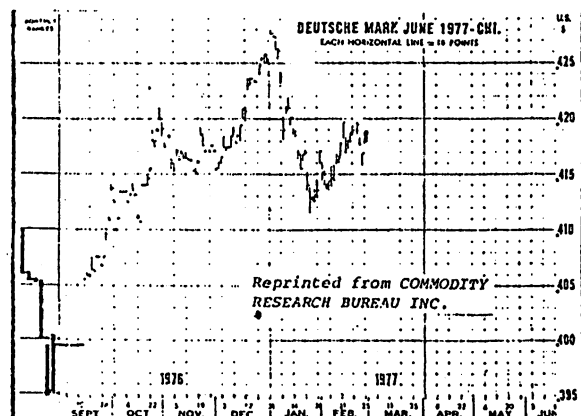
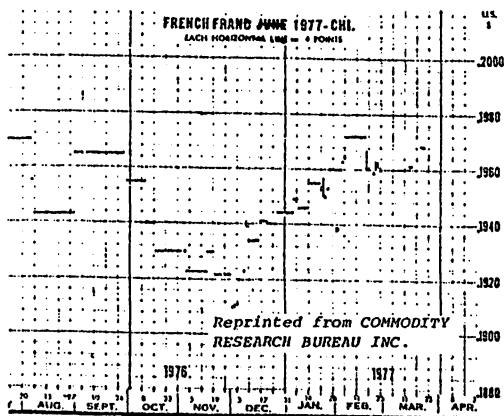
February 28, 1977

French Franc Mar '77: 99.50 June '77: 97.00 Dec. '77: 91.00

With the Portugese escudo just being devalued and the Spanish peseta in imminent danger of suffering the same fate, we doubt the Franc is far behind. The catalyst will be the coming March elections.

Remain short.

	Sept.	Oct.	Nov.	Dec.	Jan.	1976	1977
Balance of Trade (ln FFR)	-3.350	-4.710	-3.800	-1.32	-2.38	-920	-2.38
* Net Change of Foreign Exchange Assets %	12.00	15.24	17.64	10.32	N/D		
* Retail Price Index %	9.73	9.80	10.11	9.90	N/D		
	<u>Jan. 27</u>	<u>Feb. 3</u>	<u>Feb. 10</u>	<u>Feb. 18</u>	<u>Feb. 25</u>		
Weekly Reserves (mln FFR)	84,323	84,546	84,744	84,819			
*** Exchange Rate Trade Weighted %	-3.60	-3.71	-3.80	-4.18	-4.35		
Euro Deposit % -							
1 Month	10 7/8	11 1/8	10	11 1/2			
3 Month	12	11 5/8	10 5/8	11 1/2			
6 Month	12 3/8	12 1/4	11 1/8	12 1/8			
Open Interest (Feb. 28): 208							
Contract Size: FFR 250,000.00							
Round Turn Commission: US \$ 60.00							
						Average Volume: (Feb. 1 - 22): 3.5	
						Margin Required: US \$ 2,500.00	



Deutsche Mark: Mar. '77: 41.90 June '77: 42.00 Dec. '77: 42.12

Attention is centering once again on the Deutsche Mark. As correctly forecast six months ago, the DM/\$F rate continues to move in favour of the DM and has now reversed a full 9% since first suggested.

Continue firmly long.

(Cont'd....)

Deutsche Mark

	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>1976 Total</u>	<u>1977</u>
Balance of Trade (bln Marks)	+4.60	+3.59	+3.00	+3.27	1.99	+34.6	1.99
* Cost of Living %	4.04	3.81	3.73	3.90	4.10		
	<u>Jan. 27</u>	<u>Feb. 3</u>	<u>Feb. 10</u>	<u>Feb. 18</u>	<u>Feb. 25</u>		
Net Monetary Reserves (bln Marks)	85.8	85.3	85.1	84.9			
*** Exchange Rate - Trade Weighted %	+27.27	+27.57	+27.76	+28.14	+28.34		
Euro Deposit - %							
1 Month	4 7/16	4 5/16	4 7/16	4 5/16			
3 Month	4 9/16	4 1/2	4 5/8	5			
6 Month	4 7/8	4 11/16	4 3/4	4 5/8			

Open Interest (Feb. 28): 1865
Contract Size: DM 125,000.00
Round Turn Commission: US\$ 60.00

Average Volume (Feb. 1 - 22) 728.71
Margin Required: US\$ 2,500.00

Swiss Franc

March '77: 39.21 June '77: 39.41 Dec. '77: 40.17

	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>1976</u>	
Balance of Trade (bln SFR)	1.160	+ .294	+ .240	- .134	- .346	+ .1736	
* C.P.I. %	.91	1.03	.90	1.3	.90		
	<u>Jan. 27</u>	<u>Feb. 3</u>	<u>Feb. 10</u>	<u>Feb. 18</u>	<u>Feb. 25</u>		
Weekly Reserves (bln SFR)		13.20 (Feb.1)	13.98 (Feb.8)	13.29 (Feb.15)			
***Exchange Rate Trade Weighted	+44.54	+44.91	+ 44.61	+44.46	+42.53		
Euro-Deposit - %							
1 Month	1 7/16	1 7/16	1 3/8	2 1/8			
3 Month	1 9/16	1 1/2	1 3/8	2 1/8			
6 Month	2 7/16	1 7/8	1 11/16	2 3/16			

Open Interest: (Feb.28): 1904
Contract Size: SFR 125,000.00
Round Turn Commission: US\$ 60.00

Average Volume (Feb. 1 - 22): 149.5
Margin Required: US\$ 2,500.00

All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.

Albert D. Friedberg,
Vice-President,
Commodities Futures

David Rothberg,
Director of Research