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CURRENCY COMMENTS — May 31st, 1977

British Pound

Spot : 1.7194 June 77: 1.7130 Sep. 77: 1.6870
Dec. 77: 1.6720 Mar. 78: 1.6590 Jun. 78: 1.644

	Spot / Sep. 77	Spot / Dec. 77	Spot / Mar. 78	Spot / June 78	
% Discount from Spot (Annualized)	7.54	5.51	4.68	4.38	
	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Balance of Trade (mln Stg) Jan-Apr 1976 : - 698; Jan-Apr 1977 : - 1,069	-179	-532	-189	-239	-109
Reserves (mln U.S.$)	4,129	7,196	7,787	9,620	10,130
* WPI	17.78%	19.52%	19.91%	20.25%	20.79%
* Retail Price Index	15.07%	16.57%	16.22%	16.73%	17.46%
* Industrial Prod. Index	1.88	3.78	2.36	3.27	n/a
	Apr. 29	May 6	May 13	May 20	May 27
*** Exchange Rate - Trade Weighted%	-40.68	-40.67	-40.50	-40.59	-40.63
Euro Deposit -					
1 Month	8 3/4	9	8 3/8	8 1/8	10 3/4(26/5)
3 Month	9 1/4	9 1/4	8 7/8	8 1/4	10 3/4
6 Month	9 7/8	9 3/4	9 5/8	9.	10 1/2
12 Month	10 1/2	10.	10 1/4	9 7/16	11.

Open Interest (May 27)	797	Average Volume (May 77)	62
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. - 1:10p.m. (Chicago Time)	Major Delivery Months	Mar., June, Sep.,Dec.

The ambivalence of the U.K. situation continues to find expression in the erratic daily movements of Sterling. Whereas, on one hand, the economic recession grows worse - thus carrying the promise of increased external competitiveness and potential calm in the labor market - the acceleration of double digit inflation figures (plainly seen in our above exhibit) & continued drop (collapse!) in interest rates creates jitters among currency traders. Sterling will move up to 1.72 where heavy official intervention sends it reeling back to 1.7155 - 1.7170. At that point, heavy official intervention is necessary to keep it from sliding.

It should be understood, however, that the present 'acceleration' of inflation is no more than a delayed reaction to the late 1976 devaluation and its effects on input costs. This source of embarrassment should now be coming to an end. Similarly, exports, & particularly oil earnings, are growing now quite rapidly while imports, restrained by present recessionary trends, are decelerating This scenario calls for a sharply improved payments performance in months ahead. Phase III of the Incomes Policy has been downplayed by the Gov't and rightly so. Market forces are expected to hold wage gains in the 8-12% annual gain range.

The main source of real concern at the time is the sharp pick up in Sterling M3 in recent weeks having shown gains of 2.5% for a mere 5 week period. Further gains of this magnitude will alert currency traders to renewed inflationary pressures in the not-far-distant future provided that these gains are mostly attributable to loan demand. The latter condition however is not likely to appear for many months yet.

The widening of the forward discount (a recent happening) is a direct result of a tactical change on the part of the Bank of England in its efforts to support Sterling at the lower end of the range. It has the effect of discouraging short-selling & raising short term interest rates (& thus attract short term capital inflows). It also may prolong industrial weakness.

Remain long deferred deliveries.

Canadian Dollar

Spot : 95.16 June 77: 95.14 Sep, '77: 94.83

Dec. 77 : 94.61 Mar 78: 94.63

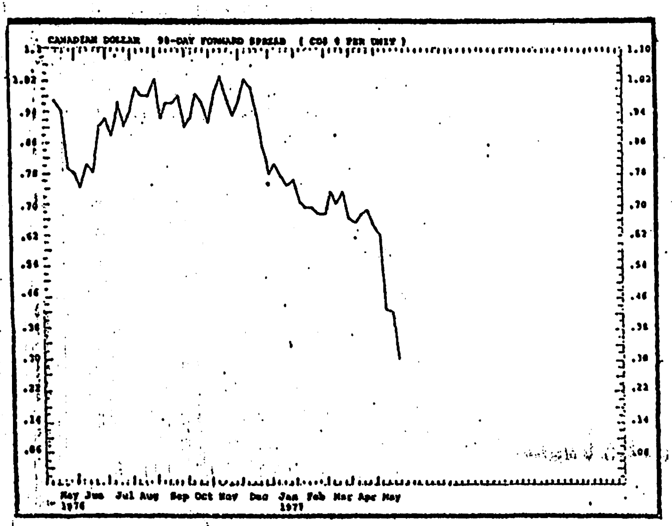
	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
* Money Supply %					
Narrowly Defined	+ 1.69	+ 4.9	+ 5.49**	+ 6.98**	+ 6.67
More Broadly (M2)	+17.71	+17.07	+15.99	+16.34**	+15.48
M3	+16.03	+16.31	+15.87	+16.93**	+15.94
Balance of Trade (Mln $)					
Jan - Apr. 1976 : -623					
Jan - Apr. 1977 : +873	+130	+153	+69	+502	+149
* General Bank Loans (Percentage Growth)	+21.36	+21.31	+21.22	+20.18	+19.38
* CPI	+ 5.82	+ 6.13	+ 6.73	+ 5.47	+ 7.56
* Food Price Index	- 0.72	+ 0.72	+ 3.07	- 0.12	+ 6.20
	Apr. 29	**May 6**	**May 13**	**May 20**	**May 27**
*** Exchange Rate - Trade Weighted %	-4.33	-4.25	-4.43	-4.38	-4.50
Euro Deposit -					
1 Month	7 7/16	7 7/16	7 1/4	7 1/16	7 1/16
3 Month	7 7/16	7 11/16	7 1/4	7 3/16	7 3/16
6 Month	7 9/16	7 11/16	7 3/8	7 5/16	7 5/16
12 Month	7 13/16	7 11/16	7 1/2	7 9/16	7 9/16
Treasury Bill Rate (91 Days)	7.58	7.60	7.25	7.12	7.05

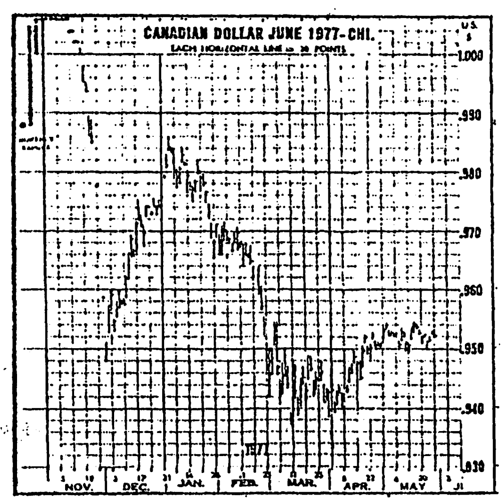
Open Interest (May 27)	1952	Average Volume (May 77)	162
Contract Size	CD$ 100,000.00	Approx. U.S. Dollar	US$95,000.00
Minimum Fluctuation	.0001 ($10.00)	Daily Limit (Normal)	.0075 ($750.00)
Margin Required	US$ 2,000.00	Round Turn Commission	US$ 60.00
Trading Hours	8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months	Mar., June, Sep., Dec.

Money market conditions continued to ease even after the recent Bank Rate cut & now stand some 50 basis points lower than on May 6th. With M1 still growing at under the lower end of the 8-12% band, market participants have come to expect a further cut in administered rates in weeks ahead. A simple explanation of the laggard performance of M1 lies in the attractiveness of interest bearing deposits being offered by banks & thus the non-banking public has increasingly come to economize idle balances. The growth of other monetary aggregates confirms this concept. It should also be noted that despite recent 'ease', liquidity has not improved significantly &, in many respects, corporate & banking liquidity measures have continued to worsen.

The recent pick up in the food component of the CPI makes it likely that inflation numbers in the months to come will come perilously close to double digit figures. This coupled with the sharp narrowing of interest rate differentials (also shown in the narrowing of the forward discounts of the CD$) make the CD suspect once more & it would not be surprising to see the CD$ trade down to 93-93.50 before the end of the Summer.

Sell September '77 at market.





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Deutsche Mark

Spot : 42.40 Sep. 77: 42.70 Dec. 77: 43.0[illegible]
Mar. 78 : 43.19

	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Balance of Trade (mln Marks)					
Jan. - Apr. 1976 : +10,778 Jan. - Apr. 1977 : +11,850	+3,270	+1,980	+2,730	+4,200	+2,940
* WPI	4.69%	3.32%	2.34%	1.32%	0.7%
* Cost of Living	3.94%	4.05%	3.81%	3.94%	3.77%

	Apr. 29	May 6	May 13	May 20	May 27
Net Monetary Reserves (mln Marks)	85,500	83,800	84,200	84,700	n/a
*** Exchange Rate - Trade Weighted %	+29.50	+29.66	+29.37	+29.56	+29.59
Euro Deposit -					
1 Month	4 3/8	4 1/4	3 15/16	3 3/4	3 7/8 (26/5)
3 Month	4 3/8	4 3/8	4 1/16	3 15/16	4 1/16
6 Month	4 1/2	4 1/2	4 3/8	4 3/16	4 3/16
12 Month	4 9/16	4 5/8	4 9/16	4 9/16	4 1/2

Open Interest (May 27):	2013	Average Volume (May 77):	428
Contract Size :	DM 125,000.00	Approx. U.S. Dollar :	US$ 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.

In spite of the sharp escalation of Eurodollar deposit rates vis a vis DM rates, the DM continues to gain, albeit slowly. In our opinion, the U.S. must now command a 3 percentage point premium over comparable DM deposit rates before its slide can be arrested. As discussed in a different section (Interest Rate Futures) we think this is highly unlikely to happen &, in fact, the opposite may come true. If so, & considering the recent spill-over from SF holders to the DM, the latter should reach 44¢ before the end of the 3rd quarter.

Remain long; raise protective stops to 42.00 basis nearby.

French Franc

Spot : 20.23 Sep. 77: 19.945 Dec. 77: 19.630

	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Balance of Trade (mln FFR)					
Jan-Apr 1976 : -2,347 Jan-Apr 1977 : -5,523	-1,320	-2,380	-1,520	-1,240	-383
* Net change of Foreign Exchange Assets	-9.36	-7.53	-3.4	-2.58	+5.46
* Retail Price Index	9.86	9.01	9.01	9.05	9.52

	Apr. 29	May 6	May 13	May 20	May 27
Weekly Reserves (mln FFR)	85,099	85,192	85,176	85,191	n/a
*** Exchange Rate - Trade Weighted %	-4.67	-4.63	-4.40	-4.49	-4.46
Euro Deposit -					
1 Month	9 5/8	10 5/16	10 5/8	9 5/8	9 7/8 (26/5)
3 Month	9 7/8	10 3/8	10 5/8	10 3/8	10 7/8
6 Month	10 1/8	10 1/2	10 3/4	10 1/2	10 3/4
12 Month	10 5/8	10 7/8	11 3/8	11 9/16	11 3/8

Open Interest (May 27) :	110	Average Volume (May 77) :	3
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)
Trading Hours :	8:45a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months :	Mar., June. Sep.,Dec.

In presenting a new government program to Parliament,French Prime Minister Raymond Barre announced: Credits of 3 bln Francs, of which 1.7 bln in the state sector, to help employment; Credits totalling 1.87 bln for construction, public works and capital goods industries; Employers exempt from making social security payments for employees under 25, up to July 1,78, effective from the day parliment approves the measures; The government will raise a long-term loan of around 6 bln Francs to help cover the cost of the program; Petrol taxes will be raised by up to six centimes a litre; A further 650 mln Francs will be raised by speeding up some tax payments from banks and insurance companies; Family allowances will be raised by 10.2% at the next annual adjustment while the minimum old age pension will raise to 10,000 Francs a year from July 1, and to 11,000 in December this year; To help employment,Barre said the Gov't will recruit 20,000 people temporily into public service while studies will be encouraged to see which industries could benefit from early retirement of personnel; The gov't hopes to supply grants of up to 10,000 Francs per person for unemployed immigrants to enable them to return to and settle in their country of origin. ... Reuters

Stand aside.

Japanese Yen

Spot : 36.06 Sep. 77: 36.12 Dec. 77: 36.12

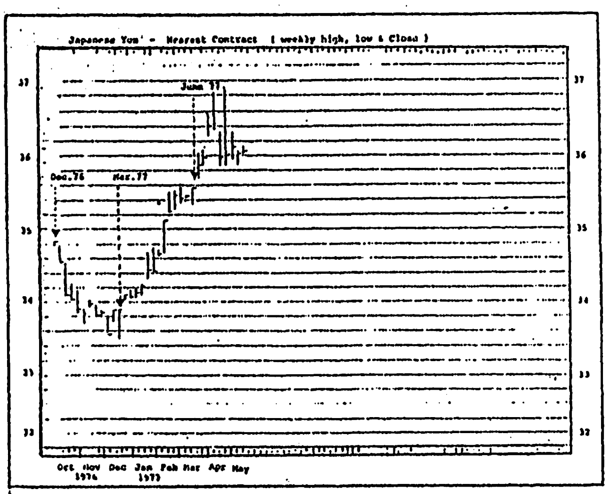
	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Balance of Trade (mln US$) Jan.-Apr. 1976 : + 2,205 Jan.-Apr. 1977 : + 3,820	+1,650	-770	+1,250	+1,560	+1,780
Reserves (mln U.S.$)	16,600	16,480	16,820	16,990	17,320
* C.P.I.	10.40	9.24	9.20	9.40	8.31
* W.P.I.	6.09	5.11	4.83	4.24	3.66

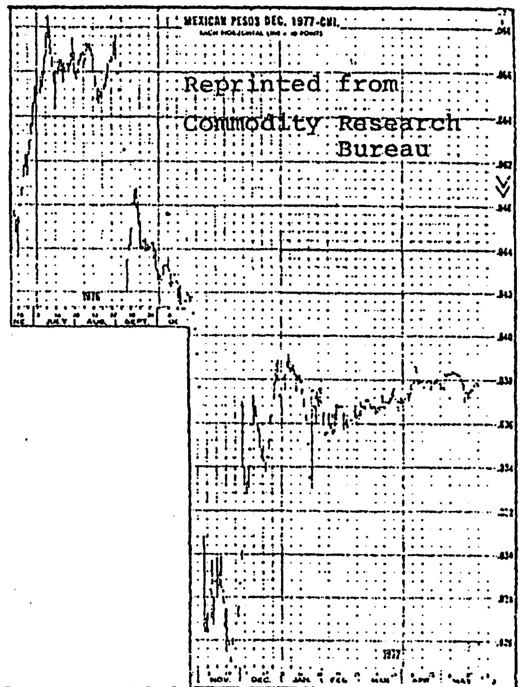
	Apr. 29	May 6	May 13	May 20	May 27
*** Exchange Rate - Trade Weighted %	+11.12	+11.39	+11.23	+11.34	+11.35

Open Interest (May 27): 973
Contract Size : Yen 12,500,000.00
Minimum Fluctuation : .0000010 ($12.50)
Trading Hours : 8:45 a.m. - 1:10 p.m. (Chicago Time)

Average Volume (May 77): 40
Approx. U.S. Dollar : US$ 45,000.00
Daily Limit (Normal) : .000060 ($750.00)
Major Delivery Months : Mar., June, Sep., Dec.

Remain long.





Mexican Peso

Spot : 41.95 Sep 77: 40.23 Dec.77:37.85
Mar 78 : 35.50 Jun 78: 33.90 Sep.78:32.00

Forward Disc. (Annual Basis)		Sep. 77	Dec. 77	Mar.78	June 78	Sep. 78
	Spot	16.40	19.55	20.50	19.19	18.97
	Sep. 77		23.66	23.51	20.98	20.46
	Dec. 77			24.83	20.87	20.61
	Mar. 77				18.03	19.72
	June 78					22.42

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 Jan	1977 Feb
* WPI	1.27	2.85	1.88	2.61	5.93	3.70	2.89	15.65	22.53	10.52	22.26	45.04	45.68
* CPI	4.19	2.99	2.23	3.82	5.15	5.70	5.11	11.16	22.51	16.85	16.12	25.21	25.86

Open Interest (May 27): 1537
Contract Size : MP 1,000,000.00
Minimum Fluctuation : .00001 ($10.00)
Margin Required : US$ 4,000.00
Trading Hours : 8:45 a.m. - 1:10 p.m. (Chicago Time)

Average Volume (May 77): 51
Approx. U.S. Dollar : US$ 40,000.00
Daily Limit (Normal) : .00150 ($1,500.00)
Round Turn Commission : US$ 60.00
Major Delivery Months : Mar., June, Sep., Dec.

Under Secretary for Foreign Trade, Hector Hernandez announced Mexico's balance of trade was in surplus in March 77, the first time the country has recorded a monthly trade surplus for 28 years. Exports of goods and services totalled 427 mln dlrs in March compared with imports of 406 mln dlrs. ...Reuters

Sell December 77 at 39.40 & March 78 at 37.40.

Swiss Franc   Spot : 39.93   Sep. 77: 40.19   Dec. 77: 40.37   Mar. 78:40.

	Dec.76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Balance of Trade (mln SFR)					
Jan.-Apr. 1976 : + 99.6					
Jan.-Apr. 1977 : -664.5	-133.9	-114	-32	-350.5	-168
*CPI	1.27	0.9	1.03	1.03	1.15

	Apr. 29	May 6	May 13	May 20	May 27
Weekly Reserves (mln SFR)	12,480	13,180	12,500	12,170	n/a
*** Exchange Rate - Trade Weighted	+43.02	+42.65	+42.84	+42.87	+43.37
Euro Deposit -					
1 Month	3 7/16	4 5/8	3 9/16	4 1/6	3 15/16(26/5)
3 Month	3 5/16	4 3/8	4 1/8	4 5/16	4 1/8
6 Month	3 9/16	4 7/16	4 1/2	4 11/16	4 3/8
12 Month	3 15/32	4 7/16	4 3/8	4 9/16	4 3/8

Open Interest (May 27)	1181	Average Volume (May 77)	180
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.

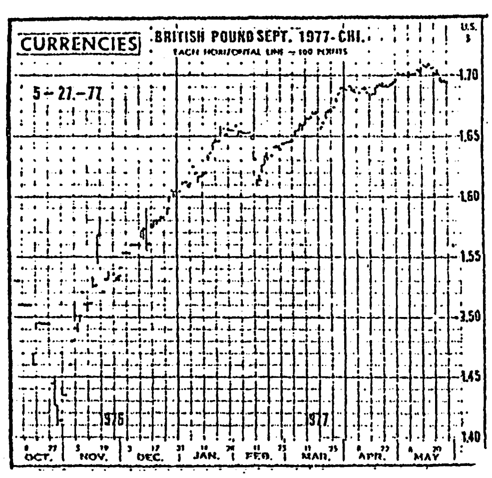
ANNUAL BUDGET (bln Francs)	1976	1976 Target	1975
Budget Balance	-1.57	-1.17	-1.31
Expenditures	15.86	15.66	13.54
Receipts	14.29	14.49	12.23

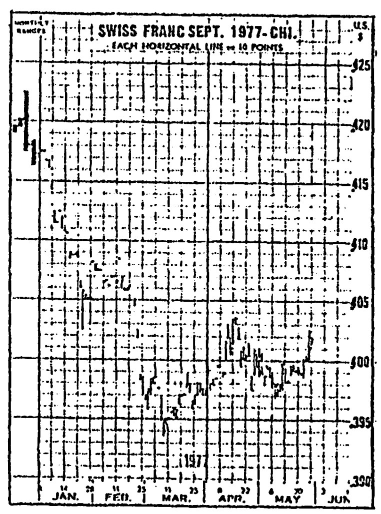
- Deficit

The 'Chiasso Affair' may have damaged the SF for many years to come.

The recent trickle of capital outflows may get more serious if bank secrecy veils are lifted & could accelerate the weakening trend of the SF vis a vis the world's strong currencies. Price stability may be impaired as there is little doubt that the appreciation of the Franc over the last 7 years has been the most important restraining influence on prices.

Look for the DM/SF ratio to widen to as much as 1.18 compared with the recent 1.06.





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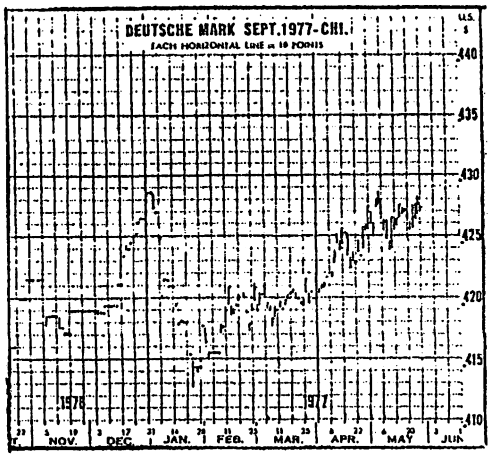

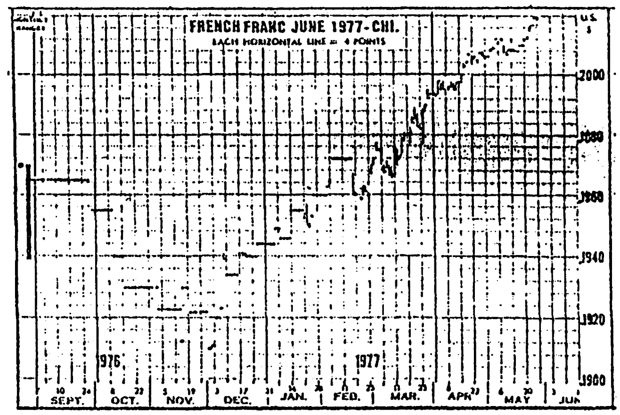

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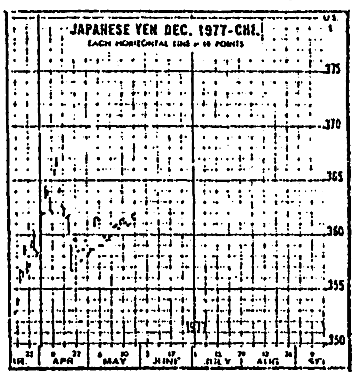
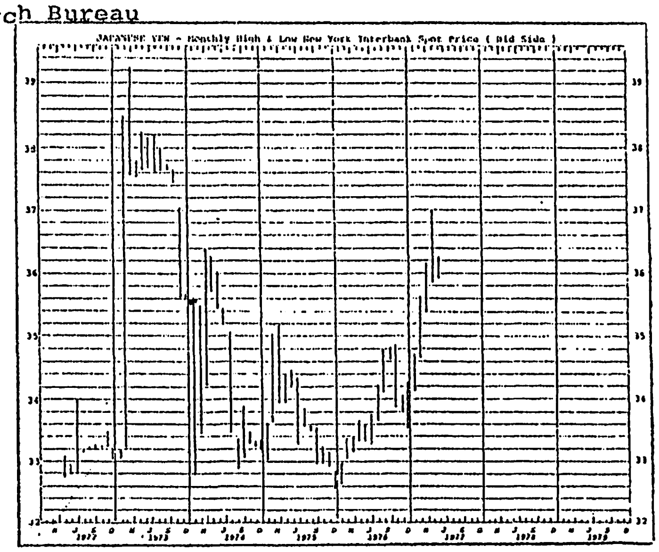
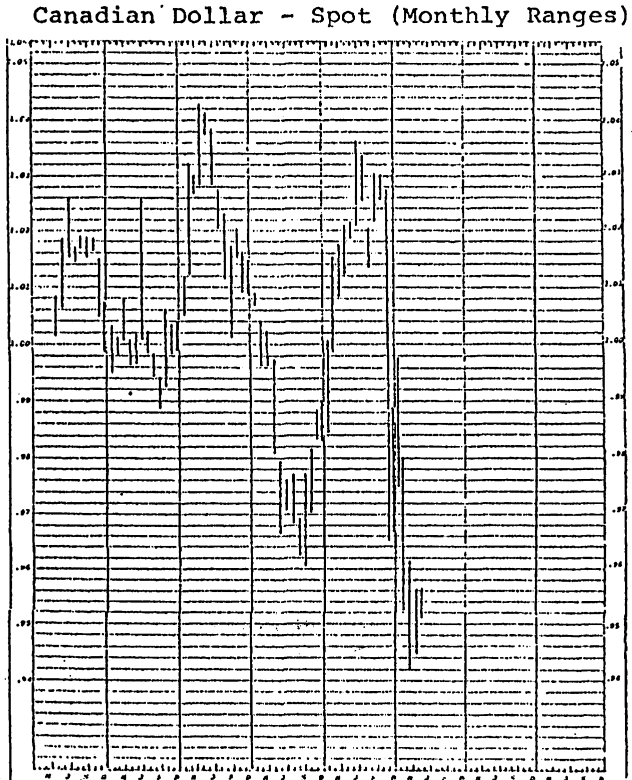




Canadian Dollar - Spot (Monthly Ranges)



COMMODITY COMMENTS

FRIEDBERG COMMODITY INDEX
APRIL 1977: 245.18
MAY 1977: 234.61
NET CHANGE: -4.31%

Summer Rally *June 1, 1977*

In the past several years, commodities have displayed a pronounced tendency to rally rather vigorously from mid-June through mid-August. In fact, in each year since 1973, our Friedberg Commodity Index peaked out in that period. Important tops were recorded in the livestock complex (1973 and 1975), Cotton (1973 and 1976), Corn and Soybeans (1973), etc. Minor but significant tops were also recorded in Gold (1973), Coffee (1975 and 1976) Copper (1973) and so on. The explanation for this behaviour eludes us. Perhpas they are due to sharp money supply expansions in the Spring of each year and its effects on real money balances. Perhaps it is just the weather ... Perhaps it is pure coincidence ...

Our technical readings at the present time indicate, however, that important tops will be recorded in the Soybean Complex and in Cocoa sometime during this period while substantial upside moves may be in the offing in a variety of other commodities.

Following is an explanation of our ranking system:

****** *Very Bullish*

***** *Bullish*

**** *Bullish-Neutral*

*** *Neutral-Bearish*

** *Bearish*

* *Very Bearish*

Coffee

* *July 1977: 273.12*
* *March 1978: 262.00*
**London, March 1978(Robustas) £3,075--to*

The USDA announced that U.S. per capita consumption of coffee, measured on a green bean equivalent basis, dropped to 3 lbs. in the first three months of the year from 3.6 lbs. during the same period in 1976. In a tersely worded statement, the USDA said that consumption 'appeared responsive to increases in prices ...' It further pointed out that retail coffee prices averaged $2.78 per one pound can for that period compared to $1.54 per pound can a year earlier.

Recent u.S. coffee roastings activity indicates that the drop in consumption is accelerating with figures for April 23 - May 14 showing a fall of well over 25% from year ago levels.

West Germany, the world's second largest drinker of coffee, has also begun to show the effects of rising prices. Retail prices are going up a further 8% this month to an average 13DM per pound ($5.52 U.S.) and are likely to reach the 15 - 17DM level before the summer is over, reflecting the normal delay of record green prices recorded earlier last month. Consumption for February appears to have fallen as much as 7% from last year's levels; industry sources expect a stiffening in consumer resistance in months ahead.

Reports of cold injury to coffee trees in the State of Parana reversed a downtrend that had seen prices recede to just under $2.60/lb. basis nearby May. Upon further consideration, it was noted that the 1977-78 crop was safe and that perhaps only 5% of the 1978-79 Parana crop may have been damaged. Since the latter was only expected to reach 5-6 million bags, the recent cold snap, if confirmed, has had an insignificant effect on global supplies.

Two of our recent forecasts have already taken place: a) while the final top has definitely been seen, prices may remain locked into a wide trading range of $2.75 - $3.15/lb. basis nearby until the passing of the frost season (early August); b) a full-fledged backwardation has finally set in with July 1977 the highest priced option and May 1978 the lowest one. The pattern is consistant with spot shortages and market manipulation induced by producers in their vain attempt to hold up prices. At this time, very little Brazilian and Colombian coffee is being sold due to their extremely high export prices. (In Colombia, exporters face an extremely high export tax; in Brazil, exporters must first sell domestically one bag of coffee at 1/3rd below market prices before a permit is issued to export two bags - naturally these two bags must cover the loss incurred on domestic sales and therefore export prices are unrealistic.)

We continue to feel that the carryover for 1977-78 will be double the 17 million bags expected for the end of this season (barring another unforeseen catastrophe in the next two months).

Add to previously established short March 78 positions, on 20¢ rallies from any low; maintain a $1.25/lb. target.

<u>Cocoa</u>

******July 1977: 199.00
******September 1977: 187.00
London May 1977: (expired) £ 3,350-ton
*****London March 1978: £ 2,235-ton

The long awaited squeeze on the bears has finally arrived.

A slightly bearish Gill and Duffus report showing a reduced deficit for the 1976-77 season of just over 36,000 tons compared to a previous forecast of 81,000 tons, sent the market reeling to a new test of the $1.50-$1.55 lows. The N.Y. contract, weighted down by very poor delivery grades, recorded a one day breakdown from the important April lows inducing a very large amount of short selling by chart-oriented and computer-oriented accounts. The London market, cognizant of the enormous spot shortages of the African varieties, remained well above previous lows, with May 1977 unable to close below £2,300. Already at that point, May 1977 was trading £200 below spot. Bearish expectations created a massive trap, the necessary pre-condition for a sustained and final upthrust. By May 20th, London Cocoa had reached a new all-time high at £2,945 aided by the growing tightness of nearby physical supplies. Only 12 original spot May tenders had been posted - mostly Nigerian - against an open position of 953 lots.

Trading Cocoa has lost it's former simplicity as there are now two separate and distinct markets; old crop and new crop. Old crop, July and September 1977, have begun to widen their premium significantly over new crop and should continue to do so right into August.

In the past we have adduced proof to the fact that the bull market was alive and well (despite severe shakeouts) from the fact that the September-March switch had not only stabilized at 1,600 points but had even dropped to 1,350-1,400 points, premium the nearby. Since a widening of the switch attracts lending of spot supplies to the market (and eventually brings it down), the narrowing from 1,600 to under 1,400 was an indication that: a) manufacturer's buying was well spread out, and b) little or no spot supplies were being 'lent' to the market to derail its upward course. In the past few days, the switch has gone out to 1,750 points while even July-September has widened to 1,200 points. Trade sources indicate that some *supplies may be lent to the market at 1,500 points. In view of the fact that there are very few bears in N.Y. (dealers have stopped quoting Ghana and Bahia for lack of material) it is doubtful that even this widening will do the trick. In London we have witnessed a widening of May/July of as much as £400 (approximately 3,000 points!) just to satisfy a mere handful of contracts. The next few weeks will make history and will teach observant traders the value of terminal markets in rationing supply and demand.*

Remain long only the old crop; as we stated last month, 'the market will peak sometime between early July and early September at prices substantially above current levels'.

Copper *****September 1977: 61.30*

This market is now vastly oversold and it can be bought with very little downside risk.

Buy September 1977, at market.

Cotton ****July 1977: 68.15
******December 1977: 65.30*

The recent sagging action in cotton futures can be termed disappointing and perplexing. Export commitments indicate total 1976-1977 exports at over 5 million bales (ahead of USDA's projection) while 1978 commitments have begun to increase rather significantly. Daily consumption rates are consistent with projections of total domestic consumption of 6.5 to 7.0 million bales. End-July carryover will certainly be less than 3.0 million bales, perhaps as low as 2.5 million. Nonetheless, nearby July has been extremely weak in recent days, perhaps an indication of some switchover orders from old to new crop.

In our view, most of the recent weaknesses can be attributed to the unusual paucity of mill buying, not to any drop in final sales. An example, trade indications point to low spinners' current stocks in Hong Kong - just enough to carry them into August without additional buying. The buying in the past few months has been rather low, mainly involving a total of about 200,000 bales of Soviet, Mexican and Argentian cotton.

The Hong Kong spinners exemplify the wait-and-see attitude on the part of most mills and manufacturers. This cautious inventory buying policy is a characteristic of the recent worldwide economic recovery stung in the past with excessive inventories and illiquid balance sheets.

Be that as it may, 65-66¢ cotton is extremely inexpensive and worth considerably more for delivery in December 1977 and March 1978. Downside risk has become minimal considering the enormous speculative washout that has taken place in recent weeks. We still maintain our target of $1/lb. for late 1977. (Our split rating last month was at least accurate in reflecting the sharp narrowing of the July premium).

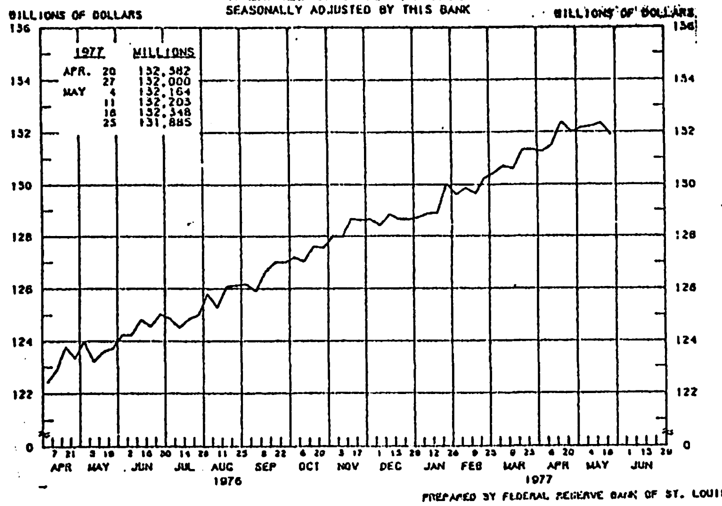
Add to long positions in new crop cotton at market.

Interest Rate Futures ******September 1977 GNMA: 97.13
****September 1977 TB : 94.45*

Last month we expounded on our 'general theory of interest rates' drawing a distinction between loan demand-led and Fed-induced rises in short term rates. We said that only the former is a genuine and valid reason for interest rates to climb and stay up until credit is fully rationed. Furthermore, we proved that this was not the case at the present time: demand for credit was still stagnant. The sharp rise in M_1 is principally attributable to a shift from net time deposits (now that some interest bearing securities are trading above comparable bank maturities) which have decelerated from a 14.5% annual rate of growth (late May 1976-mid-February 1977) to a much slower 8.9% annual rate (mid-February through late May 1977). In addition, poor collection procedures on the part of the IRS of individual tax payments were not properly (seasonally) adjusted thus duplicating demand deposits in the billions of dollars.

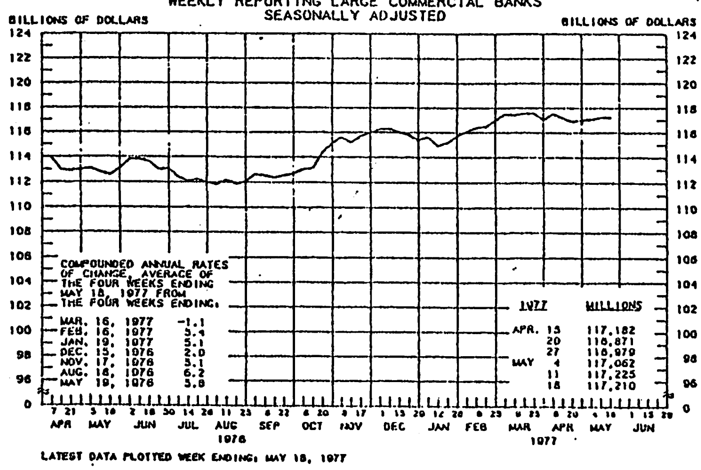
Fed fine-tuning has had the effect of raising interbank funds above private money market paper - surely not a sign of a tight money market. It also has had the effect of substantially slowing the monetary base, which at a growth of a mere 6.3% annualized in the past two months, promises to rein in M_1 before the end of June.

MONETARY BASE
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED BY THIS BANK



PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

BUSINESS LOANS
(COMMERCIAL AND INDUSTRIAL)
WEEKLY REPORTING LARGE COMMERCIAL BANKS
SEASONALLY ADJUSTED



LATEST DATA PLOTTED WEEK ENDING: MAY 18, 1977

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The Discount Rate now stands below the Fed Funds rate and has quickened the pace of borrowing from the Federal Reserve. A raise of the Discount Rate should not be unexpected but it would merely be confiming a slightly more expensive Fed Funds rate. As such, it would definitely not point to further tightening. The same can be said about recent prime rate increases, done at a time when loan demand remains incredibly sluggish. They all point to substantially lower long term interest rates in month to come.

Remain firmly long September 1977 GNMA's.

Precious Metals

June 1977 Comex Gold: 143.50
***** December 1977 Comex Gold: 147.10
**** September 1977 Comex Silver: 462.00
****** October 1977 Platimum: 156.90
***** September 1977 Palladium: 48.85

Steady but continuous liquidation has kept gold futures on the defensive since they attained the March highs. During this period, the combined open interest in Comex, IMM and Winnipeg has dropped by over 10,000 contracts, or almost 25% of the total. Also it has been rumoured that Swiss Credit has been liquidating large holdings of bullion in order to maintain liquidity.

At the close of today, prices have corrected some 50% of the previous advance from the January lows. From a technical point of view, the break below 146 basis June was not favorable, as we stated last month and therefore long positions should have been closed. However, we remain convinced of the fundamental merits of the situation and advise moving back on the long side at present levels with tight $2-3 stops or, alternatively, buying above 148.50 basis the London Second Fixing.

The recent breakdown in Silver's descending triangle looks too obvious and therefore loses some of its negative implications. Long positions can safely be established on breakouts above 4.92 basis September 1977.

The long awaited pick up in capital spending has yet to be materialized. When it does, Platinum and Palladium consumption should be given a strong boost.

We expect prices to hold the 156-158 area basis October 1977 for the next few weeks before the long expected rising phase begins.

Grains

*****September 1977 Corn: 2.51 1/4
*****September 1977 Soybean Oil: 31/35

Soybean Oil prices out of an almost four month long bullish consolidation. Inkeeping with our seasonal view of commodity prices, it is most likely that the Soybean Complex will be entering the final, blow-off stage, during the next 8-12 weeks.

We anticipate sharply higher oil prices ahead and advise establishing long positions at market with stops at 26.50 basis September 1977, close only.

Corn prices have begun to stabilize after a long and dreadful decline of nearly 75¢/bu. On a positive note, prices have not followed through on the downside despite breaking the important November lows. Also, on the long term weekly charts, major support exists at the $2.40/bu. level, approximately the expiry price for the May 1977 contracts.

We advise long position in the September 1977 position, expecting prices to rise initially up to 20¢/bu.

Sugar

*July 1977: 8.63
*October 1977:8.91

The recent decline has virtually erased the entire February-April rally that saw nearby July 1977 rise just above 11¢/lb. Any doubts that traders may have harboured about the persistence of this Bear Market, have now been lifted. The compete failure of negotiations at Geneva for a new International Sugar Agreement was the last nail in the coffin. It should have been known that cartilization of sugar was an impossible task considering: a) the glut of unsold supplies, and b) practically every nation in the world produces sugar.

F.O. Licht's third 1977 European beet acreage estimate shows a small reduction from last April's 7,974,000 hectares and from last year's 7,951,000 hectares but, at 8,870,000 hectares, remains still well above 1975 figures. While recent weather conditions have not been very favorable for planting, it is expected that conditions during the growing season will be substantially better than last year.

U.S. Agriculture department field dispatches from various capitals report a surprising number of substantial increases in production and exports for the 1977-78 season. Some of the more interesting ones include Spain where net imports are estimated at only 25,000 tons against 140,000 tons in 1976-77; Ecuador will export 170,000 short tons compared to 16,236 short tons in 1976-77; production in Columbia is estimated at 60,000 tons higher than last year; Chile's net imports last year amounted to 90,000 tons while this year (1977-78) it expects to export as much as it imports, and so on.

Brazil one of the world's largest producers, set a target for the 1977-78 crop of 8.1 million tons. This compares with frost damaged output of 5.88 million tons in 1975-76 and 6.9 million tons in 1976-77.

On the demand side of the equation, sugar deliveries in the U.S. have begun to trail year earlier levels. The USDA reports that for the week ending May 21, sugar deliveries were 202,113 tons compared with 208,506 tons a week earlier and 230,850 in the corresponding week a year ago.

In our view, the world Sugar Balance will show another record production surplus in 1977-78 and a massive surplus approximating 35-38% of world consumption.

Once the uncertainties of the growing season in Europe are out of the way, sugar prices will collapse.

Remain firmly short; we still look for an eventual bottom in the 6¢/lb area.

Wood Complex

****September 1977 Plywood: 190.30
****September 1977 Lumber : 184.50

The bear correction is still in full force.

Housing activity in April showed a further small seasonally adjusted decline from March and February. Single family starts dropped 5% to 1,444,000 units, two-to-four family unit starts dropped to 107,000 units and multi-family starts dropped drastically from a 478,000 unit rate in March to 324,000 in April. Permits authorizing new construction, down 10% from March to a 1,534,000 rate, remain consistent, however, with a housing starts level of 1.9 million. Given the present level of liquidity at Savings and Loan institutions, low mortgage rates and a speculative boom in house sales, starts should have no trouble reaching the 2.1 - 2.2 million level by year-end. All by itself, this should propel wood prices sharply higher.

On a more negative note, mill output of 310 million square feet remains high by historical standards and more than adequate to meet present needs. In both plywood and lumber, cash prices remain substantially below nearest contract quotes and should continue to dampen bullish enthusiasm.

Seasonally, lumber and plywood futures bottom out at end of September; a repetition of this pattern should not be dismissed.

Our technical indicators have not as yet given the green light. We therefore prefer to remain sidelined. Buy stops should now be lowered to 197 basis September plywood and 192 basis September lumber, on close only.

Friedberg Commodity Index

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

Albert D. Friedberg