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CURRENCY COMMENTS

Apr. 29th, 1977

British Pound

Spot	: 171.90	June 77:	171.45	Sep. 77:	169.70
Dec. 77	: 167.60	Mar. 78:	166.40	June 78:	164.50

	Spot / June '77	Spot / Sept. '77	Spot / Dec. '77	Spot / Mar. '78	Spot / June '78
% Discount from Spot (Annualized)	1.57	3.07	3.75	3.49	3.69

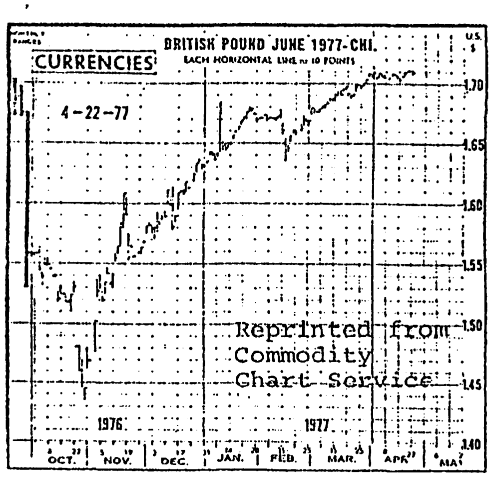
	Nov.	Dec.	Jan.	Feb.	Mar.
Balance of Trade (mln Stg) Jan-Mar 1976: -435 Jan-Mar 1977: -953	-509	-179	-532	-189	-232
Reserves (mln U.S.$)	5,156	4,129	7,196	7,787	9,620
* WPI	17.98%	17.78%	19.52%	19.91%	20.25%
* Retail Price Index	14.98%	15.07%	16.57%	16.22%	16.73%

		Mar. 25	Apr. 1	Apr. 8	Apr. 15	Apr. 22
*** Exchange Rate - Trade Weighted		-40.49	-40.45	-40.35	-40.50	-40.50
Euro Deposit -	1 Month	11 7/8	9 7/8	Closed	9 7/8	9.
	3 Month	11 7/8	9 7/8		10 1/8	9 3/8
	6 Month	11 7/8	10 3/8		9 7/8	10 1/8
	12 Month	12 1/4	10 1/2		11.	10 1.2

Open Interest (Apr. 26)	: 956	Average Volume (Apr.77):	87
Contract Size	: BP 25,000.00	Approx. U.S. Dollar	: US$ 43,000.00
Minimum Fluctuation	: .0005 ($12.50)	Daily Limit (Normal)	: .05 ($1,250.00)
Margin Required	: US$ 2,500.00	Round Turn Commission	: US$ 60.00
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar., June, Sep.,Dec.

With M3 & DCE contracting in real terms by well over 15% per annum & average workers' earnings falling behind prices by a minimum of 5%, the U.K. is about to enter the second stage of the 1974 - ? recession. The severity of the oncoming slump, will improve dramatically the manufacturing sector's surplus contribution to the Balance of Trade & the nation's unusually high rate of inflation. Prospects for single-digit inflation rates by end of 1977 coupled with large North Sea Oil contributions augur well for the Sterling rate - until perhaps early 1978.

Add to previously established long positions in deferred months. Place protective stops at 168.50 basis Spot.



Canadian Dollar

Spot : 95.55 June 77: 95.33 Sep. 77: 94.76
Dec. 77 : 94.24 Mar. 78: 93.24

	Nov.	Dec.	Jan.	Feb.	Mar.
* Money Supply -					
Narrowly Defined	- 0.16%	+1.69%	+4.90%	+5.58%	+7.02%
More Broadly (M2)	+ 16.47%	+17.71%	+17.07%	+15.99%	+16.35%
M3	+ 15.23%	+16.03%	+16.31%	+15.87%	+16.94%
Balance of Trade (mln $)					
Jan-Mar. 1976: -368 Jan-Mar. 1977: +731	-118	+130	+153	+ 69	+ 509
* General Bank Loan (Percentage Growth)	+20.26%	+21.36%	+21.31%	+21.22%	+20.18%
* CPI	+5.62%	+5.82%	+6.13%	+6.73%	5.47%
* Food Price Index	-1.72%	-0.72%	+0.72%	+3.07%	-0.12%

	Mar. 25	Apr. 1	Apr. 8	Apr. 15	Apr. 22
*** Exchange Rate - Trade Weighted	-4.52	-4.77	-5.10	-4.71	-4.40
Euro Deposit - 1 Month	7 9/16	7 1/2	Closed	7 1/2	7 7/8
3 Month	7 11/16	7 11/16		7 11/16	7 7/8
6 Month	7 11/16	7 3/4		7 11/16	7 9/16
12 Month	7 15/16	8 3/16		7 15/16	7 13/16
Treasure Bill Rate (91 Day Bills)	7.58	7.54	7.53	7.53	7.56

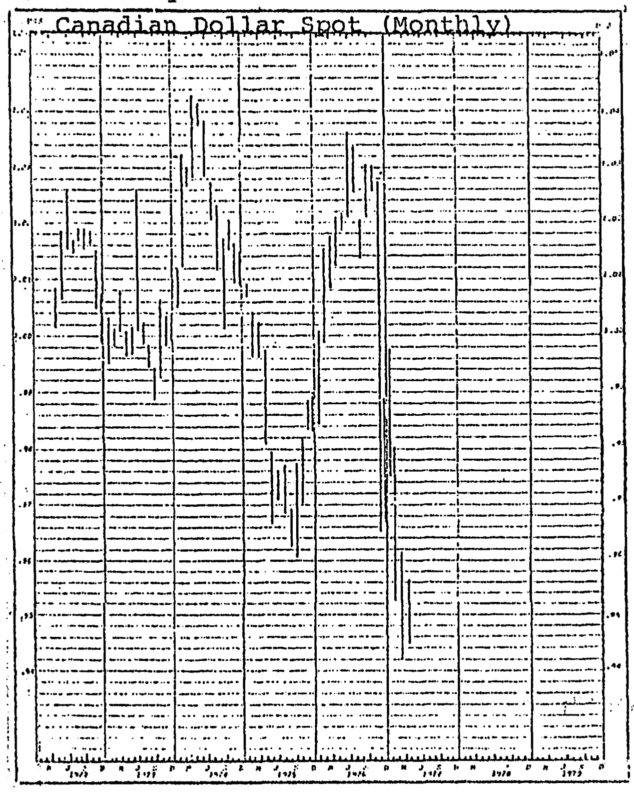
Open Interest (Apr.26)	: 2010	Average Volume (Apr.77)	: 595
Contract Size	: CD$ 100,000.00	Approx. U.S. Dollar	: US$ 95,000.00
Minimum Fluctuation	: .0001 ($10.00)	Daily Limit (Normal)	: .0075 ($750.00)
Margin Required	: US$ 2,000.00	Round Turn Commission	: US$ 60.00
[redacted]	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar., June, Sep., Dec.

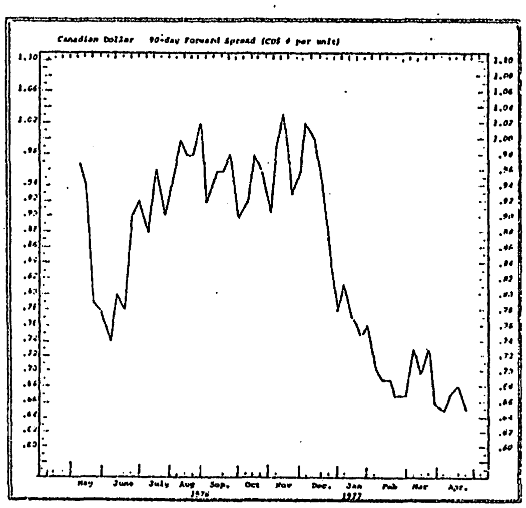
Monetary policy remains tight in the face of rapidly expanding aggregates &, more particularly, the explosive growth of loan demand. The Bank of Canada finds itself unable to accommodate the political necessity of 'getting the country moving' lest it unleashes formidable inflationary forces.

The CD$ rate has stabilized successfully in the 95¢ area & may yet work its way a bit higher. The close protective stop recommended last month at 94.90 basis June 77 may have caught very neatly the end of the 1976-1977 bear move in the CD$.

New short sales in the CD$ should only be initiated if the 1 year forward spread moves below 150 points and/or if spot reaches 97-97.50. In the interim, in and out trading from the long side may pay off handsomely.

Canadian Dollar Spot (Monthly)





Deutsche Mark — Spot : 42.53 — June 77: 42.56 — Sep. 77: 42.75
Dec. 77 : 42.89 — Mar. 78: 42.85

	Nov.	Dec.	Jan.	Feb.	Mar.
Balance of Trade (mln Marks)					
Jan-Mar 1976: + 8,540					
Jan-Mar 1977: + 8,910	+3,000	+3,270	+1,980	+2,730	+4,200
* WPI	4.96	4.69	3.32	2.34	1.32
* Cost of Living	3.73	3.94	4.05	3.81	3.94

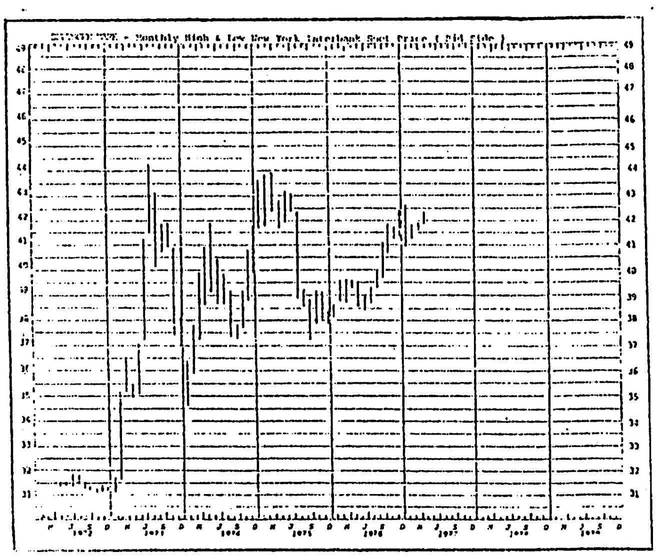
	Mar. 25	Apr. 1	Apr. 8	Apr. 15	Apr. 22
Net Monetary Reserves (Mln Marks)	86,400	86,400	86,200	85,700	N/A
*** Exchange Rate - Trade Weighted	+28.43	+28.20	+28.78	+ 29.45	+ 29.00
Euro Deposit - 1 Month	4 5/16	4 5/16	Closed	4 5/16	4 7/16
3 Month	4 9/16	4 7/16		4 3/8	4 3/8
6 Month	4 5/16	4 1/2		4 7/16	4 1/2
12 Month	4 3/4	4 11/16		4 9/16	4 9/16

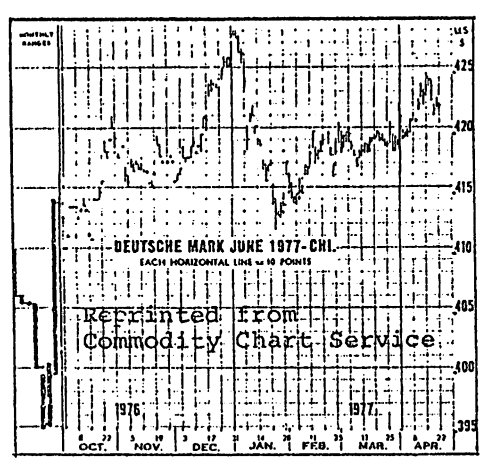
Open Interest (Apr.26)	: 2015	Average Volume (Apr. 77)	: 456
Contract Size	: DM 125,000.00	Approx. U.S. Dollar	: $53,000.00
Minimum Fluctuation	: .0001 ($12.50)	Daily Limit (Normal)	: .0060 ($750.00)
Margin Required	: US$ 2,500.00	Round Turn Commission	: US$ 60.00
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar., June, Sep., Dec.

The DM has unquestionably moved to first Spot in the hard currency race, easily displacing the SF, as correctly foreseen in these Comments for the past 6 months.

Germany's powerful external sector coupled with an excellent performance in its inflation front & the continued deterioration of U.S. international competitiveness, call for sharply higher DM rates over the next 2 years. Our long term cyclical studies indicate a possible move to 50¢ by end of 1978, at which point the U.S.$ (among many others) will have lost roughly ½ of its pre-1960 value.

Remain heavily long, as advised here over the past year; place stops at 42.10 basis June 77.





French Franc Spot : 20.18 June 77: 20.065 Sep. 77: 19.80
Dec. 77 : 19.63

	Nov.	Dec.	Jan.	Feb.	Mar.
Balance of Trade (mln FFR) Jan-Mar. 1976: -2,172 Jan-Mar. 1977: -5,140	-3,820	-1,320	-2,380	-1,520	-1,240
* Net Change of Foreign Exchange Assets	-15%	-9.36%	-7.53%	-3.40%	-2.58%
* Retail Price Index	10.11%	9.86%	9.01%	9.01%	9.05%

	Mar. 25	Apr. 1	Apr. 8	Apr.15	Apr. 22
Weekly Reserves (mln FFR)	84,556	84,590	84,937	85,050	N/A
*** Exchange Rate - Trade Weighted	-4.29	-4.22	-4.37	-4.59	-4.48
Euro Deposit - 1 Month	10 3/8	9 3/4	Closed	9 5/8	9 1/8
3 Month	10 3/4	10 1/8		10.	9 3/8
6 Month	11 1/4	11 3/4		10 3/8	9 5/8
12 Month	11 3/4	11 1/2		11 1/8	10 5/8

Open Interest (Apr.26)	: 134	Average Volume (Apr. 77)	: 9
Contract Size	: FFR 250,000.00	Approx. U.S. Dollar	: US$ 50,000.00
Minimum Fluctuation	: .00005 ($12.50)	Daily Limit (Normal)	: .00500 ($1,250.00)
Margin Required	: US$ 4,000.00	Round Turn Commission	: US$ 60.00
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar., June, Sep., Dec.

Despite the fact that short position in the Franc was almost a 'natural' - witness the widespread gains made by the leftist movement & the huge flight of capital signalled by the 20% plus collapse in Paris stock prices - adroit maneuvering of the exchange rate by the Banque du France & the extreme weakness of the U.S. dollar saved the day.

The French have come to understand that exchange rate depreciation is the worst recipe that an inflation-ridden economy can take.

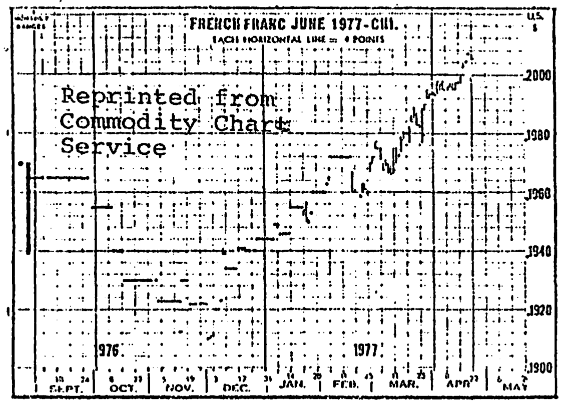
Despite public antipathy for the present anti-inflation policy, the onset of a recession & the overvalued Franc will lower inflation to a more 'bearable' 6-8% per annun. Unfortunately, the uncertain political climate & propects for nationalization of various industries will cause lasting damage to France's industrial capacity which, in turn, will be a potent inflationary force in years to come. Short positions have been stopped at 20.10 basis June as previously advised showing healthy losses. Remain sidelined.

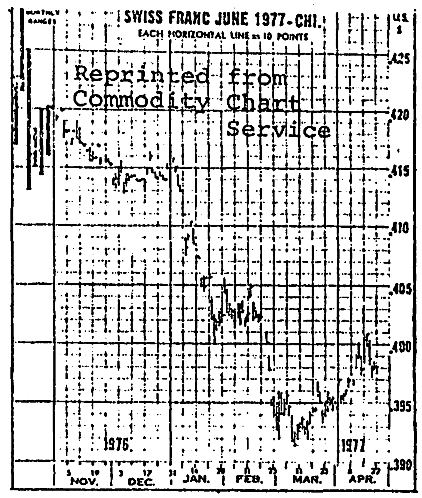
Swiss Franc June 77: 39.80 Sep. 77: 40.04
Dec. 77: 40.30 Mar. 78: 40.48

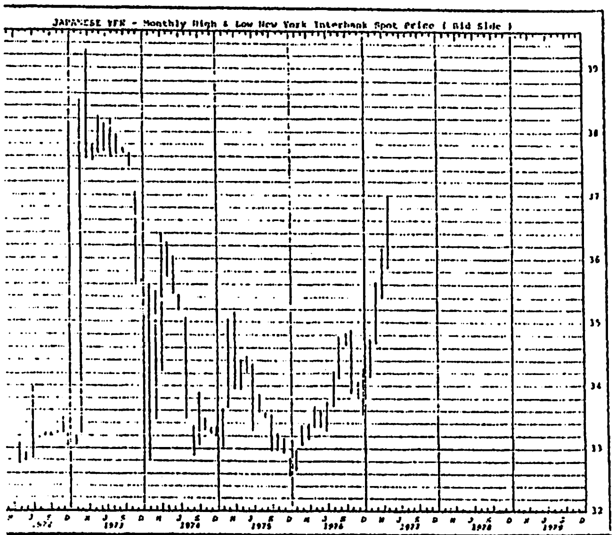
	Nov.	Dec.	Jan.	Feb.	Mar.
Balance of Trade (mln SFR) Jan-Mar. 1976: - 85.70 Jan-Mar. 1977: -496.50	+239.70	-133.90	-114.00	-32.00	-350.50
* CPI	.908	1.27	.904	1.03	1.03

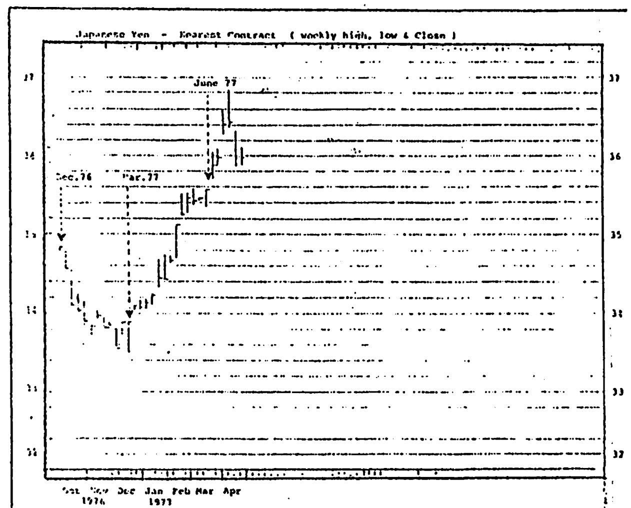
	Mar. 25	Apr. 1	Apr. 8	Apr.15	Apr.22
Weekly Reserves (mln SFR)	14,100	15,730	13,360	13,020	12,680
*** Exchange Rate - Trade Weighted	+42.29	+42.28	+42.84	+43.08	+ 43.02
Euro Deposit - 1 Month	3 1/16	3 1/8	Closed	3 3/4	2 5/8
3 Month	3 3/16	3 1/8		2 3/16	2 5/8
6 Month	3 7/16	3 1/2		2 11/16	3 1/4
12 Month	3 7/16	3 9/16		2 15/16	3 1/4

Open Interest (Apr.26)	: 1665	Average Volume (Apr.77)	: 394
Contract Size	: SFR 125,000.00	Approx. U.S. Dollar	: US$ 50,000.00
Minimum Fluctuation	: .0001 ($12.50)	Daily Limit (Normal)	: .0060 ($750.00)
Margin Required	: US$ 2,500.00	Round Turn Commission	: US$ 60.00
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar., June, Sep., Dec.









Japanese Yen   Spot : 36.02   June 77: 36.01   Sep. 77: 35.95   Dec. 77:35.8

	Nov.	Dec.	Jan.	Feb.	Mar.
Balance of Trade (mln US$) Jan-Mar. 1976 : +1,472.00 Jan-Mar. 1977 : +2,040.00	+ 541.00	+1,650	-770	+1,250	+1,560
Reserves (mln U.S.$)	16,730.00	16,600	16,480	16,820	16,990
* CPI	N/A	10.40	9.24	9.20	9.40
* WPI	N/A	6.09	5.11	4.83	4.24

	Mar.25	Apr. 1	Apr. 8	Apr. 15	Apr.22
*** Exchange Rate - Trade Weighted	+11.05	+ 12.01	+13.28	+12.74	+ 11.29

Open Interest (Apr.26)	: 699	Average Volume (Apr.)	: 226
Contract Size	: Yen 12,500,000.00	Approx. U.S. Dollar	: US$ 45,000.00
Minimum Fluctuation	: .0000010 ($12.50)	Daily Limit (Normal)	: .000060 ($750.00)
Margin Required	: US$ 3,000.00	Round Turn Commission	: US$ 60.00
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	: Mar.,June, Sep., Dec.

After reaching a high of 36.90 basis Spot (= Yen 271 to the dollar), the Yen has receded to the present 36.00 level. Reasons for the correction are mostly attributable to : a) the incredible success of exports (& therefore fears that protectionist moves in other OECD countries will stifle the spectacular growth) & b) a sharp & unanticipated lowering of the Bank Rate to 5% from 6%, thus allowing more favorable domestic financing.

The best that the U.S. & the EEC can hope for, without setting off a dangerous trade war, would be a revaluation of the Yen to the 260-270 range. Politically, this is just what the Japanese Gov't is hoping for &, thus, this bargaining move is being kept open until there are assurances that, in fact, no protectionist moves are in the offing.

In the next few weeks, the Yen should continue to advance and register new highs.

Remain long.

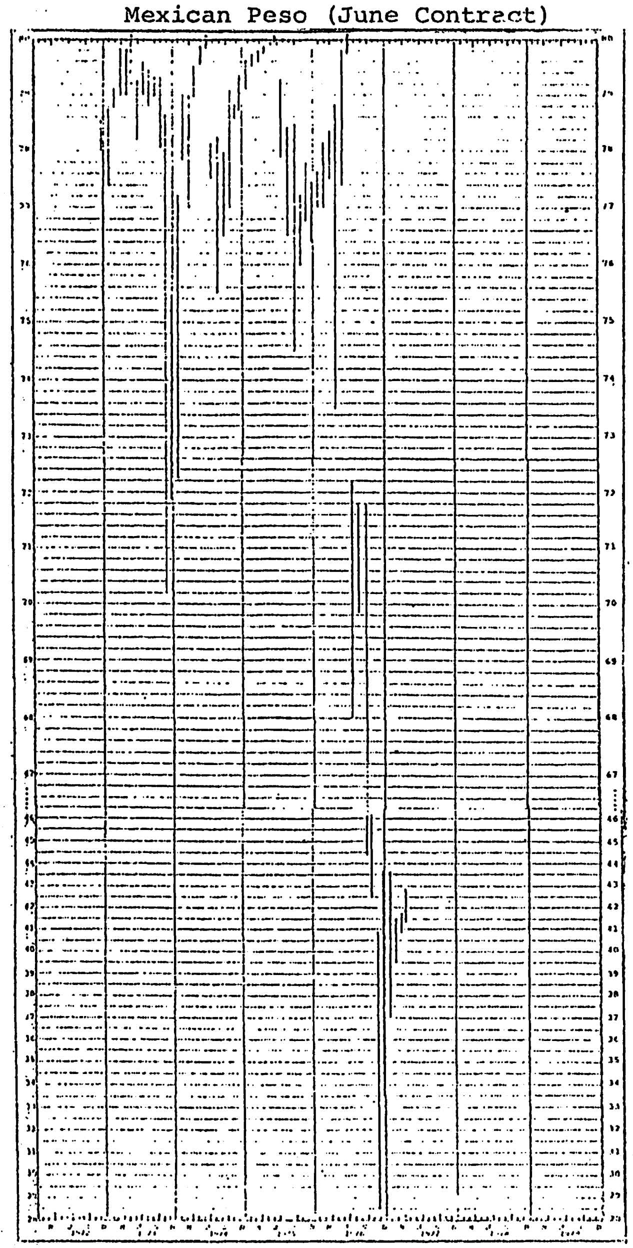
Mexican Peso Spot : 44.00 June 77: 42.65 Sep. 77: 39.83 Dec. 77: 37.73
Mar. 78: 35.60 June 78: 33.80 Sep. 78: 32.10

Forward Disc. (Annual Basis)	June 77	Sep. 77	Dec. 77	Mar. 78	June 78	Sep. 78
Spot	18.41	22.75	21.38	20.83	19.87	20.28
June 77		26.45	23.07	22.04	20.75	19.79
Sep. 77			21.09	21.24	20.19	19.41
Dec. 77				22.58	20.83	19.90
Mar. 78					20.22	19.66
June 78						20.12

	Sep. 76	Oct. 76	Nov. 76	Dec. 76	Jan. 77
WPI	208.40	225.90	244.50	257.50	263.40
CPI	206.70	216.00	227.20	232.40	238.40

Open Interest (Apr. 26):	1515	Average Volume (Apr): 59	
Contract Size	: MP 1,000,000.00	Approx. U.S. Dollar : US$ 40,000.00	
Minimum Fluctuation	: .00001 ($10.00)	Daily Limit (Normal): .00150 ($1,500.00)	
Margin Required	: US$ 4,000.00	Round Turn Commission:US$ 60.00	
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months:Mar., June, Sep., Dec.	

Mexican Peso (June Contract)



The spot rate has held rather firm in the 4.42-4.44 area mostly as a result of resident repatriation of dollar balances for the purpose of purchasing the recent petro-bond issue. The latter, paying just 7% but tied to the international dollar price of oil, is being touted as a perfect inflation hedge to nervous Mexican entrepeneurs, and at last report is has been heavily oversubscribed. After the placement, the Spot rate moved down to reach 4.39-4.41 & a general easiness has set in the market.

We'll reiterate our trading suggestion of last month: sell forward positions whenever they sell at discounts of 1-1½ %/month or less & repurchase when forwards widen to discounts of 3-4 %/month.

Deflationary Tendencies April 29th, 1977

Since last month, more evidence has accumulated bearing out our contention that deflation, not inflation, is the more likely scénario for the next 12 months.

On a fiscal level, President Carter withdrew his inopportune and ill-advised $50 tax rebate in the face of stiff congressional opposition. On the energy front, Schlesinger presented the nation with a bungled up, inefficient energy policy that will easily be the bureaurocratic nightmare of the century but which, nevertheless, will face the nation with sharply rising energy costs, and thus, reduced disposable incomes. Finally, the Fed. was galvanized into action and moved to raise short-term interest rates in order to slow the recent acceleration of monetary aggregates. Much as in early 1976, a Fed-induced rise in short term money costs carries deflationary rather than inflationary implications.

The commodity price level has begun to show some wide cracks: base metals, coffee, grains, and woods are in distinct downtrends, sugar is weakening, cotton is barely firm and only gold, cocoa and the meat complex remain in strong uptrends.

<u>Cocoa</u>

****** May 77 : 178.95
****** Sep. 77 : 170.55
****** Ldn Mar. 78 :2102.00

Recent grinding figures indicate that consumption has, as yet, not reacted unfavourably to present levels. It should be noted that Nestle, Peter Paul, and other major bar manufacturers have not followed Hershey in again reducing the size of the 25¢ bar. This may mean that consumption may hold up much better than earlier anticipated for the latter half of 1977.

On the supply side, the bears had placed a great deal of hope on the Temporao crop with projections ranging as high as 3,000,000 bags (180,000 tons). While weather continues good, it now looks like this crop will not exceed 2.2 million bags, of which at least half, has already been sold. Purchases for the week ending April 24th, amounted to 21,317 bags, bringing the total to 1,115,554 bags. Farmers have been selling on strength only. This restraint is expected to continue.

On a more technical note, it now appears that whatever (long) speculative element was in the market, was liquidated on the first massive drop experienced in mid-March prompting the London Terminal Market Association to relax its severe margin requirements. The second (and more durable) shakeout which began in late March & ended in the first week of April was more a function of increased short-selling activity. On this score, some large professional outfits are believed to have adopted an aggressive bear posture.

As pointed out in our special bulletin dated April 7th, only a violation of the lows registered on April 4th, (152.95 basis July 77, 148.00 basis Sept. 77) would have forced us to reconsider our bullish position. As it happened, these lows were approached but never violated and, subsequently, the market rallied to today's close of 175.25 basis July 77.

Remain firmly long with good protective stops below the above mentioned lows. We now feel that the market will peak sometime between early July and early September at prices substantially above current levels.

<u>Coffee</u>

* May 77 : 281.00
* March 78 : 288.60
* Ldn Mar. 78 : £3355.00

The bear market has begun at last. The following table presents the likely levels of carry over for the 1976-77 and 1977-78 crop years.

1976/77

SUPPLY		*DEMAND*	
carry-in:	*23.0 mln*	*producer nations:*	*16.0 mln*
production:	*62.2 mln*	*consumer nations:*	
total supply:	*85.2 mln*	*1) USA*	*19.4 mln*
		2) rest of world	*32.5 mln*
		total demand:	*67.9 mln*
		carry-out:	*17.2 mln*

1977/78

SUPPLY		*DEMAND*	
carry-in:	*17.2 mln*	*producer nations:*	*14.0 mln.*
production:	*71.2 mln*	*consumer nations:*	
total supply:	*88.4 mln*	*1) USA*	*15.1 mln*
		2) rest of world	*23.6 mln*
		total demand	*52.7 mln*
		carry-out:	*35.7 mln*

The above numbers are conservative in that they incorporate stock and production figures issued by the ICO and/or producing nations who obviously intend to continue the 'shortage' myth. As retail levels begin to reflect fully the incredible jump in green bean prices, consumer resistance sets in. Recent indications point to a drop in demand of as much as 25% for the U.S. Interestingly enough, Brazilian consumption has also felt the impact of rising prices and latest indications point to total consumption of 6.4 million bags versus 8.8 million bags in 1970.

A likely range of 2.75-3.15 basis nearby can be expected until such time as the July frost scare season is over. Subsequently, we expect prices to collapse and reach $1.25/lb by March '78 and perhaps as low as 80¢/lb by end of 1978.

Sell rallies.

<u>Cotton</u>

****** Dec. 77 : 69.13
**** July 77 : 77.22

The USDA released its most recent prospective plantings report April 14th. The department now calls for a 17.2% increase in planted acreage (versus January's estimate of a 12.8% increase). The apparently bearish report occasioned our constructing a preliminary supply/demand projection for crop year 1977/78. The results surprised even ourselves. At worst we see next year's carry-out figure totalling 3.68 mln bales, at best the carry-out could be as low as 1.5 mln bales. (These conclusions are drawn assuming unchanged competitive pressure from man-made fibres, perhaps the most significant influence on this market and one which we intend to monitor as closely as possible.)

Futures markets respond, by definition, according to anticipation of future events. If there is a final figure which is ultimately anticipated throughout the course of any given crop year it must be the carry-out figure. If this is so then the average price of the current year will reflect anticipation of a final carry-out of 2.75-3.00 mln bales.

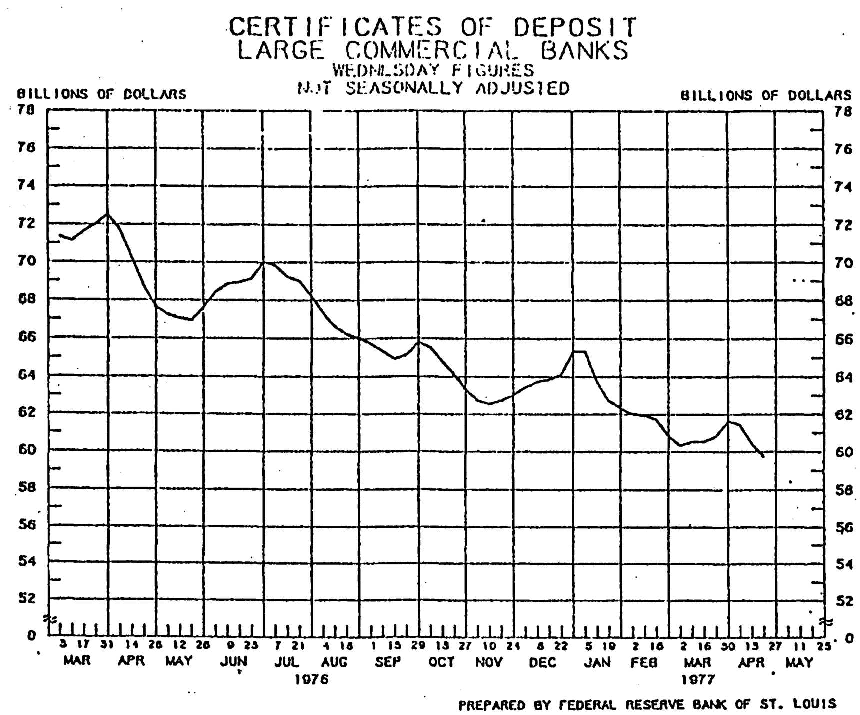
Taking the average of our best and worst forecast we arrive at a final carry-out figure of 2.5 mln bales. This is 12.7% less than this year. Gauging this decrease in terms of projected consumption and taking into account a projected rate of inflation of 5% (U.S.), we estimate cotton prices next year will <u>average</u> approx. 91¢.

Clearly the market is already anticipating rising prices. Thus far there have been only 45 delivery notices issued against the May contract as opposed to the dirth of 368 notices finally issued against the last expiring March.

Add to previously established new crop contracts - October and December - at market.

Interest Rate Futures

The long-awaited rise in short-term interest rates is underway -- but with a catch. Fed funds, funds traded among banks and the Federal Reserve control variable for its Open Market policies, had traded up to 5 3/16 from just 4.6% on April 5th, before the Federal Reserve deemed it adviseable to step in and provide fresh reserves. The recent above target growth rates of M1 and M2, can easily be attributed to a step-up in Federal Reserve Credit which has grown at 10% per annum over the past 8 weeks and a pickup in the multiplier, perhaps a result of diminished demand for currency by the non-bank public. This bulge in monetary aggregates should easily be brought back under control by a more aggressive soaking up of reserves caused by the Fed selling (or buying less) Treasury Issues. The important thing to note, however, has been the extremely modest growth in bank loans, the only genuine process by which interest rates can have a lasting rise. More explicitly, if the demand from the private sector were to outstrip the supply of credit, interest rates would rise until equilibrium is restored. The newly found equilibrium would imply the satisfaction of a higher rate of loan demand and an increase in supply, in loanable funds, that naturally arises when individual corporations are attracted to forego present consumption and save more to earn a better return on deposits. The catch in the present situation is that modest loan demand (up just 2.6% from last year) is being accomodated with a decline in readily accessible funds, as evidenced by the run-off in large Certificates of Deposit issued in denominations of $100,000 or more.



If the banking system were truly tight in providing funds, it would increase its supply by aggressively bidding for CD's. As it is, the recent increase in money costs, solely induced by the Fed (for technical reasons) will have the effect of dampening loan demand once again, similar to the 1976 experience.

In our view, the only robust increase in credit will come from the Treasury which must finance a deficit of close to $48 billion. The size of the prospective deficit has shrunk because

a) Carter withdrew his $50 rebate program (saving $10 billion) and b) continued lag in Federal expenditures (another $10 billion). As pointed out last month, a weak U.S. dollar will enrich the coffers of foreign Central Banks, who in turn will purchase (and are purchasing) U.S. Treasury securities, thus financing most of the deficit.

We continue to foresee a move towards long term interest rates and expect to see GNMA's trade at a level to yield at least 50-75 basis points lower by the third quarter of this year.

Add to previously established long position and maintain protective stops at 96½ basis June 77, on close only.

PRECIOUS METALS

****** June'77 comex gold: 149.6
**** July'77 silver: 483.0
****** October'77 platinum: 162.30
****** Sept.'77 palladium: 54.20

Contractionary economic policies being followed at the moment in the UK, Italy, France, Australia, South Africa and a host of less developed countries, as well as weak recoveries in the U.S., Germany and Japan, coupled with renewed scepticism in the private banking sector (witness the recent huge losses in one of the big three Swiss Banks), have provided the fuel behind the powerful bull move in gold prices. While a sudden deflation would necessitate high gold prices so as to increase quickly and effectively international liquidity, a move towards reflation (inevitable in most democracies) would rekindle interest in gold as an inflation hedge.

The sword now cuts both ways and this fact has not been lost on the OPEC Countries nor, for that matter, on South Africa. Reuters reported today that Pretoria had just concluded a new swap arrangement with some overseas banks at market related prices - an option successfully used in the grim closing weeks of 1976. Theunis De Jongh, the Reserve Bank Governor, said that the swaps made during the week ended April 29th will not be sold on the market but will revert to the bank on the various due dates of the arrangements. What it means is that South Africa has successfully been able to withold gold from the market so as to:
a) not diminish the market (which had been on the defensive over the past few weeks) just prior to the May 4th IMF auction
b) conserve an appreciating international asset.

The correction of the past few weeks did not violate our stop loss suggestion of 146.00 basis June'77, on close only proving the benefit of acting on stops basis the close rather than basis an emotional intra-day down tick. We suspect that the forthcoming auction will elicit once again strong bidding and predict that a new "Auction High" will be attained.

Remain firmly long, set new upside targets at $165/ounce basis nearby.

Remain sidelined in silver.

Recently released Bureau of Mines Figures indicate that U.S. consumption of Platinum for all of 1976 came to approximately 818,000 ounces, hitting our target of 820,000 ounces exactly on the nose. Only glass and miscellaneous showed a large year over year gain in the fourth quarter of 1976.

For 1977, further substantial growth is expected in glass fibre industries since optical glass fibres are produced in platinum cruci bles, automotive (10% gain over the 1976 level of 450,000 ounces), chemical and petroleum industries - a function of increased Capital spending.

Long platinum and palladium positions were liquidated, as advised last month. Reinstate those positions, at market (platinum is some $6/ounce lower while palladium is a mere $1½ cheaper.

SUGAR

* July'77: 9.82
* Oct.'77: 9.95

Misguided belief that the Geneva talks now in progress will be able to "fix" sugar prices at somewhere between 10 & 16¢/lb. in the face of continuously mounting supplies, was responsible for the spectacular bear market rally that saw prices climb just above 11¢/lb.

Ample proof that supplies on hand are excessive is provided by details covering the liquidation of the May position in New York. An estimated 310,000 tons (slightly over 600 contracts) were delivered by at least seven operators to a group that proposed, a few weeks earlier, to "squeeze" the market. The sugar included supplies from Philippines, Peru, Thailand, Nicaragua, Guatemala and Jamaica. Those accepting delivery have up to 75 days to load their wares. It is interesting to note that terminal futures markets are not normally used for delivery purposes, when they are it indicates a sorry lack of activity in the 'actuals' market. The New York Coffee and Sugar exchange said sugar deliveries last reached record proportions - in its 95 year history - in October 1976 when 164,150 long tons were delivered.

Meanwhile, worldwide stocks continue to mount. The ISO put Brazilian sugar stocks at end - 1976 at 2.68 million tons raw value compared with 1.79 million tons on the same date a year ago.

Given average weather conditions, particularly throughout Europe and the USSR, we expect a new record production surplus for the 1977/78 crop year.

The recent sharp rise in Sugar prices, when viewed in the context of the overall cycle, is no more than a vicious bear market rally. In our opinion, the next important move in the market will be down, perhaps as much as 3¢/lb. While previous short positions were closed at 10.05 (as per recommended), we would once again initiate new short positions at 10.60-10.90 basis July'77. Failing that, sell July'77 at 9.40 stop on close only.

WOOD COMPLEX

**** Sept.'77:Plywood 198.30
**** Sept.'77:Lumber 193.80

U.S. housing starts during March posted a 17% increase, climbing to a seasonally adjusted rate of 2,127,000 units, 49% higher than the corresponding period last year and the highest rate since May 1973. Normally the release of such data has significant impact on the wood markets. Clearly these just ain't normal times. After an initial limit advance the market collapsed. And cash prices still trade at a significant discount to futures.

The weakness must lie somewhere in supply. We have no accurate data to corroborate our views but suspect that the inventory positions, which we have been alluding to over the past several months, have grown larger than expected in anticipation of potential summer forest fires (due to the west coast drought) and of expected labour problems both in Canada and the U.S.

We expect that the first notice day of the May contracts, May 14th, will present us with a clearer picture and recommend that you keep in close contact. If you're unable, buy September plywood at 212 stop on close and September Lumber at 210 stop on close.

A bit of journalistic exaggeration ...

The Sunday Sun, May 1, 1977 59

A VALHALLA FOR CAPITALISTS

Futures the biggest gamble

By RON BASE
Staff Writer

In 1967 Al Friedberg was 20, a plump-faced Jewish kid immersed in economics at New York's Columbia University while he searched restlessly for a way to make a lot of money — quickly.

His family owned a currency exchange and when the U.S. government announced it was suspending redemption of $1 silver certificates within the year, Friedberg began buying up the certificates, paying $1.10 to $1.15, then turning them into the government for the silver.

The silver market's constant ebb and flow intrigued Friedberg. Most of the business of money is dull, but here was heady, unceasing excitement. He had discovered the commodities market. Prices moved up and down with delightful speed. Fortunes were made and lost, literally overnight. For a young man anxious to succeed, this was a kind of capitalist Valhalla. Friedberg dabbled in cocoa futures, and made a fast $2,000 profit. He was hooked.

Each night he studied the commodities market with the fervor of an astronomer discovering a new galaxy. He pored over the entrails of the business — market trends, statistics. He figured odds, checked histories until he possessed a natural feeling for the market.

A decade later, 30 years old now, married, the father of four children, a high-powered commodity broker with a Bay Street office, he is a millionaire who, it is said, has made as much as $5 million in a single week.

Last Frontier

"Al," says Morton Shulman, a man who has benefited more than once from Friedberg's advice, "is the sharpest single commodity trader in Canada." And well he should be, if only because of his enthusiasm. "This is the last frontier of capitalism," he exults. "The last place where a person can hope to make a killing."

And on the last frontier business is booming as it never has before. Futures trading on the commodities market is increasing at a rate conservatively estimated at about 20 per cent a year. No one can say what the total dollar volume amounts to "but it must be in the zillions of dollars," says a dealer.

Commodities are attracting not only hot-shot young speculators and the well-to-do who can no longer make a killing in stocks and real estate, but also the middle income investors who shouldn't be playing around here (see separate story) but can't resist the stories of huge profits.

There are huge profits to be made, but losses can be just as big, and much more frequent. Only about 25 per cent of the people who speculate in futures actually make a profit. Dealers don't like to refer to it as such but speculating in commodities futures is the biggest gamble; Las Vegas on the financial page, played with U.S. department of agriculture wheat estimates, weather forecasts, a keen sense of timing, and a lot of money. It's not gambling for the faint of heart.

Commodities include foodstuffs like wheat, cattle soybeans, cocoa; raw materials — copper, gold, silver, platinum, mercury; and currencies. A futures contract is simply a commitment to take delivery of a given quantity of a commodity in a set amount of time — usually a year — at a price agreed upon when the contract is made.

Of course no speculator in his right mind would take delivery of a contract (only about three per cent of commodities trading is actually satisfied by delivery). The idea is to sell off before delivery date, hopefully at a profit.

Unlike the Stock market where you must purchase at least 50 per cent and usually 100 per cent of the market price of a stock, the commodities market allows the speculator to buy a contract of wheat, and pay only a small margin — five to 10 per cent — of the price of the contract. So for a small outlay, you can, in theory at least, make a very large profit.

Suppose you put up a margin of $1,000 on a single contract — 5,000 bushels of wheat at $3 a bushel. The price of wheat the next day goes up 20 cents (there are, thankfully, limits on how far prices can rise and fall each day) to $3.20. Overnight, by putting up a small percentage of the total cost of the wheat, you've doubled your money, made a profit of $1,000.

Mind you, had the price of Wheat dropped by 20 cents a bushel, you could have lost $1,000 just as fast. Stories of huge profit and loss are legion on the commodities market:

— The speculator who parlayed a $27,000 investment into an $800,000 profit in just two years, then lost every penny;

— The Toronto businessman who made $1.2 million the moment the Mexican peso devalued;

— Another businessman who lost several million dollars because he didn't think the Mexicans would devalue the peso, then couldn't pay up.

Morton Shulman got a phone call from a friend last month asking him to confirm a tip he got out of Health Minister Marc Lalondes's office that the government was about to ban saccharin. Shulman couldn't confirm the tip but phoned his dealer and bought sugar futures. When the ban was announced the price of sugar shot up and Shulman had made what he offhandedly concedes was "a couple of thousand dollars."

Winners and losers have played the market with such frequency and ardor in the last few years that prices have begun wildly fluctuating. Twenty years ago if wheat moved 10 cents a bushel in a day it was a major event. Today no one thinks anything of moves up and down totalling 30 cents a bushel.

Sometimes bids come in so fast on the exchanges in New York and Chicago where the commodities trading is carried on dealers on the floor can't keep up with them. "Commodity futures have grown too fast for their own good," says one dealer.

Their tremendous growth is a direct result of world shortages in food and raw materials. Commodities work on a simple rule of thumb: The less there is of something, the more valuable it is. Ergo, the skyrocketing prices in recent years for commodities like sugar and coffee.

Food is the new oil, agripower the new clout, and weather an economic power that, should it choose to act, can send market prices soaring.

Reading the future of a given commodity is a science pursued with mountains of market performance charts and tons of agriculture and livestock reports. Unlike securities, there is little inside information on the commodities market. It's all there in black and white for the wading through.

High-risk gamble

For instance, the price of soybeans has been extremely volatile lately as speculators attempt to ascertain what the market will be like in a year's time. Last year there were 245 million bushels available for sale going into the new crop year, a carry-over that boded well for the 1976-77 crop year. Barring unforseen weather problems, there would be plenty of soybeans available for oil (a major protein source), and meal, which is used for cattle feed. The large crop meant prices would be lower.

However, things didn't quite work out the way they were supposed to. There was a harsh winter, and an unexpected export demand that left a soybean carry-over for the 1977-78 season of only 65 million bushels. Therefore the success of next year's crop is critical.

If the weather is bad, the crop lousy, the demand high, well, as one dealer put it "the situation could be explosive." Soybeans might well be next year's coffee. Then again they might not.

That's the gamble. If you gamble correctly, you will be a millionaire a year from now. If you're wrong, you will never want to hear the word soybean again. (A hint: The U.S. department of agriculture predicts a one-in-five chance of bad weather during next year's growing season.)

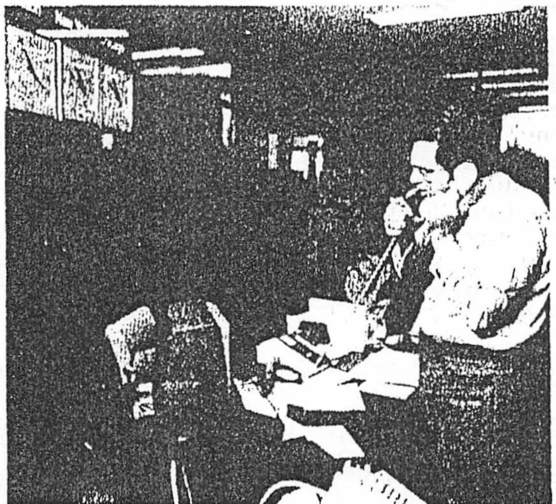
Because futures are a high-risk gamble they have not always had the most savory of reputations. Originally, they grew out of the farmers' need to protect or hedge their profits by selling in advance (a practice farmers and processors continue to engage in). Speculators did not enter the picture until after the Civil War.

The Ontario government wants to change the situation and clear out unscrupulous commodities dealers with an act to regulate commodities trading and license the dealers.

For legitimate investment dealers life is hectic but profitable. A young dealer can make anywhere from $30,000 to $150,000 a year or, like Al Friedberg, become a millionaire. All he has to do is call his shots accurately.

At his Bay Street office, one eye on a television monitor flickering with current market prices, a telephone constantly pressed against his ear, Al Friedberg gambles on the last frontier of capitalism. "Between nine and three, it's just crazy around here," he sighs.

He picks up the receiver again. "The trick," he says, "is not to let it get to you."



—Jac holland, sun

COMMODITIES DEALER Al Friedberg is a high-powered Bay Street millionaire. He discovered the commodities market by grabbing silver certificates.

Commodities market not for little fellow

Commodities dealers have one succinct piece of advice for most prospective speculators in futures: Don't.

"Because of the leverage involved, and the leverage is immense, this market is not for the little fellow," says commodities dealer Al Friedberg.

"Most people who invest on the commodities market lose," says Morton Shulman, the physician, columnist, television broadcaster, and millionaire who had has made a few dollars dabbling in futures. "This is not investing. It's gambling."

The major requirement for speculating is, of course, money. The more you have, the better to withstand the inevitable losses. It also helps immeasureably if you don't need the money you're investing. Chances are very good you're going to lose it.

Richardson Securities of Canada likes its prospective clients to open a futures account with at least $5,000. Al Friedberg, suggests that unless a speculator has $20,000 to $25,000 to risk, he should stay home.

The under-financed speculator gets into trouble if the margin — the price at which he purchases his futures contracts — drops. Depending on how far the price goes down, the dealer will at some point require him to make up the difference. This is known as the maintenance margin, and you don't get it back again when the price goes up. If the price falls again, you pay out another maintenance margin.

In a volatile market this can become expensive and if you cannot maintain your margin, the dealer will sell you out, leaving you with nothing.

Speculators who show a paper profit tend to buy more futures contracts on it. This is known as pyramiding. Done properly, the savvy speculator can increase his profits spectacularly. But again, you must be able to withstand losses which will be greater since you're buying more contracts on profits you haven't turned into cash.

"If you're wrong and the market is going down, get out fast and take a number of small losses," says commodities dealer Tim Blake. "But if you get on the right side (that is, the price of your commodity is going up), let it ride.

"A lot of people sell out fast for a small profit but stubbornly run with a loss hoping it will go back up again."

One way to protect yourself against sudden, crippling losses is to put a stop on your commodity when it's showing a profit. A stop is the point at which you sell if the price begins to drop. That way you can get out without losing all your profit.

More than anything else, though, knowledge is the key to success on the commodities market. "If you have the proper information, the odds have to be in your favor," says Al Friedberg.

Friedberg Commodity Index

March 77 : 237.37   April 77 : 245.18   Net Change : + 3.29%

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

Albert D. Friedberg

David Rothberg