



## Friedberg & Co. Ltd.

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CURRENCY      COMMENTS      Mar. 30th, 1977

### British Pound

Spot: 172.08    Jun.77: 170.85    Sep.77: 168.65    Dec.77: 166.80

					<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>				
Money Supply in Mln Stg	1975				14,735	15,904	16,775	17,477				
	1976				17,801	18,290	19,232	---				
GNP in Bln Stg	1975				22.7	24.94	26.5	28.98				
	1976				28.37	29.13	31.13					
Gov't Finance (in Mln Stg)	1975:	Balance			- 980	-2,347	-2,308	-2,753				
		Revenue			9,749	7,947	8,974	8,696				
		Expenditure			9,438	9,240	10,311	10,341				
	1976:	Balance			-1,405	-2,188	-1,641	---				
		Revenue			11,845	9,816	11,016	---				
		Expenditure			12,064	11,238	11,769	---				

		<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
Balance of Trade (in Mln Stg)	1975	-275	-290	-118	-291	- 16	-160	-291	-378	-205	-224	-287	-209
	1976	-173	-246	- 16	-263	-341	-364	-527	-293	-376	-354	-509	-179
Reserves (in Mln US\$)	1975	6,833	7,064	7,117	7,132	6,491	6,198	6,259	6,004	5,859	5,713	5,606	5,429
	1976	6,785	7,024	5,905	4,848	5,423	5,312	5,372	5,044	5,217	4,771	5,220	4,230
	1977	7,259	7,789	---									
W.P.I. 1970=100	1975	172.0	174.4	180.3	190.2	187.3	188.8	191.5	193.7	195.0	197.4	198.6	201.4
	1976	204.9	206.9	208.4	211.2	214.6	217.0	219.8	223.4	226.2	229.5	234.3	237.2
	1977	244.9	248.1	---									
Retail Price Index 1974Jan=100	1975	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0
	1976	147.9	149.8	150.6	153.5	155.2	156.0	156.3	158.5	160.6	163.5	165.8	168.0
	1977	172.4	174.1	---									

	<u>Feb.25</u>	<u>Mar. 4</u>	<u>Mar.11</u>	<u>Mar.18</u>	<u>Mar.24</u>
*** Exchange Rate-Trade Weighted %	-40.72	-40.59	-40.37	-40.36	-40.49
Euro Deposit - %					
1 Month	12 3/4	13 1/4	12 7/8	11 1/8	11 7/8
3 Month	13.	13 1/2	12 3/8	11 1/4	11 7/8
6 Month	13 3/8	13 1/2	12 5/8	11 3/4	12 3/8
12 Month	12 3/4	13 1/16	12 13/16	12.	12 1/4
Open Interest (Mar.24) :	795				
Contract Size :	BP 25,000.00				
Minimum Fluctuation :	.0005 (\$12.50)				
Margin Required :	US\$ 2,500.00				
Average Volume (Mar.1-24) :	83				
Approx. U.S. Dollars :	\$43,000.00				
Daily Limit :	.05(\$1,250.00)				
Round Turn Commission :	US \$60.00				

Such has been the competitive degradation of the U.K. economy, that it can only save the Pound when undergoing a state-of-siege economy. So long as the labor market is 'loose', wage inflation can be brought under certain control. So long as industrial activity is limping along a nil rate of growth, export orders can be filled and imports - for inventory re-stocking - can be held at bay. Finally, a state of siege economy is bullish for gilts and therefore a) they attract 'hot money' flows & b) reduce domestic inflationary pressures. On top of this favorable situation, North Sea Oil has begun to throw-off meaningful amounts of foreign exchange & expectations of massive payments surpluses for the late 70's.

The UK seems set to repeat the false sense of strength experienced in the last state-of-siege period of 1970-1972 that saw Sterling move up to an incredible level of overvaluation. Just as then, the rise in Sterling hid an ongoing but fundamental erosion in economic competitiveness that came to light no sooner the economy flashed a green light. Cover all short positions & go long deferred months, particularly Dec. '77. Spot may rise to 1.80 - 1.85 in the coming months & forward discounts will continue to narrow.

Stop all long positions if Sterling breaks 1.6850, Spot basis.

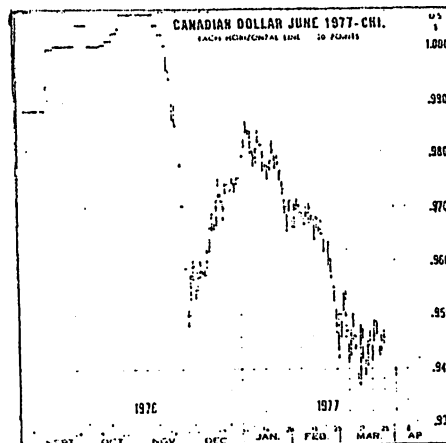
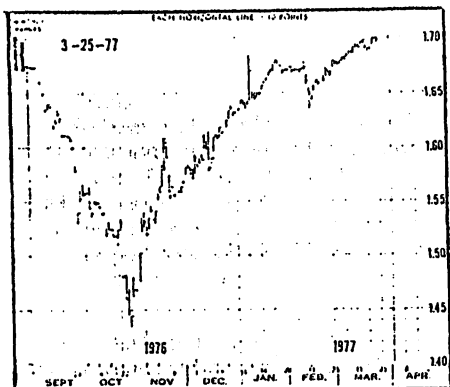
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Balance of Trade</b>													
Mln CDN \$	1975	-120	-178	-170	+ 41	- 33	-213	+ 2	-342	+ 53	+ 7	-189	- 91
	1976	-309	- 32	- 27	+ 62	+150	- 52	- 80	+349	+271	+200	-118	+130
	1977	+130	+109	---									
<b>Reserves</b>													
Mln CDN \$	1975	5,802	5,895	5,826	5,535	5,398	5,330	5,225	5,191	5,218	5,301	5,414	5,325
	1976	5,599	5,877	5,827	5,804	5,804	5,985	5,793	5,579	5,838	5,838	5,079	5,843
	1977	5,679	5,270	---									
<b>C.P.I.</b>													
	1975	132.4	133.4	134.1	134.8	135.9	137.9	139.8	141.2	141.5	142.8	144.1	144.3
1971=100	1976	145.1	145.6	146.2	146.8	148.0	148.7	149.3	150.0	150.7	151.7	152.2	152.7
	1977	154.0	155.4	---									
<b>Food Price Index</b>													
	1975	154.0	155.3	154.7	155.5	157.2	162.3	166.1	167.8	166.6	167.3	168.3	167.2
	1976	166.8	166.3	165.1	164.5	167.0	167.3	167.0	166.9	165.8	165.8	165.4	166.0
	1977	168.0	171.4	---									
<b>General Bank Loans</b>													
Mln CDN\$	'75	35398	35359	35640	35960	36340	36861	37461	38015	38624	39253	40079	40222
	'76	41019	41861	43100	43250	43834	44601	45293	46058	46830	47463	48199	48815
	'77	49747	50738	---									
<b>M1</b>													
	'76	17609	17854	17662	17478	17739	18053	18020	18140	18260	18192	18256	16420
	'77	18499	18850	---									
<b>M2</b>													
	'76	67726	68748	69452	70984	72299	73419	73813	74540	75598	76118	77150	78512
	'77	79289	79739	---									

	Feb.25	Mar. 4	Mar.11	Mar.18	Mar.24
*** Exchange Rate-Trade Weighted %	-3.47	-4.03	-4.56	-4.59	-4.52
Euro Deposit - %					
1 Month	7 11/16	7 1/2	7 13/16	7 11/16	7 3/4
3 Month	7 11/16	7 1/2	7 13/16	7 13/16	7 7/16
6 Month	7 13/16	7 13/16	7 3/4	7 13/16	7 9/16
12 Month	7 13/16	7 15/16	8.	7 15/16	7 13/16
Open Interest (Mar.24) :	2656	Average Volume (Mar.1-24) : 1571			
Contract Size :	CD\$100,000.00	Approx. U.S. Dollars : \$95,000.00			
Minimum Fluctuation :	.0001 (\$10)	Daily Limit : .0075 (\$750.00)			
Margin Required :	US\$ 2,000.00	Round Turn Commission : \$60.00			

In view of recent re-acceleration of growth in M1, M2 & loan demand, Canada's Central Bank retains very little leeway for reducing interest rates. Despite this generally bullish development, pre-budget rumours of strong reflationary measures & the continued cold-war between Ottawa & Quebec City, has once again exerted strong downside pressure & the recent consolidation of the CD seems to be giving way to a renewed downtrend.

Sell June '77 CD at present levels & place protective stops at 94.90.

British Pound June 1977-Chi.



		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Money Supply (Bln Marks)	1975	144.9	151.4	158.8	161.8	
	1976	162.4	169.4	170.5	---	
GNP (Bln Marks)	1975	1,009.2	1,028.8	1,044.4	1,079.2	
	1976	1,086.0	1,108	1,124.4	---	
Gov't Finance ( Bln Marks)						
1975:		Balance	- 6.38	-10.61	- 6.36	-10.71
		Revenue	29.64	28.68	33.23	38.57
		Expenditure	36.02	39.29	39.59	49.28
1976:		Balance	- 6.02	- 6.85	- 6.82	---
		Revenue	32.45	32.92	35.32	---
		Expenditure	38.47	39.77	42.14	---

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Balance of Trade (Bln Marks)	1975	+3607	+3495	+3447	+2810	+3253	+3092	+3715	+1747	+2764	+2844	+3154	+3229
	1976	+2495	+2195	+3850	+2236	+3286	+2150	+2593	+1210	+4660	+3590	+3000	+3270
	1977	+1980	+2730	---	---	---	---	---	---	---	---	---	---
W.P.I. 1962=100	1975	151.3	151.3	151.4	151.6	151.9	152.6	152.9	151.9	152.2	152.8	153.2	153.6
	1976	156.5	158.1	159.4	160.7	161.4	161.4	n/a	161.9	161.5	n/a	160.8	160.8
	1977	161.7	161.8	---	---	---	---	---	---	---	---	---	---
Cost of Living 1970=100	1975	131.3	132.0	132.6	133.6	134.4	135.4	135.4	135.2	135.9	136.3	136.7	137.1
	1976	138.2	139.2	139.7	140.6	141.1	141.5	140.9	141.4	141.4	141.5	141.8	142.5
	1977	143.8	144.5	---	---	---	---	---	---	---	---	---	---

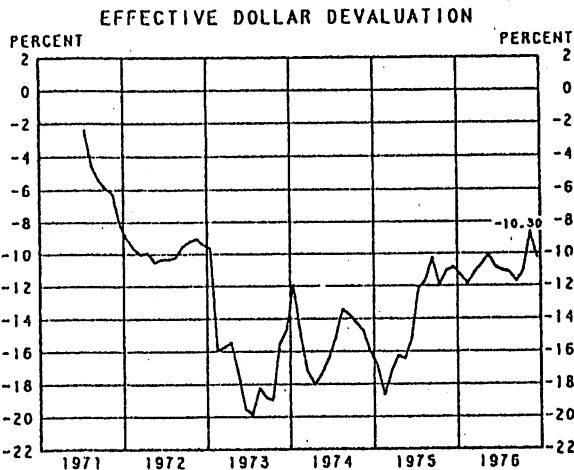
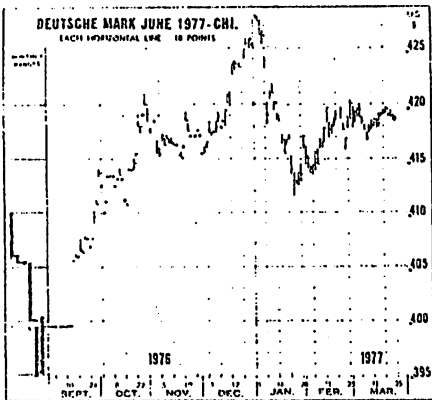
	Feb.25	Mar. 4	Mar.11	Mar.18	Mar.24
*** Exchange Rate-Trade Weighted %	+28.34	+28.46	+28.31	+28.45	+28.43
Euro Deposit - %					
1 Month	4 1/2	4 1/2	4 1/2	4 9/16	4 9/16
3 Month	4 5/8	4 9/16	4 11/16	4 11/16	4 9/16
6 Month	4 3/4	4 11/16	4 11/16	4 11/16	4 11/16
12 Month	5.	4 15/16	4 15/16	4 13/16	4 13/16

Open Interest (Mar.24) : 1380  
 Contract Size : DM 125,000.00  
 Minimum Fluctuation : .0001 (\$12.50)  
 Margin Required : US\$ 2,500.00

Average Volume (Mar.1-24) : 308  
 Approx. U.S. Dollars : \$52,000.00  
 Daily Limit : .0060 (\$750.00)  
 Round Turn Commission : US 60.00

With monetary aggregates running well ahead of the Bundesbank's 8% growth target, some firming of short term rates is in the offing. As it is, Euro-DM for 3 month are trading just 3/8% points below comparable U.S. rates & are plainly bullish for the DM.

Retain long positions, placing stops at 41.30 basis Spot.



NOTE: EFFECTIVE DEVALUATION IS MEASURED BY THE APPRECIATION OF THE TWENTY-TWO CURRENCIES OF OECD COUNTRIES RELATIVE TO THE PAR VALUES WHICH PREVAILED AS OF MAY 1970. THE APPRECIATION IS THEN WEIGHED BY SEPARATE EXPORT AND IMPORT SHARES WITH THE UNITED STATES BASED ON 1972 TRADE DATA. LATEST DATA PLOTTED: DECEMBER. SOURCE: U.S. TREASURY. PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Money Supply	1975	355.08	366.99	387.78	407.18
(in Bln Francs)	1976	415.46	428.66	438.39	---
Gov't Finance (bln Francs)					
1975:	Balance	- 3.55	- 5.70	-37.15	+ 3.39
	Revenue	74.53	83.31	56.45	81.26
	Expenditure	78.08	89.01	93.60	77.87
1976:	Balance	---	+ 5.75	-20.50	---
	Revenue	---	96.94	76.47	---
	Expenditure	---	91.15	96.97	---

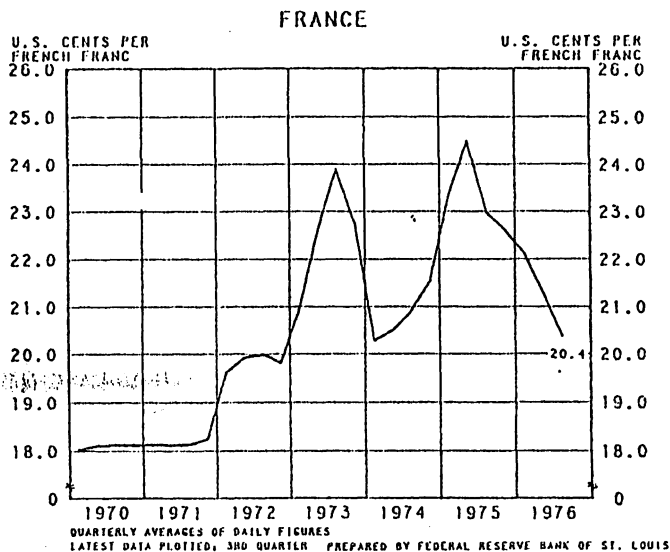
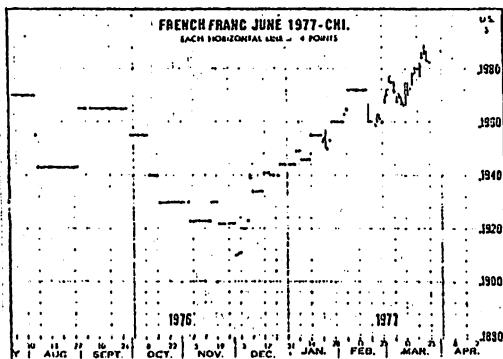
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Balance of Trade												
(Bln Francs) 1975	-108	+ 894	+ 832	+1,627	+1,796	+1,168	+ 833	+1,233	+ 92	-1,575	- 750	- 289
1976	-920	- 242	- 857	- 328	- 762	- 104	-1,707	-2,460	-3,350	-4,710	-3,820	-1,320
1977	-2380	-1520										
Reserves	'75 95919	96493	97377	98484	100523	93803	93190	94556	95570	99659	101791	100986
(Bln Francs) '76	99710	95618	87525	88388	88214	86646	85510	85210	85125	86480	86520	91530
'77	92200	92370	---									
Retail Price Index	'75 145.9	147.0	148.2	149.5	150.6	151.7	152.8	151.8	155.1	156.4	157.3	158.2
1970=100	'76 159.9	161.0	162.4	163.8	164.9	165.6	167.2	168.4	170.2	171.8	173.2	173.8
	'77 174.3	175.5	---									

	Feb.25	Mar. 4	Mar.11	Mar.18	Mar.24
*** Exchange Rate-Trade Weighted %	-4.35	-4.31	-4.39	-4.34	-4.29
Euro Deposit - %					
1 Month	11.	10 3/4	10 3/4	10 1/2	10 1/4
3 Month	11 1/4	10 7/8	11 1/8	10 7/8	10 3/4
6 Month	11 7/8	11 3/8	11 1/2	11 1/4	11 1/4
12 Month	12 5/16	12.	11 7/8	11 5/8	11 5/8
Open Interest (Mar.24) :	239	Average Volume (Mar 1-24) : 32			
Contract Size :	FFR 250,000.00	Approx. U.S. Dollars : \$50,000.00			
Minimum Fluctuation :	.00005 (\$12.50)	Daily Limit : .00560 (\$1,250.00)			
Margin Required :	US\$ 4,000.00	Round Turn Commission : US\$ 60.00			

Despite widespread leftist gains in recent municipal elections ( that saw stock prices collapse over 10% in a few days ) & artificial restraints on prices that do nothing to improve France's long term anti-inflation battle, the Franc held its own & even managed to eke out small gains. Strength can be attributed to official intervention & favorable interest rate spreads vis a vis the U.S. Dollar.

The Franc's case is a strong indication that the U.S. Dollar's long convalescence is coming to an end.

Remain short June '77 but retain protective stops at 20.10.



		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Money Supply (in Bln Yen)	1975	43,030	44,268	45,014	46,680
	1976	49,020	50,971	51,968	52,553
GNP (in Bln Yen)	1975	139,683	143,929	147,279	150,456
	1976	156,625	164,018	167,115	---
Gov't Finance (in Bln Yen)					
1975:	Balance	-1,092	-1,844	- 953	-3,162
	Revenue	2,075	3,432	2,390	2,829
	Expenditure	3,167	5,276	3,343	5,991
1976:	Balance	-2,410	1,389	929	---
	Revenue	2,434	6,620	2,623	---
	Expenditure	4,844	5,232	1,694	---

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Balance of Trade	1975 -631	+598	+789	+645	-19	+495	+534	+516	+412	+350	+834	+1,122
Min U.S. \$	1976 -554	+669	+1,357	+733	+660	+975	n/a	n/a	n/a	n/a	+541	+1,650
	1977 -770	+1,250	---	---	---	---	---	---	---	---	---	---
Reserves (mln U.S.\$)	1975	13509	13968	14152	14335	14557	14604	14635	14090	13269	13192	12958
	1976	13153	13951	14182	14937	15210	15397	15940	16290	16409	16578	16726
	1977	16480	16820	---	---	---	---	---	---	---	---	---
C.P.I. 1970=100	1975	165.5	166.0	167.6	171.3	172.5	172.4	172.8	172.4	175.6	178.6	177.3
	1976	186.4	181.6	182.3	187.2	187.6	188.1	187.7	185.8	190.9	192.6	193.3
	1977	197.6	---	---	---	---	---	---	---	---	---	---
W.P.I. 1970=100	1975	156.7	155.9	155.6	155.9	155.9	155.7	155.9	156.8	157.3	157.9	158.3
	1976	160.5	161.6	162.6	163.5	164.1	164.9	166.5	167.3	168.6	168.2	166.7
	1977	168.7	169.4	---	---	---	---	---	---	---	---	---

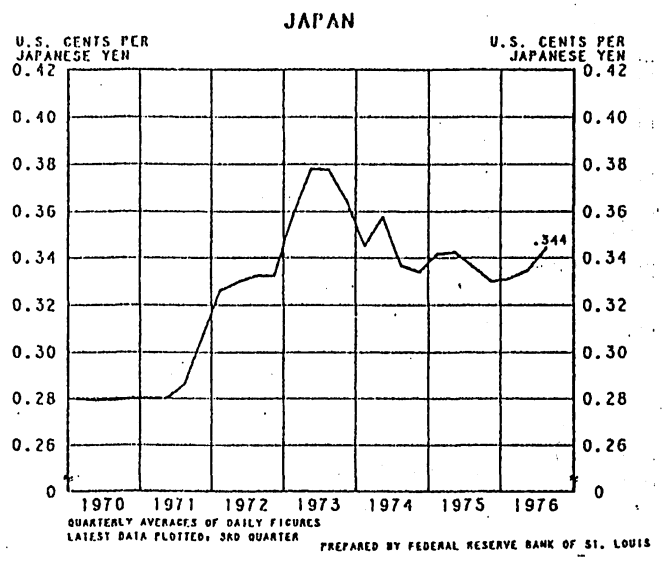
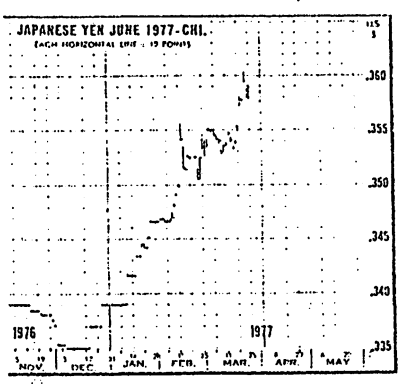
Open Interest (Mar.24) :	1426	Average Volume(Mar.1-24):	123
Contract Size :	Yen 12,500,000.00	Approx. U.S. Dollars :	\$45,000.00
Minimum Fluctuation :	.0000010 (\$12.50)	Daily Limit :	.000660 (\$750.00)
Margin Required :	US\$ 3,000.00	Round Turn Commission :	US\$ 60.00

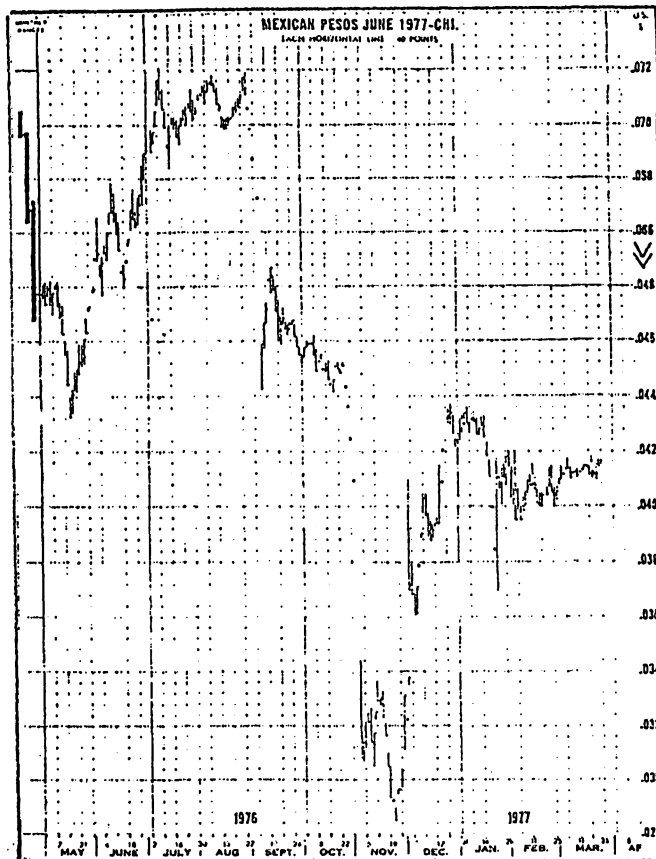
An officially 'sanctioned' bull market in Japanese Yen has developed. Tacit approval of a 270 Y/Dollar rate is Japan's concession to the West's economic impotence.

Inflation, when measured by the WPI, has come to almost a stand-still (by Japanese standards) & fully justifies a Yen up-valuation.

We feel that the bull move, once in progress, will be hard to stop at just 270 = 37.03 & therefore long positions are in order.

Buy Dec. 77 at market - place protective stops at 35.50.





Mexican Peso Spot: 44.00 June '77: 41.40 Sep. '77: 39.10 Dec. '77: 37.00  
Mar. '78: 34.75 June '78: 32.90 Sep. '78: 30.75

Forward Disc. (Annual Basis)	Spot/ June 77	June 77/ Sep. 77	Sep. 77/ Dec. 77	Dec. 77/ Mar. 78	Mar. 78/ June 78	June 78/ Sep. 78
	23.64%	22.22%	21.48%	24.32%	21.29%	26.14%

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Monthly Earnings Index	1975	185.0	196.0	206.0	216.0
1970=100	1976	214.0	231.0	247.0	---
W.P.I.	1975	158.6	165.0	170.4	174.3
1970=100	1976	184.0	189.9	200.5	242.6
C.P.I.	1975	168.5	173.4	179.9	185.5
1970=100	1976	193.7	198.9	203.4	225.2
Money Supply in Bln Pesos	1975	95.35	100.63	101.53	109.64
	1976	111.88	117.32	---	---
Government Finance (Mln Pesos)					
1975:	Balance	-7,140	-5,998	-9,432	-19,479
	Revenue	22,777	26,361	24,974	28,965
	Expenditure	29,917	32,359	24,406	48,444
1976:	Balance	-10,356	-6,811	-13,092	---
	Revenue	28,989	35,162	32,120	---
	Expenditure	39,345	41,973	45,212	---

Open Interest (Mar. 24)	: 1,384	Average Volume (Mar 1-24)	: 59
Contract Size	: MP 1,000,000.00	Approx. U.S. Dollars	: US\$ 45,000.00
Minimum Fluctuation	: .00001 (\$10.00)	Daily Limit	: .00150 (\$1,500.00)
Margin Required	: US\$ 4,000.00	Round Turn commission	: US\$ 60.00

The present reality is a rate of inflation in excess of 3% per month & an uncontrolled growth in monetary aggregates & government spending that bodes ill for the future of the MP. The pot of gold at the end of the rainbow is presumed reserves of 60 billion barrels of oil & 'modest' expectations of net oil exports of 2 million b/d by 1982. To reach the latter, this nearly bankrupt republic will have to raise \$16 billion in capital, aside from \$3-5 billion yearly to service the present current account deficit.

Sell forward positions whenever they sell at discounts of 1-1½ %/month or less & repurchase when forwards widen to discounts of 3-4%/month.

March 30, 1977

COMMODITY COMMENTS

*Friedberg Commodity Index*

February 28: 231.92 (Revised)  
March 30: 237.37  
Net Change: +2.34%

SIGNS OF RESTRAINT

The U.S. Senate balks at Carter's \$50 rebate program (although it probably will pass). President Carter himself reiterates frequently his pre-election pledge of a balanced federal budget for 1980-1981 (instead of allowing forgotten to be forgotten). Again, President Carter recommends a raise in the national minimum wage to 'only' \$2.50/hr., instead of Meany's catastrophic \$3/hr., in spite of the strong Democratic support within the labour movement. The Chairman of the Federal Reserve, in testimony to the Senate Budget Committee states that he will err on the 'easy' side on accommodating the tax rebates, but warns that if we then find that monetary growth does not soon moderate in expected degree, we may need to take action to absorb bank reserves temporarily... in line with his previously announced growth targets of 4½-6½% for M<sub>1</sub> and 7-10% for M<sub>2</sub>.

The above signs may just be straws in the wind. They do not seem to be, however, of a temporary nature nor are they particular to just the U.S. Such has been the trend in the UK, Germany, Switzerland, Japan, Belgium and Canada. The pledges regarding conservative fiscal and monetary policies are couched in actual numbers. Since these figures are easily measurable, those responsible for carrying out policy will be held accountable.

We cannot see the makings of a runaway inflation ... yet.

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

COCOA

\*\*\*\*\* May '77: 167.00  
\*\*\*\*\* September '77: 158.00  
\*\*\*\*\* London March '78: +1976.50

No sooner had we warned last month of an impending 'top' possibly in late March - early April, than the floor caved in and nearby March, in just 3 trading days, dropped 45¢/lb. to hit bottom at the critical \$1.60 area. The precipitous fall was attributed to the massive increase in margin deposits applicable to so-called speculative positions in London. The faint decline in the London open interest, however, belied the existence of large speculative positions. The market subsequently rallied and came within a few cents off the all-time high of 2.0430 basis March '77 (although deferred months barely reached new highs). A renewed decline set in last week that saw May '77 hit a low of 163.60 before rebounding to close at 168.95. The May '77 low was critical in that it a) represented the last important February low and b) was just on the extremely important August-September-November-January up-trend.

All this time, cash prices remained almost unaffected as evidenced by the paucity of deliveries against the expired March '77 position. Most of the 20 deliveries were affected only above the \$1.90/lb. level. It is also noteworthy that through this last decline, the May-September and September-December

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London spreads did not narrow and, in fact, reached new highs as recently as 3 days ago. This can only be considered bullish.

U.S. imports of cocoa and chocolate products during February were as follows, with comparisons, according to Census Bureau figures, in lbs:

	<u>Cocoa Beans</u>	<u>Cocoa Butter</u>
Feb 77	48,157,076	4,953,433
Jan 77	68,549,021	3,227,639
Feb 76	36,721,835	4,543,773
Jan-Feb 77	116,706,097	8,181,072
Jan-Feb 76	112,681,775	9,144,647

	<u>Unsweetened Chocolate</u>	<u>Unsweetened Cocoa</u>
Feb 77	3,220,550	13,436,990
Jan 77	3,483,549	16,312,678
Feb 76	2,914,353	9,804,702
Jan-Feb 77	6,704,099	29,749,668
Jan-Feb 76	8,171,079	28,681,455

The above figures clearly do not indicate a slowing down of consumption. On the supply side, little is yet known as to the eventual size of the Temporao crop placed privately by trade sources at between 2.4 and 3.0 million bags.

The size of the Temporao crop and the expectation of prior U.S. and U.K. grinding figures to be released shortly are playing havoc with the longs. We believe that the eventual highs are yet to come, but would strongly respect a violation of the present up-trend, now somewhere between 1.60 and 1.64 basis May '77.

Remain long; if up-trend is broken, look to sell into the next 1000-1500 point rally.

COFFEE

\*\* May '77: 308.50  
\*\* London, May '77: £3950

Disagreement over production and inventory figures has arrived at a point that leaves one to consider that the various sources are referring to two entirely different commodities. E.g.: the USDA feels that stocks of producer nations were 23 million bags on October 1st. The ICO feels this is a bit high and claims to have had only 6.0 million bags. (Colombia has protested that this latter figure is too high!)

One supply statistic is an absolute inviolable fact: 700 lots were delivered against the March contract. We conclude this is too high. For one thing, 700 lots translates into 200,000 bags. Analysts decry the drawdown of stocks and yet here resides approximately 7.5% of total U.S. green coffee inventory not being used. Supplies can't be that tight. By comparison, there were only 20 lots delivered against the March cocoa, a commodity with certain similar characteristics.

Indications that the demand has slackened considerably. Roaster activity is presently around 15.20% less than last year and the Wall Street Journal concluded yesterday that consumer resistance has finally begun to set in. Wholesale prices have risen to the \$4.20 per lb. (approximately) level and retail prices are now catching up at an accelerated rate as roasters have abandoned their policy of granting a one-month respite for payment.

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Has the market topped? Is the long awaited downside move imminent? Perhaps. As yet the market has still not inverted. But backwardation may never occur in the bull market as speculators continue to purchase forwards in anticipation of producer nation's upward revisions of export taxes. This is to suggest that these deferred contracts are overbought and will be the ones most liable once the top is reached.

Remain sidelined.

COTTON

\*\*\*\* July '77: 78.22  
\*\*\*\*\* October '77: 74.30

Our conclusions this month are virtually the same as those we arrived at last month. We believe this is essentially a bull market governed by strong fundamentals, and being inhibited only over the short term by technical - specifically by an excess of open interest - influences.

Mill demand followed the general economy and rebounded strongly after the January slowdown. The average daily rate of usage increased by almost 10%. More importantly the total consumption to the end of February when compared with last year's data shows a decrease of only 5.7% versus the USDA's official figure of 10%. Exports have reassumed their habitual position in the vanguard of the bulls after a brief respite as actual exports are rapidly catching up to commitments which have already surpassed the USDA target area. In fact, more actual cotton has been delivered this year against commitments (56% on March 13th) than was delivered at the same time last year (53%).

Next year's supply data began as good news and has since improved. Domestically it is doubtful now that the 12.8% increase in plantings - remember, the market responded by making limit advances at the news - will be reached because of the drought in California (which was expected to increase its acreage by 24%) and the high price of soybeans. This year's world crop has been revised downward by the USDA - from 58.0 to 57.6 million bales - and next year's crop has been revised downward by the ICAC. The only black spot on the horizon may develop April 14th when the USDA reports again on prospective plantings.

We favour purchase of the October contract at around the 73¢ level and end by reiterating our long-range upside target of \$1.00.

GRAINS

\*\*\*\* July Wheat: 279.20  
\*\*\* September Corn: 261.46

The US Agriculture Department forecast world grain production in the current crop year at 1,104.5 mln. tonnes, up from its revised estimate of 1,097.7 mln. tonnes and above the revised 984.4 mln. tonnes produced last season. World grain consumption has increased by 8.0 mln. tonnes.

World wheat production is now forecast at 412.4 mln. tonnes compared with 410.8 mln. tonnes forecast on February 1st, and 350.0 mln. tonnes produced last season. World stocks of wheat and coarse grains at the end of the current season this June 30th are estimated at 170.1 mln. tonnes, about 55.0 mln. tonnes above last year's level. Of this, 38.0 mln. tonnes are expected to be wheat.

Last month we described the grain market as trading sideways within a 10¢ range. This month we modify our description.

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The grains are now trending sideways within a 5¢ range. Next month we may describe the grain charts like the prairies themselves - absolutely flat.

While we clearly remain neutral from a forecasting point of view we feel that, strategically, we can recommend a relatively riskless long position. For one thing almost all the bearish supply data has already been discounted and secondly US target prices especially in the case of wheat at \$2.47 a bushel provide an adequate safety net. (There is reliable speculation that the Carter administration will be pressured into revising higher the target price for corn which is presently at \$1.70 per bushel.) Finally, the Canadian wheat payments to farmers were announced March 4th at \$3.00 per bushel thus indicating the Canadian government does not intend to put any further downside pressure on prices.

#### INTEREST RATE FUTURES

\*\*\*\*\* June '77 GNMA: 97.14  
\*\*\*\* June '77 TB: 94.88

The GNMA market came to life yesterday after a very sizeable block of \$600 million of unsold corporates was released from syndicates and the overhang was cleaned out. Technically, the recent action, particularly the tracing out of a large 2½ month long downward - latent base, provides the hope that long term rates may drop after all during the balance of 1977.

What can make this unorthodox forecast come true? Here they are: a) an accommodative but non-inflationary Fed policy; b) an inexplicable but persistent retardation of federal spending causing much lower than expected treasury borrowings and c) the still enormously wide gap between short and long term rates (a rather steep upward sloping curve out to the 5-7 year maturity). To the above, we'd like to suggest that there is one more hope for those of us who tremble at the possibility of the Treasury borrowings 'crowding out' the private sector sometime late in 1977 - early 1978. Namely, the U.S. dollar has weakened considerably in the past few weeks against the Yen, DM and Sterling. The Central Banks of the latter countries, having absorbed considerable quantities of the U.S. dollar may become large investors of U.S. obligation.

By way of comparison, from early 1971 to early 1973, the last time the U.S. dollar was under heavy selling pressure, Federal debt held by foreign investors rose threefold. In absolute numbers the increment was just over \$40 billion. This 'Foreign Investor' financing provided 85% (!) of the total increase of the net Federal debt and helped to keep U.S. interest rates lower than they should have been. In light of the fact that the U.S. dollar may be undergoing another substantial round of depreciation in the coming months (see currency comments) it would not be too implausible to see a substantial increase in holdings of Treasury issues by foreign central banks. Such an occurrence may well ignite a spectacular bull market in U.S. bonds.

The forward discounts on the GNMA's have become quite attractive. Buy June '77, September '77 or December '77 GNMA's at market placing stops 30/32 points under current levels. Upside potential can now be estimated at 3-5 points (\$3,000-\$5,000) while risk should not exceed \$1,000. Remain sidelined on TB's.

PRECIOUS METALS

\*\*\*\*\* June '76 Comex gold: 151.50  
\*\*\*\* May '77 Comex silver: 483.50  
\*\*\*\* October '77 Platinum: 168.70  
\*\*\*\* September '77 Palladium: 55.85

We'd like to congratulate ourselves for a perfect score on gold. We stated last month that long positions should be held firmly and recommended taking "trading profits on a fast rise to 154-156 basis nearby Comex". April '77 Comex gold peaked last week at 154.70.

The 50% rise from the August lows was accomplished despite heavy spot supplies and a relatively lethargic metal market. The last few IMF auctions have 'led' the price rise thus negating the view that speculative buying has been responsible for the rise. The only possible explanation is that there has been some heavy official purchases. Potential buyers would include Saudi Arabia, Kuwait, The United Arab Emirates, and Japan.

Investment positions should be liquidated if June '77 Comex dropped below 146.00 on close.

Silver prices fulfilled our trading objective of 5.00-5.10 basis May and we now prefer to remain sidelined.

Heavy industrial and commercial hedge selling has maintained a lid on platinum at roughly the 165/oz. level basis April '77. We expect fairly heavy deliveries against the April position and therefore advise that trading positions be liquidated now and be reinstated in the third week of April.

Liquidate long Palladium positions at market as it will probably follow platinum in the weeks ahead.

SUGAR

\* May '77: 9.37  
\* September '77: 9.46

The latest Woodhouse Drake and Carey estimate of world sugar shorts did little to move the market either way as participants are pinning their hopes and fears on the new 1977-78 balance. The Woodhouse estimate placed stock at the end of the 1976-77 (September/October) season at around 30% of world consumption up from less than 18% just 2 years ago. Plainly, the present balance is uncomfortably high.

Donald E. Nordlund, Chairman of A.E. Staley Manufacturing, told a press conference that high fructose Corn Syrup capacity will increase this year into 1978 by 2-2.5 billion pounds Sugar basis from the current 3.0 billion pounds. He added that fructose presently has a several cent price advantage over refined Sugar and that, as a result, corn sweeteners expanded their share of the domestic sweetener market to 26% from just 1% a year ago.

No immediate resolution of the present trading band of 8-10¢/lb. basis nearby can be seen. Further downside action, in our view, will have to await a clearer view of upcoming crops and the possibility of white sugar sales from the Communist bloc.

Remain short, leaving stops at 10.05 basis May '77 on close only.

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WOOD COMPLEX

\*\*\*\*\* July '77 Plywood: 209.10  
\*\*\*\*\* July '77 Lumber: 196.80

Fundamentally this is a bull market. All the factors mentioned last month still apply other than that the inventory positions of the mills which, as we said, were growing, are now quite high as the drought in the Pacific north west has both facilitated and predicated - as a hedge against potential forest fires - increased logging. Yet trade sources indicate that mills have adopted a new strategy and, rather than offering up their surpluses indiscriminately as they did in the past, are rationing out demand to keep prices high.

Housing starts rebounded very strongly in February following the weather related slump in January rising to a seasonally adjusted rate of 1.79 million units from 7.39 million. At the same time the number of housing permits issued, which have been declining in recent months rose 16% to a SAR of 1.51 million from 1.31 million in January. This confirms the long standing forecast that the U.S. housing industry will be firm through 1977.

Technically the market is only now commencing to shed some of the huge buildup in open interest that began immediately prior to last month's recommendation to liquidate long positions. Our feeling is that the shakeout is not yet complete and that prices will break through the present areas of support hitting bottom \$5 - \$10 lower at which point commercial interests will enter the market replacing the surplus of small speculators and initiating a turnaround in prices.

Failing the above, buy May plywood at 217 stop and July lumber at 211 stop.

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

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