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Commodity Comments

DEFENDING THE U.S. DOLLAR

June 29, 1977

Friedberg Commodity Index

May 1977: 234.61

June 1977: 221.70

Net change: - 5.5%

The U.S. Dollar is in trouble. We foresaw it three months ago (see Currency Comments, March 30th) and built a trading strategy around it. Gold, GNMA's, Deutsche Marks and Japanese Yen were the pillars of this 'hedge'. Needless to say, it worked.

But then again, our contrariness is forcing us to begin shifting, if ever so slightly, in favor of the 'lowly' U.S. Dollar. In the first place, the trade-weighted U.S. dollar shows a minor 1.42% depreciation since December 18, 1971 (Smithsonian Agreement). It is, even today, still .62% higher than last year at this time. In truth, then, it has only lost ground against a handful of super-currencies, ie. DM, JY, SF, DG, & Belgian Franc. It has gained against the Rest of the World. It is still today considered the investment currency par excellence (who can equal the depth, liquidity and value of the New York Stock Exchange or the facilities of the Euro-dollar/Euro-bond markets?). It is still the third par: currency in 80%, perhaps 90%, of international trade.

So what is ailing it? An incredibly asinine energy policy. Oil and gas are being imported at \$13.00 + per barrel and \$4.00 per MCF while domestic prices are controlled at prices far below international levels. The world's richest citizenry is being treated to gasoline prices 60% cheaper than anywhere else in the world (except, perhaps for Canada). Domestic producers are being denied again and again the incentives to bring forth supplies. Abundant supplies. A glut that could easily destroy OPEC and that would easily restore the U.S. dollar to the status of a super-currency.

Price rationing works. If you don't believe it, ask (the coffee producing countries of) Brazil, Colombia et al.

Somebody, please listen...

Cocoa

\*\*\*\*\* July 1977: 205.90

\*\*\*\*\* September 1977: 197.75

\*\*\*\*\* March 1978 London: £ 2,341

Exceedingly little progress has been made on the upside over the past 4 weeks in spite of the tight (and tightening) situation in nearby supplies. This can mainly be attributed to a) a very weak general commodity market b) consolidation of the sharp gains recorded in May c) generally pessimistic forecasts of consumption for the balance of 1977 made by leading cocoa dealers.

June 27, 1976 **\*\*TEMPORAO CROP\*\***

June 26, 1977

Purchases 2,428,711  
Arrivals 424,039

1,796,025  
739,152

Hopes for a record outturn in Bahia have turned sour. Present indications point to a Temporao crop of just 2.2 million bags, sharply lower than the expected 2.5 - 3.0 million bags forecast as recently as last April. Although recent rains have improved, somewhat, prospects for Ghana's 1977 main crop, the crops could still be quite late and thus affect deliveries of December 1977 position.

Grinding figures of the main consuming nations are due out within the next two weeks and are now being expected to show less damage to consumption than had previously been projected.

U.S. MAY COCOA - CHOCOLATE PRODUCT IMPORTS  
U.S. imports of cocoa and chocolate products during May were as follows, with comparisons, in lbs.--

	COCOA BEANS	COCOA BUTTER
May 77	56,276,886	3,321,874
April 77	36,139,753	3,573,686
May 76	47,922,973	4,712,633
Jan-May 77	251,712,695	19,889,885
Jan-May 76	275,884,123	24,566,177

	UNSWEETENED CHOCOLATE	UNSWEETENED COCOA
May 77	2,936,155	11,896,892
April 77	6,627,775	18,139,874
May 76	3,155,232	11,659,488
Jan-May 77	24,819,898	74,955,389
Jan-May 76	17,885,616	71,933,878

SOURCE: US CENSUS BUREAU

There are presently 14,000 metric tons of cocoa approved for delivery in the London market to settle futures contracts while, currently, contracts for 20,000 tons remain to be covered in July. The possibility of another squeeze, similar to May, should not be ignored, particularly when spot supplies are trading substantially higher than the July contract.

We are still expecting a spectacular blow-off to this maturing bull market and would not be surprised to see September 1977 trade as high as \$2.40 - 2.75 per pound.

Remain firmly long old crop. Place stops at 1.79, basis September 1977, on close only.

Coffee

\* September 1977: 229.92  
\* March 1978 : 197.67  
\* London. March 1978 : £ 2,011/ton

This fabulous bear market is performing like a well-rehearsed actor - according to a scenario we described as early as last February. We salute it and ourselves. If you had sold a single March 1978 coffee in New York on April 30th, the day we wrote "The Bear Market has begun at last ...sell rallies," you would be \$34,098.75 richer today.

And still the game continues. Despite the fact that U.S. roastings are currently running a full 26% less than last year - 7,775,000 lbs. versus 9,800,000 lbs. as of June 11th - and despite the fact that imports of green beans into the U.S. are also running 26% less than year - 161,844,029 lbs. versus 204,550,795 lbs. during May - and despite the fact that the FAS recently placed world coffee production at 70.4 mln. bags, up 14.5% from last year's crop - and, finally, despite the (most salient) fact that prices have fallen almost 65¢ basis March 1978 since last writing, Brazil has actually raised its export tax on green beans. (It must be noted that Colombia reduced its tax, June 16, by 35¢ to \$2.85).

Such a strategy is in keeping with our prophecy that the Brazilians would do what they could to bolster cash prices. So adamant have they become that virtually no coffee has been imported into the U.S. from Brazil during the past four weeks, and cash prices have held firm, having fallen just 1¢ since last writing. Yesterday the New York Coffee Exchange, presumably suspecting a mammoth Brazilian squeeze play in the works, suspended trading from the long side in July and will now permit buying for liquidation purposes only, and selling only if backed by delivery capabilities. The result of this fantastic game is an astounding backwardation of 75¢ basis spot versus March 1978. Such a market structure affords us the unique opportunity of cashing in on the same bear market twice. In the next week or so we suspect the bottom of this current decline to be reached in the deferreds. However, once the threat of another July frost passes - and we assume that the Brazilian's fervent prayers will go unrequited - spot prices will fall like Newton's proverbial apple.

As forecast, London (Robustas) coffee has fallen farther and faster than N.Y. At current levels Robustas is worth approximately 72% the value of N.Y. This is historically about the right value. Anything less makes New York a preferred sale.

Be prepared to cover March 1978 short positions between 167.00 and 182.00. On the next major rally, and in keeping with what has been said above, we would be sellers of September 1977. Keep in close contact.

Copper

\*\*\*\*\* September 1977: 61.20

There are very strong indications, late tonight, that a strike is imminent. If so, a long-awaited-for firming influence is likely to develop. On the other hand, fabricators are extremely well supplied as recent ADMS figures indicate and unless the strike is longer than three months, a very small dent in supplies will be made.

Long term long positions, established last month at 61.30 basis September 1977, can be maintained with protective stops at 58.00, on close only.

Cotton

\*\*\*\* July 1977 : 63.75  
\*\*\*\*\* December: 60.03

Last month, we wrote, "The recent sagging action in cotton futures can be termed disappointing and perplexing...Be that as it may, 65-66¢ cotton is extremely inexpensive." This month we can only be redundant: recent action continues both to disappoint and perplex, however, if cotton is cheap at 65-66¢, it's still cheaper at 60-61¢. After all, polyester equivalent is valued at approximately 64¢. What kind of shirt would you rather wear?

There is little either on the supply or demand side of the court to warrant the recent price erosion. A glance at the basic indicators of domestic consumption shows virtually no change over the past eight months. For example, the daily rate of usage, 25,219 bales during May, was 7.7% less than last year's rate. September's daily rate of 24,747 bales was 6% less, October's 5% less, and March, the month during which prices registered their highs of the year, was 9.7% less. Cumulative consumption, August-May totalled 5,464,459 bales, 6.7% less than at the same time during the 1975-76 crop year. In November cumulative consumption was running 4% less than the previous year, in November 5% less, and in March 6.4% less. Examining the inventory positions of the consuming establishments tells the same story. Demand at the domestic level has been consistent. Exports continue to perform well. Commitments have exceeded the initial USDA projection by 600,000 bales or 14% and, given that actual deliveries have been averaging 100,000 bales a week, there is only a slight fear that the aforementioned

commitments will not be honoured before the end of the current year, July 30th.

On the supply side there has been no official (USDA) news since the prospective plantings report in April other than that Texas lost 166,000 acres or 4.7% of its crop earlier this month to a hailstorm. Today - unfortunately just after press time - the USDA is scheduled to release its first major report on plantings of the 1977/78 crop since April. In our view, a large part of the reason for the price decline has been anticipation of a bearish report. As such we assume that unless the USDA projects acreage more than 5% above its April offering, the news will already have been discounted.

The only bearish facts on the horizon are reports that foreign supplies in several countries - Brazil, Mexico, Turkey, the Soviet Union - will produce more cotton next year. However, reports of next year's foreign production are, at this point, highly tentative, and, of course, incomplete.

In the final analysis we conclude that the recent washout has been the result of massive speculative liquidation and end by reiterating that cotton is cheap at current levels.

We strongly recommend purchase of new crop contracts at market. However, place stops at recent lows - 59.40 basis October on close only, and stay in close contact. If prices break through these support levels, we must re-evaluate our position.

Grains

\*\*\* September 1977 Corn: 231.00  
\*\*\* September 1977 Soybean Oil: 27.2  
\*\*\*\* December 1977 Soybean Meal: 189.

The back of the corn markets has been broken. Barring unforeseen weather problems this summer, the long bear market in wheat will force corn to lower levels yet.

Although CFTC interference with the soybean market makes it difficult to determine whether price rationing has indeed taken place, the odds favor termination of the great 1976/77 soybean bull market. It should be noted, however, that a relatively dry summer may produce an average soybean crop, which is probably not good enough given present minimal carry-over stocks.

We may yet face a runaway bull. Stand aside.

Interest Rate Futures

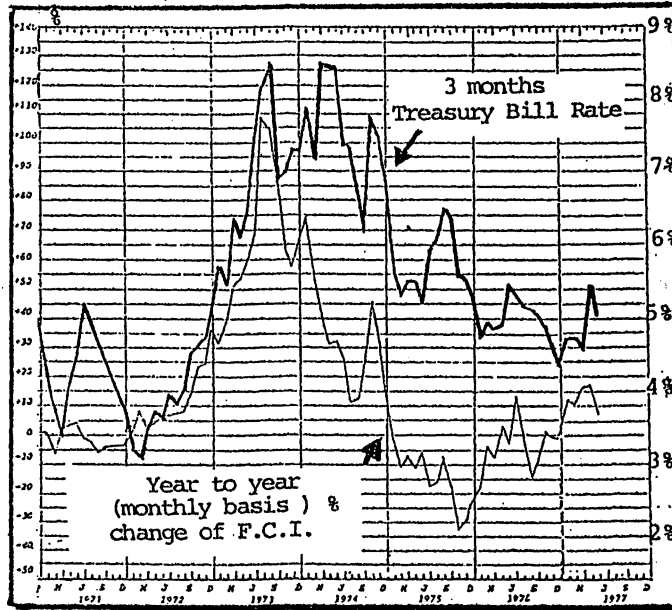
\*\*\*\*\* September 1977 GNMA: 99.11  
\*\*\*\*\* September 1977 TB: 94.74

The bond market in the U.S. exemplified by the GNMA, has mounted this past month the most vigorous rally yet this year. Since our recommendation just four weeks ago, prices have improved 30nds, to lower yields approximately 25 basis points. This re-  
32 presents a gain of nearly \$2,000. on just that kind of an investment (ie: 100% return).

Whither now? In our opinion, still higher. In the first place, the Fed has successfully stabilized monetary aggregates by raising the Fed fund rate to 5 3/8% and has given indications that, for the moment, this upward nudge will suffice. More importantly, the market has been able to 'compartmentalize' its thinking of short versus long term rates. While it has been rather obvious all along that the gap between short and long term rates was too wide to persist, very few observers were willing to cross the bridge, and arrive at the intellectually sound conclusion that the gap could narrow without tilting upward, if not so much, long term rates.

And this is exactly what is happening. In our view this narrowing will continue and will more than offset any firming tendency that short-term rates may develop. Riding the yield curve, (money market jargon for describing individuals and institutions extending their portfolio maturities), is bullish for long term bonds and may, paradoxically, result from the quick and aggressive monetary policy pursued by the Fed. As the latter moves to check money supply bulges, confidence is built in the minds of lenders that inflation can be brought under control and they, therefore, demand lower 'inflation premiums'.

The chart below demonstrates the close relationship of movements in commodity prices and short-term interest rates. The recent break in commodity prices, then, augurs well for the GNMA market.



Remain long September 1977 GNMA, raising stops to 98.00, on close only. Our new target is somewhere between 101 and 102.

Orange Juice

\*\*\*\*\* September 1977: 95.50  
 \*\*\*\*\* January 1978: 87.80

This may yet be the 'coffee' market of 1977 - 1978.

A long term 9-year base has been left behind and prices are now skyrocketing into uncharted waters. The advance has formed the all-too-classical backwardation arising out of tightening supplies and confidence that future supplies will be readily available. This just may not be so.

We are preparing an in-depth analysis of this market which should be available within the next six weeks. Copies of the analysis will be available upon request only.

The technical action impresses us so much that we advise establishing modest long positions at present levels.

Precious Metals

\*\*\*\*\*June 1978 Comex Gold: 150.50  
\*\*\*\*\*August 1977 Comex Gold: 143.70  
\*\*\*\*\*September 1977 Comex Silver: 456.30  
\*\*\*\*\*October 1977 Platinum: 153.90  
\*\*\*\*\*September 1977 Palladium: 45.80

The erratic gold fluctuations of the last five weeks have whipsawed us in an embarrassing fashion. After having been stopped out of long-term positions at 146.00 basis June 1977, we committed the error of advising to re-enter market at 143.50 with 'tight \$2 - 3 stops'. These stops were taken and the market is now once again at 143.30. The alternative suggested last month, i.e. buying above 148.50 basis the London second fix has, of course, not yet come about.

The present currency turmoil should be a boon for gold. Burned once, shy twice, we now prefer to lower our stop buy to 145 basis the London second fix.

September 1977 silver may be bought here with stops at 440. on close only. Look for a good recovery of the 80¢ per ounce drop since March.

Remain long platinum and palladium.

Sugar

\* July 1977: 7.69  
\* October 1977: 8.46

Prices have continued to erode over the past four weeks and are now within a hairbreadth of making new 4-year lows. The first serious decline in the speculative open position is now underway, although undoubtedly the process is still in its early stages.

We remain confident that eventual lows of 5 - 6¢ per pound will be achieved.

Remain firmly short; roll-over short July 1977 positions into September and October 1977.

Wood Complex

\*\*\*\*\* September Plywood: 204.30  
\*\*\*\*\* September Lumber: 195.30

The bear correction is over.

Housing starts in the U.S. during May totalled 1,929,000 units versus 1,899,000 units in April, and permits, an indication of future activity, were up from 1,563,000 to 1,666,000, 36% higher than last year. All figures, which are presented on a seasonally adjusted basis, are the second highest (to March) since the commerce department began keeping records.

Clearly the demand is real. We note that building activity has shifted from the West to the North East and North Central areas of the U.S. thus assuaging our fears that the California building boom was going to turn into a frenzy akin to tulip bulb mania in 17th century Holland. We note, in addition, that, despite the rapid rise in the price of new homes - 95% from 1965 to 1976 - current prices are increasing at 2 - 3% clip a year while real per capita incomes are increasing at about 3 - 4% a year. Liquidity remains healthy at the Savings & Loans Institution level. Mortgage rates continue low. All in all, housing activity should easily reach the 2.1 - 2.2 million mark.

The supply picture is also turning bullish. Softwood production was down 4%, April over March, and indications are that the huge inventories accumulated by the mills in the spring as a hedge against the west coast drought and consequent potential summer forest fires are being drawn down to more normal levels.

Cash prices have firmed relative to futures. Our technical indicators have given us the green light we've been waiting for.

Assuming you purchased at 197 basis September Plywood and 192 basis September Lumber as per our stop buy recommendation of last month, add to those long positions at the market.

We forecast a \$25. advance.

British Pound Spot : 1.7207 Sept. 77: 1.7110 Dec. 77: 1.6945  
 Mar. 78 : 1.6815 June 78: 1.6665 Sep. 78: 1.6586

	Spot / Sept. 77	Spot / Dec. 77	Spot / Mar. 78	Spot / June 78	Spot / Sept. 78
% Discount from Spot ( Annualized )	3.38	3.65	3.42	3.44	3.33
Balance of Trade (Mln Stg) Jan-May 1976: -1,040 Jan-May 1977: -1,333	Jan. 77 - 532	Feb. 77 - 189	Mar. 77 - 239	Apr. 77 - 129	May 77 - 244
Reserves (Mln U.S.\$)	7,196	7,787	9,620	10,130	9,903
* W.P.I.	19.52	19.91	20.25	20.78	18.87
* Retail Price Index	16.57	16.22	16.73	17.46	17.14
	May 77	June 3	June 10	June 17	June 24

Euro Deposit -					
1-Month	10 3/4	11 3/8	10 3/8	9 1/4	9 3/8
3-Month	10 1/8	11.	10 1/2	10	9 3/4
6-Month	10.	11 1/8	10 5/8	10 5/8	10 1/4
12-Month	10 9/16	11.	10 3/4	10 3/4	10 3/4

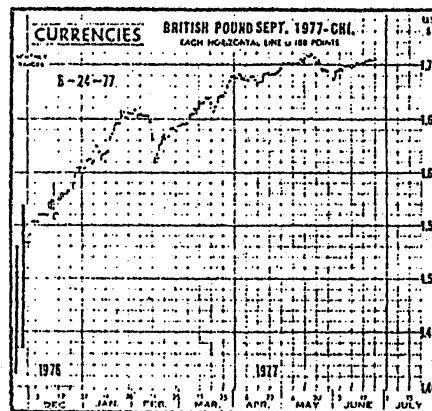
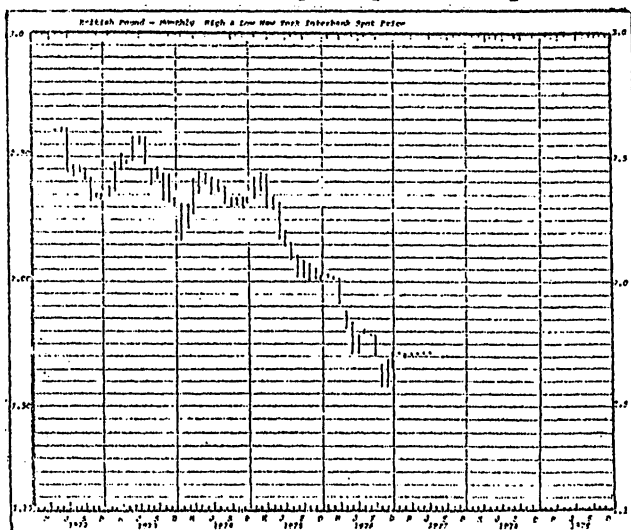
Open Interest (June 23 ) : 712	Average Volume (June 77): 42
Contract Size : BP 25,000.00	Approx. U.S. Dollar : US\$ 43,000.00
Minimum Fluctuation : .0005 (\$12.50)	Daily Limit (Normal) : .05 (\$1,250.00)
Margin Required : US\$2,500.00	Round Turn Commission : US\$ 60.00
Trading Hours : 8:45 a.m. - 1:10 p.m. ( Chicago Time )	Major Delivery Months : Mar., June, Sept., Dec.

Faced with increasing pressure, the Bank of England has altered its 1.72 intervention level in favor of a more 'flexible' policy of scale up selling (of Pounds, naturally) with the immediate result that Spot has moved up to 1.7209. This creeping revaluation is the only answer to the massive inflows of hot money and the favorable pattern of leads & lags.

The orthodox remedies of the Healey-IMF deal are beginning to yield benefits : May's cost of living increased by just (!) .8% or an annualized rate of 9.6%. As discussed earlier in these Comments, inflation is expected to subside to well under double digit numbers by 4th Quarter 1977. In addition, credence was lent to our forecast of declining real growth in the second half of 1977 ( a favorable anti-inflation and trade balance prospect) when the Dept. of Trade & Industry revealed that firms had lowered significantly their capital spending plans for the coming year.

It seems quite likely that Sterling will continue to appreciate over the coming months.

Advise adding to previously established long positions.



	Jan 77	Feb 77	Mar 77	Apr 77	May 77
<b>* Money Supply</b>					
Narrowly Defined	4.90	5.49	6.97	6.67	8.35
More Broadly (M2)	17.07	15.99	16.35	15.48	16.06
M3	16.31	15.87	15.93	15.94	15.69
<b>Balance of Trade (Mln \$)</b>					
Jan-May 1976: -156	+153	+ 69	+502	+149	+ 57
Jan-May 1977: +930					
<b>* General Bank Loans     (Percentage Growth)</b>	21.31	21.22	20.19	19.38	18.91
<b>* C.P.I.</b>	6.13	6.73	5.47	7.56	7.57
<b>* Food Price Index</b>	+0.72	+3.07	-0.12	+6.20	6.11
	May 27	June 3	June 10	June 17	June 24

	May 27	June 3	June 10	June 17	June 24
<b>Euro Deposit -</b>					
1-Month	7 1/16	6 13/16	6 13/16	6 13/16	6 11/16
3-Month	7 3/16	7 1/16	7 1/16	7 3/16	6 15/16
6-Month	7 5/16	7 3/16	7 1/8	7 5/16	7 3/16
12-Month	7 9/16	7 7/16	7 5/16	7 9/16	7 7/16
<b>Treasury Bill Rate (91 Days)</b>	7.05	7.08	7.09	7.06	7.03

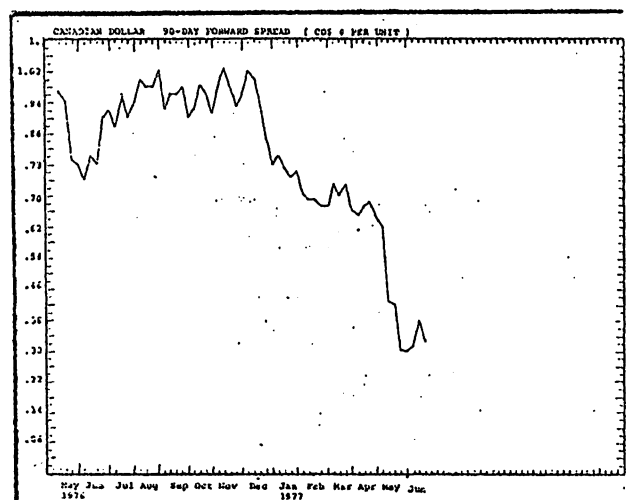
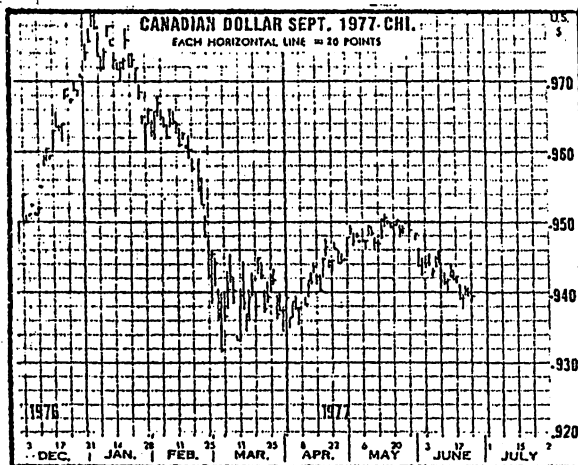
Open Interest (June 23):	3,123	Average Volume (June 77):	620
Contract Size:	CD\$ 100,000.00	Approx. U.S. Dollar:	US\$ 94,000.00
Minimum Fluctuation:	.0001 (\$10.00)	Daily Limie (Normal):	.0075 (\$750.00)
Margin Required:	US\$ 2,000.00	Round Turn Commission:	US\$ 60.00
Trading Hours:	8:45 a.m. - 1:10 p.m. (Chicago Time)	Major Delivery Months:	Mar., June, Sept., Dec.

The continuing narrowing of interest rate differentials is making it quite difficult for Canada to finance its current payments deficit.

The trend has turned unmistakably lower, as anticipated last month. It is characteristic of this phase of a decline to see traders and press writers react by saying they are 'mystified' or by trying to pick bottoms and say that the year's range lies 'somewhere between 94.00 (present levels) and 96.00'.

The decline is neither mystifying nor is it over at 94¢. Barring an unforeseen massive influx of capital to finance pipeline development, the next support of the CD\$ will be found at 93.00. Since the nearly 10% devaluation from last year's highs has been accomodated by relatively easy money (witness the 15-18% growth in M2), we can only conclude that 1977-1978 inflation in Canada will once again move over the double-digit level and perhaps even reinforce the downward spiral of the CD\$.

Retain previously established short positions in the September CD\$ and look to cover at 93.00-93.50.



French Franc

Spot : 20.34 Sep. 77: 20.19 Dec.77: 19.84

Balance of Trade (Mln FFR)	Jan. 77	Feb. 77	Mar. 77	Apr. 77	May 77
Jan-May 1976: -3,109	-2,380	-1,520	-1,240	- 383	-441
Jan-May 1977: -5,964					
* Net Change of Foreign Exch. Assets	- 7.53	- 3.40	- 2.58	+ 5.46	+ 5.69
* Retail Price Index	9.01	9.01	9.05	9.52	9.82
	May 27	June 3	June 10	June 17	June 24
Weekly Reserves (mln FFR)	85,215	85,258	85,688	85,763	85,943

## Euro Deposit -

1-Month	10.	10.	9 3/8	9 1/2	9 1/8
3-Month	10 1/2	10 3/8	10 1/8	10.	9 9/16
6-Month	10 3/4	10 3/4	10 3/8	10 1/4	9 7/8
12-Month	11 7/16	11 1/2	11 5/16	11 1/8	10 7/8

Open Interest (June 23):	143	Average Volume (June 77):	15
Contract Size	: FFR 250,000.00	Approx. U.S. Dollar	: \$ 50,000.00
Minimum Fluctuation	: .00005 (\$12.50)	Daily Limit (normal)	: .00500 (\$1,250.)
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.

The French Franc has joined the parade of currencies moving against the U.S.\$.

Their deposit rates are well adjusted to present inflation rates and, therefore, the French are still able to attract and/or retain short term funds. The collapse of Paris share prices, however, indicates that France may well be substituting an outflow of long term capital for an inflow of short term funds. Therefore its national balance sheet continues to deteriorate.

In the coming confusion, the FFR forwards may trade up to attractive enough levels to warrant establishing low risk short positions.

Sell December 1977 at 20.10.

Japanese YenSpot : 37.41 Sept.77 : 37.39 Dec. 77: 37.39  
Mar. 78 : 37.38 Jun. 78 : 37.38

Balance of Trade (Mln US\$)	Jan 77	Feb 77	Mar 77	Apr 77	May 77
Jan-May 1976: +2,865	- 770	+1,250	+1,560	+1,780	+ 640
Jan-May 1977: +4,460					
Reserves (Mln US\$)	16,480	16,820	16,990	17,320	17,250
* CPI	9.24	9.20	9.40	8.31	N/A
* WPI	5.11	4.83	4.24	3.60	3.35

Open Interest ( June 23 ):	1,621	Average Volume (June 77):	205
Contract Size	: Yen 12,500,000.00	Approx. U.S. Dollar	: \$46,000.00
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.

See Comments on the West German Mark.

Our long term monthly range chart indicates a possible upmove to the 38.60-39.00 area basis Spot.

Retain long positions and sell on a fast move to 38.60 basis December 1977.

Spot : 42.81 Sep. 77 : 42.99  
 Dec. 77 : 43.26 Mar. 78 : 43.45

	Jan 77	Feb 77	Mar 77	Apr 77	May 77
Balance of Trade (Mln Marks)					
Jan-May 1976:+14,064	+1,980	+2,730	+4,200	+2,940	+3,610
Jan-May 1977:+15,460					
* W.P.I. %	3.32	2.34	1.32	0.7	+0.62
* Cost of Living	4.05	3.81	3.94	3.77	3.83

	May 27	June 3	June 10	June 17	June 24
Nat Monetary Reserves (mln Marks)	84,700	85,100	85,200	85,200	84,700

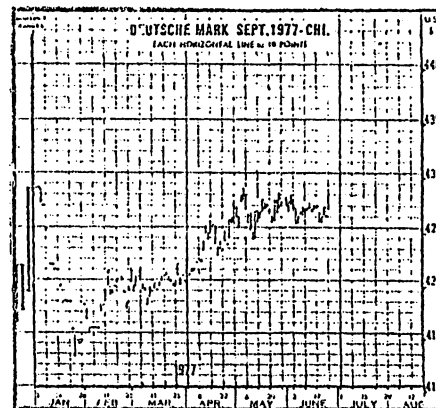
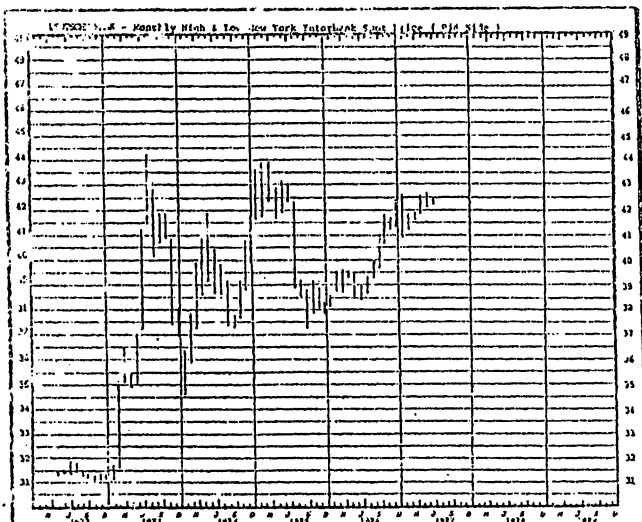
Euro Deposit -	Jan 77	Feb 77	Mar 77	Apr 77	May 77
1-Month	3 15/16	3 15/16	3 7/8	3 15/16	3 15/16
3-Month	4 1/16	4 1/16	3 15/16	3 15/16	3 15/16
6-Month	4 3/16	4 1/16	4 1/16	4 1/8	4 1/16
12-Month	4 7/16	4 7/16	4 1/2	4 7/16	4 5/16

Open Interest (June 23 ):	1,474	Average Volume (June ):	268
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, Sept., Dec.

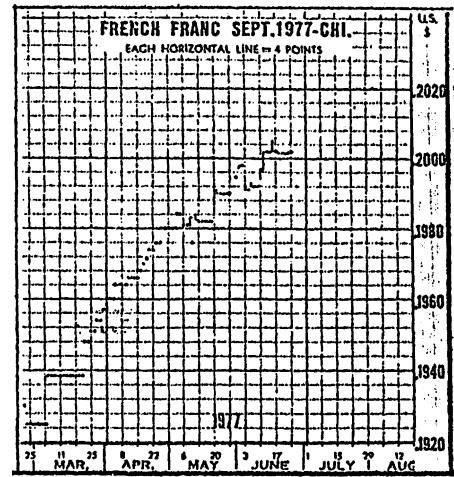
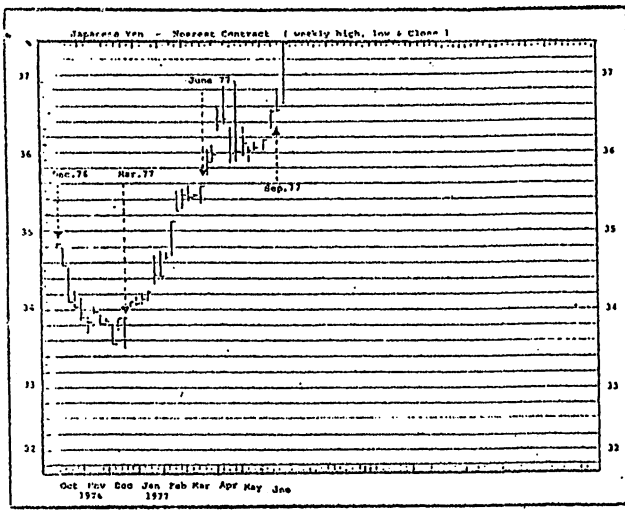
The market has finally perceived that U.S. Secretary Treasury Michael Blumenthal belongs to the school advocating 'benign neglect' of the U.S. international payments position.

Prospects for the latter may not be as alarming as it may seem at a first glance but, nonetheless, the DM and the Japanese Yen are being 'talked' higher. Since both Japan & West Germany are still running huge trade surpluses (see Statistics) and their deposit rates compare favorably with their Eurodollar counterparts, we see little in the way of stopping the bandwagon.

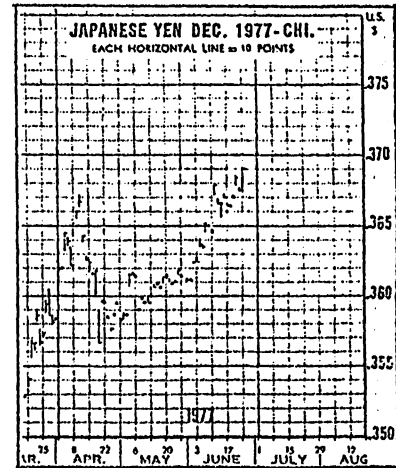
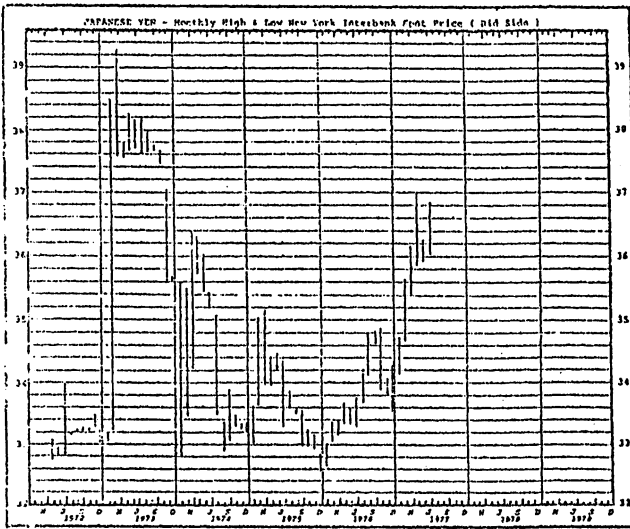
Remain long, as has been the case for the past 6 months, looking to sell on a fast move to 43.50 - 44.00 basis Spot.



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## Swiss Franc

Spot : 40.73      Sep. 77 : 41.91  
 Dec. 77 : 41.22      Mar. 78 : 41.52

	Jan. 77	Feb. 77	Mar. 77	Apr. 77	May 77
Balance of Trade (Mln SFR)					
Jan-May 1976: +273.60					
Jan-May 1977: -789.50	-114	-32	-350.5	-168	-125
* C.P.I.	0.90	1.03	1.03	1.15	1.27
	May 27	June 3	June 10	June 17	June 24
Weekly Reserves (mln SFR)	12,170	12,260	12,900	12,340	14,570
Euro Deposit -					
1-Month	4 1/16	4.	3 3/4	3 15/16	3 7/8
3-Month	4 1/8	4 1/16	3 15/16	4.	4.
6-Month	4 1/2	4 7/16	4.	4 1/8	4.
12-Month	4 1/2	4 7/16	4 1/8	4 3/16	4 1/16

Open Interest (June 23) :	1,008	Average Volume (June) :	218
Contract Size :	SFR 125,000.00	Approx. U.S. Dollar :	\$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.

The recent banking crisis seems to have been weathered in good stride, thanks mostly to the steep rise in short term deposit rates.

We are momentarily reversing our view of the possible widening of the DM/SF ratio, holding to a neutral position.

Light long positions may be undertaken at market with initial stop at 40.30 basis Dec. 77.

Spot : 43.40 Sept. 77: 40.69 Dec. 77: 38.40 Mar. 78: 36.08  
 June 78 : 34.00 Sept. 78: 32.22 Dec. 78: 30.65

	Sep. 77	Dec. 77	Mar. 78	Jun. 78	Sep. 78	Dec. 78
Forward Disc.						
(Annual Basis) Spot	16.26	27.65	25.30	23.63	22.08	20.74
Sep. 77		22.51	22.66	21.92	20.81	19.74
Dec. 77			24.17	22.92	21.46	20.18
Mar. 78				23.05	21.40	20.07
June 78					20.94	19.71
Sep. 78						19.49

	1st Q.	2nd Q.	3rd Q.	4th Q.	Total
Government Finance					
1974 Deficit (-) or Surplus	-3,554	-3,482	-6,410	-19,976	-33,422
Revenue	15,302	17,865	17,605	19,736	70,708
Expenditure	18,856	21,347	24,215	39,712	104,130
1975 Deficit (-) or Surplus	-8,575	-6,988	-9,617	-16,869	-42,049
Revenue	22,777	26,361	24,974	28,965	103,077
Expenditure	31,352	33,349	34,591	45,834	145,126
1976 Deficit (-) or Surplus	-10,356	-6,811	-13,092	-27,034	-57,293
Revenue	28,989	35,162	32,120	38,390	134,661
Expenditure	39,345	41,973	45,212	65,424	191,954

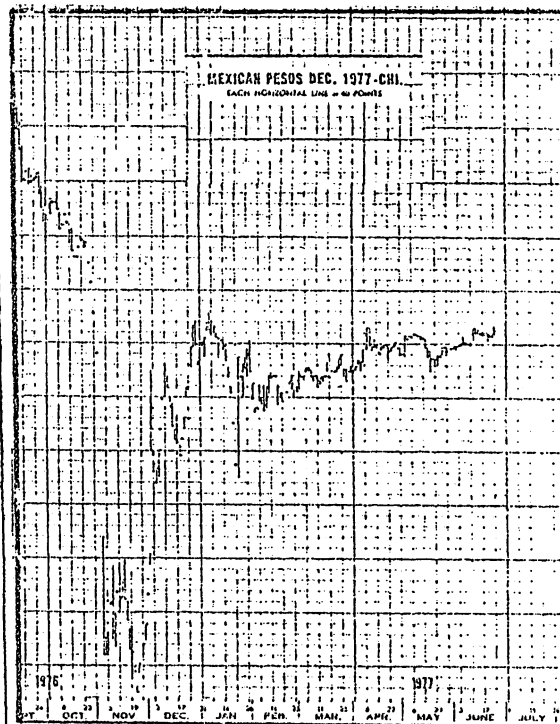
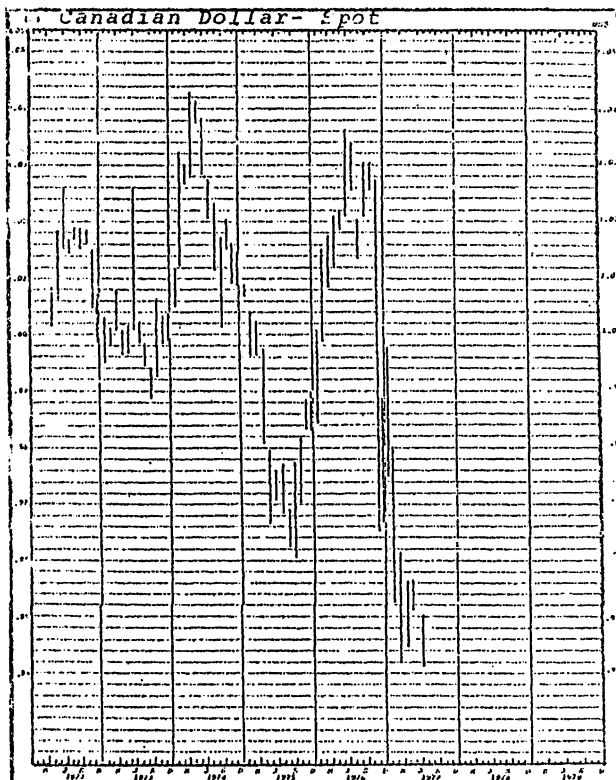
Open Interest (June 23): 1,446  
 Contract Size : MP 1,000,000.00  
 Minimum Fluctuation : .00001 (\$10.00)  
 Margin Required : US\$ 4,000.00  
 Trading Hours : 8:45 a.m. - 1:10 p.m.  
 ( Chicago Time )

Average Volume (June 77): 72  
 Approx. U.S. Dollar : US\$ 40,000.00  
 Daily Limit (Normal) : 1,00150 (\$1,500.00)  
 Round Turn Commission : US\$ 60.00  
 Major Delivery Months : Mar., June,  
 Sep., Dec.

Recent figures indicate that the 1976 budget showed an incredibly large deficit, far exceeding previous years.

We have very strong reservations about the new administration's abilities to reverse this trend in the face of heavy social spending commitments, ever-increasing interest payments (on the national debt), the huge bureaucratic apparatus of the public & nationalized sector and plans for development of its petroleum potential.

Sell December 77 MP at 39.50 and March 78 MP at 37.60



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

Albert D. Friedberg,  
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