



# Canadian Dollar

Spot : 93.02 Sept. 77 : 92.87 Dec. 77 : 92.65 Mar. 78 : 92.37

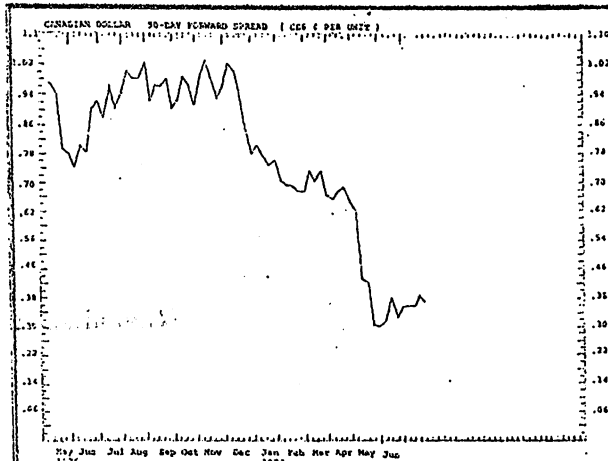
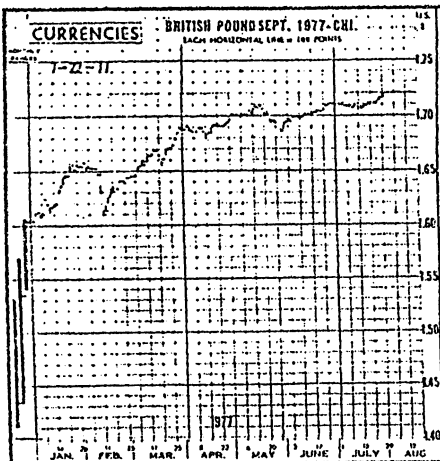
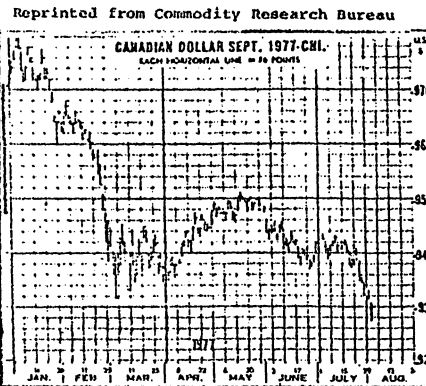
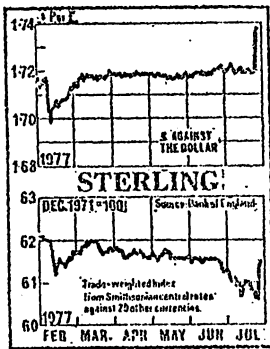
	FEB. 77	Mar. 77	Apr. 77	May 77	June 77
<b>Money Supply %</b>					
Narrowly Defined	5.49	6.97	6.67	8.35	9.28
More Broadly (M2)	15.99	16.35	15.48	16.06	15.60
M3	15.87	15.93	15.94	15.69	15.76
<b>Balance of Trade (Mln\$)</b>					
Jan-June 1976 : -208	+ 69	+502	+149	+298	+129
Jan-June 1977 : +1,031					
<b>General Bank Loans (Percentage Growth)</b>	21.22	20.19	19.38	18.91	18.57
<b>C.P.I.</b>	6.73	5.47	7.56	7.57	7.67
<b>Food Price Index</b>	3.07	-0.12	+6.20	6.11	n/a
<b>Unemployment</b>	7.9	8.1	8.3	7.9	8.0
<b>Euro Deposit</b>	<u>June 30</u>	<u>July 7</u>	<u>July 15</u>	<u>July 21</u>	<u>July 28</u>
1 Month	6 13/16	6 13/16	6 13/16	6 13/16	7 1/8
3 Month	7 1/16	7 1/16	7 1/16	7 1/16	7 3/16
6 Month	7 3/16	7 3/16	7 3/16	7 3/16	7 5/16
12 Month	7 7/16	7 7/16	7 7/16	7 7/16	7 7/16

Open Interest (July 26)	12,841	Average Volume (July) :	523
Contract Size	1 CD\$ 100,000.00	Approx. U.S. Dollar :	93,000.00
Minimum Fluctuation	1 .0001 (\$10.00)	Daily Limit (Normal) :	.0075 (\$750.00)
Margin Required	1 US\$ 2,000.00	Round Turn Commission :	US\$ 60.00
Trading Hours	1 8:45 a.m. - 1:10 p.m. ( Chicago Time )	Major Delivery Months :	March, June, Sept., Dec.

It behooves us to comment today on the CD\$, just as it is touching the 93.00 level. Last month we observed "the decline is neither mystifying nor is it over at 94¢ ... the next support will be found at 93.00."

Forecasting the likely course of the CD for the next few months implies a Canada - U.S. interest rate differential forecast. Given the strong growth of monetary aggregates, particularly M1 & the reacceleration of inflation, we feel that Canadian short term rates have bottomed out. This is borne out by the fact that most market observers see a decline in interest rates in Canada by end-1977 (survey conducted by McLead, Young, Weir & Co. Ltd.) & the majority turns out, inevitably wrong. We continue to feel that U.S. interest rates will stabilize at these levels ( Fed Funds 5 3/4 - 6 % ) & perhaps even go a bit lower. The differential will thus re-open again in favor of Canada. Sometime in the next few weeks & months, some firming of exchange rates will take place.

For the moment, remain short the CD\$ with stops at 93.50 basis Spot and trailing down 50 points above any low.



Spot : 43.65 Sept. 77: 43.78 Dec. 77 : 44.08 Mar. 78 : 44.36

	Feb. 77	Mar. 77	Apr. 77	May 77	June 77
<b>Balance of Trade (Mln Marks )</b>					
Jan-June 1976 : +16,084					
Jan-June 1977 : +18,360	+ 2,730	+ 4,200	+ 2,940	+ 3,620	+ 2,890
<b>Balance of Payment (Mln Marks )</b>					
<b>Current Account</b>					
Jan-June 1976 : + 5,097					
Jan-June 1977 : + 5,441	- 100	+ 2,420	+ 1,000	+ 1,700	+ 800
*Money Supply M1	8.54	7.72	7.60	6.89	5.66
M2	8.52	8.69	8.18	9.00	6.74
M3	9.52	9.19	8.82	9.14	7.75
* W.P.I.	2.34	1.32	0.69	0.62	0.81
* Cost of Living	3.81	3.94	3.77	3.83	4.0
* Unemployment	5.30	4.8	4.6	4.1	4.1

	June 29	July 7th	July 15th	July 21st	July 29th
<b>Net Monetary Reserves (Mln Marks )</b>	85,000	85,300	85,300	86,400	n/a
<b>Euro Deposit</b>					
1 Month	3 15/16	4 1/16	3 7/8	3 11/16	3 7/8
3 Month	3 15/16	4 1/16	3 15/16	3 3/4	3 7/8
6 Month	4 1/16	4 1/8	4 1/16	3 15/16	4.
12 Month	4 3/8	4 5/16	4 1/4	4 1/8	4 1/8

Open Interest ( July 26th):	2,834	Average Volume (July) :	1,119
Contract Size :	DM 325,000.00	Approx. U.S. Dollar :	55,000
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.

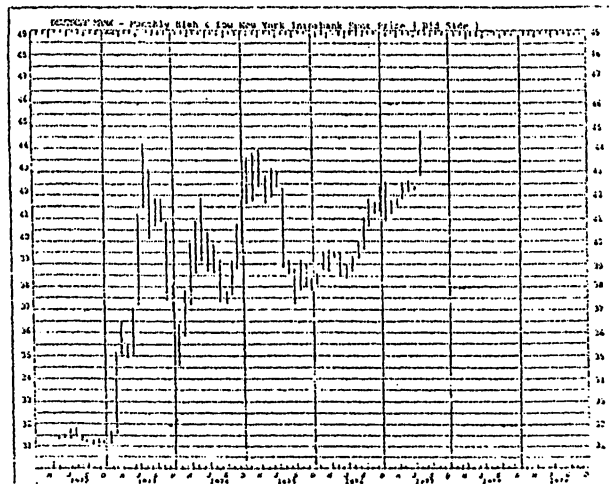
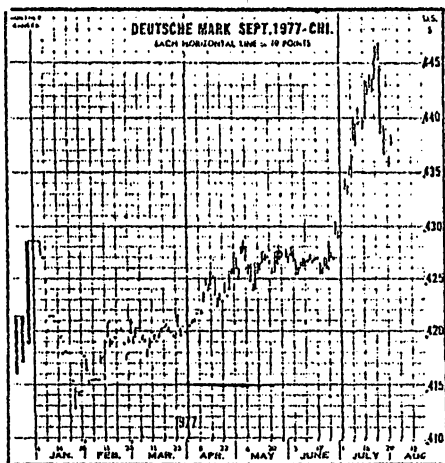
The faltering German economic recovery will necessitate strong reflationary action. This will tend to weaken the heretofore strong current account, while at the same time worsen Germany's stellar inflation performance.

The U.S. balance of trade should improve in coming months as :

- a) Coffee & Cocoa imports (in \$ terms ) ease sharply.
- b) Oil and gas imports slacken, &
- c) reduced economic activity works its favorable way thru manufacturing.

Also, a sharp narrowing of West Germany's trade surplus is expected as capital spending and consumption rise following some reflation. Finally, capital flows should begin to favor the U.S. as short term rates are 2 1/4 - 2 3/8 percentage points higher than German deposits.

Liquidate all DM long positions.



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# French Franc

Spot : 20.53 Sept. 77: 20.32 Dec. 77 : 20.06

	Feb. 77	Mar. 77	Apr. 77	May 77	June 77
Balance of Trade (mln FFR)					
Jan-June 76 : -3,922	-1,520	-1,240	-383	- 441	-2,320
Jan-June 77 : -8,284					
* Net Change of Foreign Exchange Assets	-3.4	-2.56	+5.46	+5.69	n/a
* Retail Price Index	9.01	9.05	9.52	9.82	10.20
* Unemployment	7.87	5.33	10.10	14.10	19.02
	June 30th	July 7th	July 13th	July 20th	July 27th
Weekly Reserves (mln FFR)	95,526	N/A	93,632	93,641	n/a
Euro Deposit -					
1 Month	9 1/8	9 7/8	9 3/4(12/7)	12 1/4	11.
3 Month	9 3/8	10.	10 1/8	11 7/8	11 1/8
6 Month	9 1/2	10 3/8	10 1/2	11 13/16	11 3/4
12 Month	10 1/2	11 1/16	11 1/4	12.	11 3/4
Open Interest (July 26)	196				
Contract Size	: FFR 250,000.00		Average Volume (July)	: 21	
Minimum Fluctuation	: .00065 (\$17.50)		Approx U.S. Dollar	: 51,000.00	
Margin Required	: US\$ 4,000.00		Daily Limit (Normal)	: .00500 (\$1,250.00)	
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)		Round Turn Commission	: US\$ 60.00	
			Major Delivery Months	: Mar., June, Sep., Dec.	

The mini-run on the U.S. Dollar, led by the powerful DM, carried the Franc to an unrealistic and overvalued level of 4.80 Francs to one dollar.

On the economic front little progress is reported. Inflation remains stubbornly high in spite of crippling controls. The Balance of Trade has improved if only slightly thanks in great part to the extremely sluggish state of the domestic economy.

The only ray of hope lies reportedly in the present trend of the Left to repudiate Marxism, which might or might not affect the crucial 1978 elections.

As suggested last month, short position in the December 1977 position may now be undertaken.

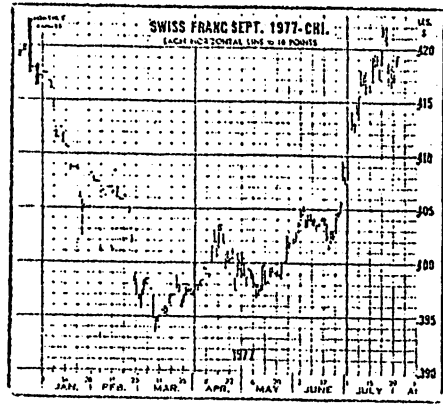
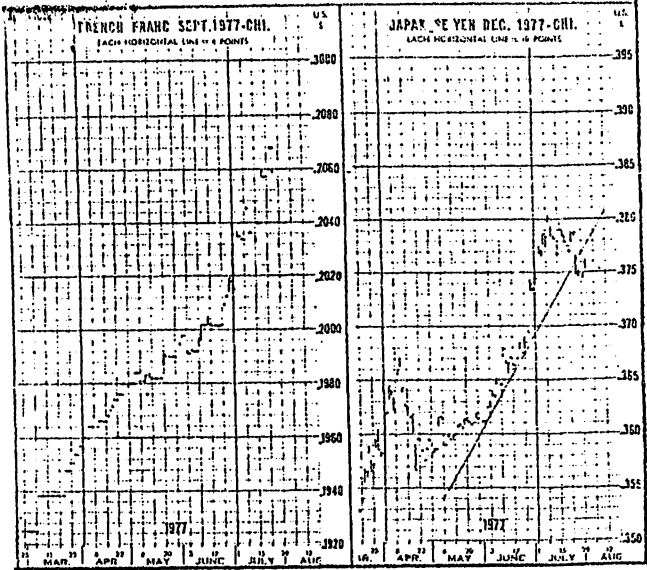
# Japanese Yen

Spot : 37.56 Sept. 77: 37.60 Dec. 77 : 37.60 Mar. 78 : 37.56 June 78: 37.70

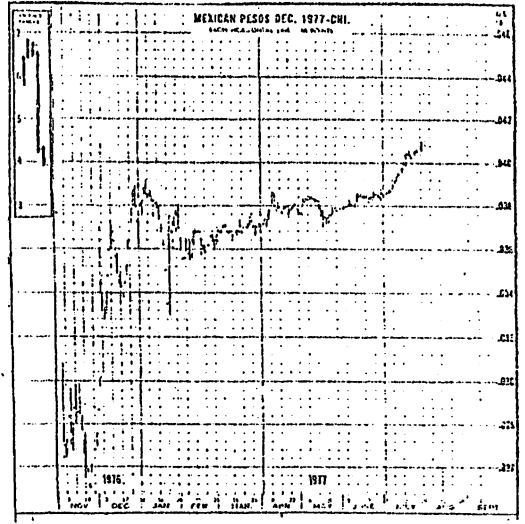
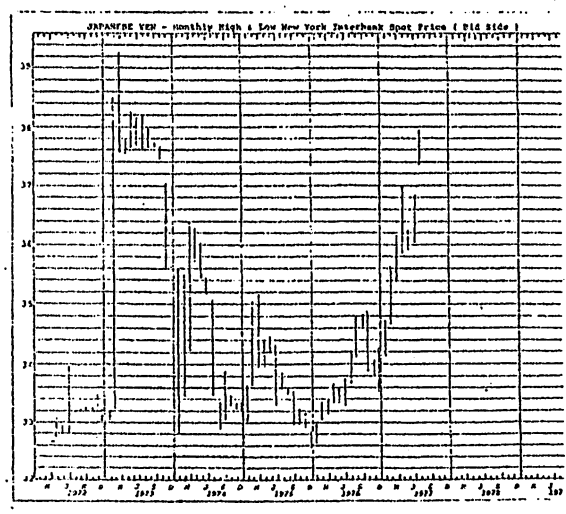
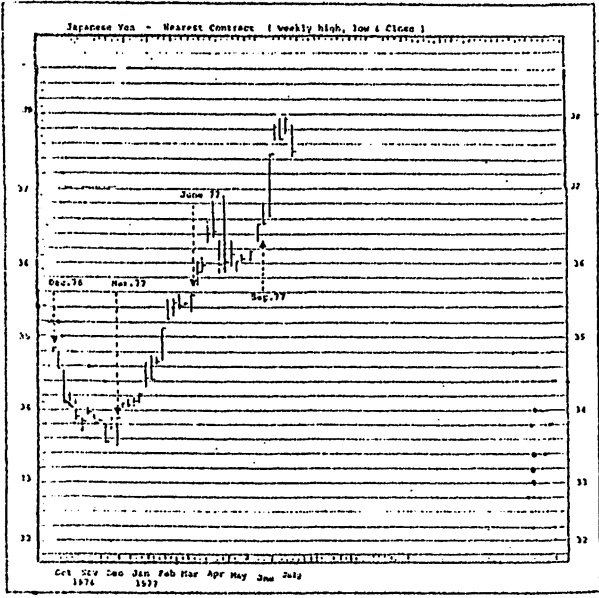
	Feb. 77	Mar. 77	Apr. 77	May 77	June 77
Balance of Trade (mln U.S.)					
Jan-June 76 : + 3,835	+ 1,250	+ 1,560	+ 1,780	+ 640	+ 1,490
Jan-June 77 : + 5,950					
Balance of Payment (mln U.S.)					
Jan-June 76 : + 1,001	+ 460	+ 935	+ 359	+ 390	+ 700
Jan-June 77 : + 1,991					
Reserves (mln U.S.)	16,820	16,990	17,320	17,250	17,380
*Money Supply					
M1	9.6%	9.4%	7.6%	3.8%	n/a
M2	12.4%	12.2%	11.5%	11.2%	n/a
*C.P.I.	9.20	9.40	8.31	9.27	n/a
*W.P.I.	4.83	4.24	3.60	3.35	2.61
Unemployment Rates	1.87	1.89	1.89	1.90	n/a
Open Interest (July 26)	1,150				
Contract Size	: Yen 12,500,000.00		Average Volume (July)	: 156	
Minimum Fluctuation	: .000010 (\$12.50)		Approx. U.S. Dollar	: \$48,000.00	
Margin Required	: U.S. 3,000.00		Daily Limit (Normal)	: .000060 (\$750.00)	
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)		Round Turn Commission	: US\$ 60.00	
			Major Delivery Months	: Mar., June, Sept., Dec.	

The worldwide rise in protectionism should keep the Japanese Yen from falling too far despite improving fundamentals for the U.S.\$ (see DM comments).

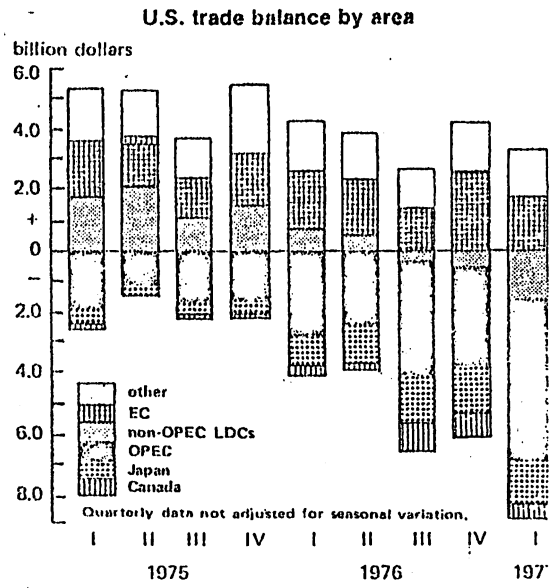
Long positions may still be maintained with a target of 38.60 basis. Spot, stops should be placed at 37.00 basis Dec. 77.



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# Swiss Franc

Spot : 41.64 Sep. 77: 41.89 Dec. 77 : 42.23 Mar. 78 : 42.51

	Feb. 77	Mar. 77	Apr. 77	May 77	June 77
Balance of Trade (min SFR)					
Jan-June 1976 : + 279.6	-32	-350.5	-168	-125	n/a
Jan-June 1977 : n/a					
*Money Supply (M1)	+9.12%	+ 6.49%	-0.84%	n/a	+6.79%
*C.P.I.	1.30	1.03	1.15	1.27	1.75
*Unemployment Rate	0.6	0.5	0.5	0.4	n/a

	June 30th	July 7th	July 15th	July 22nd	July 29th
Weekly Reserves (mln SFR)	15,490	13,310	12,170	12,250	13,090
Euro Deposit -					
1 Month	3	3 1/2	2 5/8	2 3/4	2 9/16
3 Month	3 5/16	3 1/2	3 1/8	3	2 15/16
6 Month	3 11/16	3 5/16	3 9/16	3 1/2	3 7/16
12 Month	3 7/8	3 11/16	3 9/16	3 9/16	3 9/16

Open Interest (July 26)	: 1,090	Average Volume (July):	306
Contract Size	: SFR 125,000.00	Approx. U.S. Dollar :	52,000
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.

DM/SFR Ratio : Spot 1.0483 Sept. 77: 1.0451 Dec. 77 : 1.0438 Mar. 78 : 1.0435

The administratively induced drop in short term money market rates coupled with the firmer trend prevalent in the Eurodollar market reversed the mini-bull move of the Swiss Franc.

Long positions should now be liquidated.

# Mexican Peso

Spot : 43.70 Sept. 77 : 42.80 Dec. 77 : 41.00 Mar. 78 : 38.80  
 June 78 : 36.90 Sept. 78 : 35.00 Dec. 78 : 33.50

	Sept. 77	Dec. 77	Mar. 78	June 78	Sept. 78	Dec. 78
Forward Disc. (Annual Basis)	Spot 12.35	14.83	16.82	16.98	17.06	16.48
	Sep. 77	16.82	18.69	18.38	18.22	17.38
	Dec. 77		21.46	20.00	19.51	18.29
	Mar. 78			19.59	19.59	18.21
	June 78				20.59	18.42
	Sept. 78					17.14

	Dec. 76	Jan. 77	Feb. 77	Mar. 77	Apr. 77
Exports					
Cotton a.**	134.46	103.48	121.04	130.63	n/a
b.	+122.22%	- 3.33	-11.03	-56.14	
Coffee a.	261.66	276.11	330.14	377.71	
b.	-24.48	-39.72	+ 0.39	-9.73	
Shrimp a.	168.25	118.46	171.20	127.13	
b.	+19.42	- 2.38	+13.75	+103.84	
*W.P.I.	45.89	45.04	45.67	46.30	49.81
*C.P.I.	24.01	25.21	25.86	26.09	26.65

Open Interest (July 26th):	1,470	Average Volume (July):	65
Contract Size	: MP 1,000,000.00	Approx U.S. Dollar :	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 :	March, June, Sept., Dec.

\*\* a. % Increase of prices  
 b. % Increase or decrease of volume

A lid on prices has kept inflation artificially down while the trade balance has been buoyed by coffee exports. This bonanza and a strengthening U.S.\$ (as a result of firmer short term rates) should begin putting downward pressure on the MP.

Remain short as per last month's suggestion (39.60 basis Dec. 77); add if forward discounts narrow to 12% p.a.

# Commodity Comments

FREIDBERG COMMODITY INDEX: 201.00  
LAST MONTH: 221.70  
NET CHANGE: -9.34%

Pausing or crumbling? August 2, 1977

Market participants couldn't have cared less about the latest readings of the U.S. leading indicators. With a thumping noise, paper values and cash quotes have been crashing down ever since the Ides of March, picking up momentum in the last four weeks. Steel, Copper, Paper and Chemical stocks on the New York Stock Exchange have been in moderate to violent downtrends hitting one and two year lows. Ditto for Grains, Base Metals, Fibers, Sugar and Coffee. Are we pausing or . . . crumbling?

There is little doubt at this moment that the Western World requires a massive infusion of liquidity to stay afloat. Recent money supply growth rates, while rapid by comparison with previous cycles, are clearly insufficient for the degree of caution pervading the national, corporate and banking sectors in countries such as U.S., Germany and Japan. A classical Keynesian 'liquidity trap' may be developing. The traumatic shock of the 1974 Depression lingers on and the liquidity demanded may be exceeding the amounts supplied.

Lending to the LDC's continues, although at a far more restrictive and selective pace. The bankruptcy of a substantial client may be all we need to close the 'liquidity trap' at which time we will have reached the point of 'no return'. Could Brazil be the one? Consider the following: the current account deficit for 1974 amounted to \$4.5 billion. It was reduced to \$2.0 billion by end of 1976 and began to show a surplus, albeit a small one (\$200 million) by mid-1977, thanks mostly to Coffee, Cocoa and Soybeans. Since June, however, Brazil has not sold any Coffee even though it reportedly still has nearly 4 million bags available for export. That represents \$1 billion (at current prices) less than it had originally anticipated when it forecast a \$1 billion trade surplus for 1977. It may even represent \$1.2 billion less by the time the unwanted merchandise is dumped. Furthermore, a ridiculous 12% surtax on soybean exports and natural greed militated to book just 700,00 tons of soybeans out of an available 1.8 million tons of exportable surplus in spite of the fact that nearly all the surplus is normally registered by the middle of July. At current prices, the loss from forecast values exceeds \$200 million, without counting soybean products that remain to be sold. The same may be said for Sugar and, perhaps, Cocoa. In all, Brazil, the jewel of non-oil exporting LDC's, may suffer another current account deficit of perhaps as much as \$500-800 million. This comes atop a need to repay interest and amortization of nearly \$6 billion this year on the staggering foreign debt of \$25 billion. Another point is that a large part of the debt will become due over the next 2 years, putting heavy pressure on the country's meager \$6.5 billion reserves. Will Citicorp et al. refinance their loans? What will it do to the commercial banking system's liquidity preference?

The next issue of Commodity and Currency Comments will be dated Sept. 7th.

Following is an explanation of our ranking system:

- \*\*\*\*\* Very Bullish
- \*\*\*\*\* Bullish
- \*\*\*\* Bullish-Neutral
- \*\*\* Neutral-Bearish
- \*\* Bearish
- \* Very Bearish

Cocoa

July 1977 (expired): 242.00  
 \*\*\*\* September 1977: 212.50  
 \*\*\* March 1978: 179.50

The Great Deflation may be catching up to Cocoa. After reaching a record high of \$2.42/lb in N.Y. and slightly in excess of £3400 in London, terminal values eased rather dramatically under the impact of sizeable deliveries.

The frantic search for substitutes is clearly reflected in the Butter/Powder ratios. In March, Butter traded at 1.5 times Powder while just recently Powder went to a premium over Butter and now trades at 1.3 - 1.4 times Butter. By blending powder with other vegetable oils, manufacturers have been able to stretch their cocoa bean usage. In 1974, a period of high prices, as much as 250,000 tons of cocoa beans were 'saved'. There is little doubt that this process, when carried far enough, will cause a sizeable drop in usage.

Recent U.S. import figures also indicate a dramatic slackening of cocoa bean and butter inflow.

Following are the June figures:

U.S. JUNE COCOA-CHOCOLATE PRODUCT IMPORTS, IN LBS.

	Cocoa Beans	Cocoa Butter
June 77	30,425,831	2,102,864
May 77	56,276,806	3,321,074
June 76	43,657,274	4,419,318
Jan-Jun 77	282,138,526	21,192,669
Jan-Jun 76	318,741,397	28,985,495
	Unsweetened Chocolate	Unsweetened Cocoa
June 77	7,151,906	13,375,788
May 77	2,936,155	11,896,892
June 76	2,567,401	11,754,390
Jan-Jun 77	31,171,804	88,331,177
Jan-Jun 76	20,373,017	83,688,268

The ICO reported that first quarter Dutch sales were down 24.7% on the same 1976 period while W. German chocolate confectionary sales in April and May were down 16.5 and 13.5% respectively, having been 17.8% higher in January. The same magnitude of declines is reported in the U.K. and France.

From a seasonal point of view, August has historically been a peak month for Cocoa prices and this year may be no exception. The exceptionally wide Sept-Dec '77 switch will, in time, bring whatever supplies are available into the market prior to the next African harvest.

On a slightly more constructive note, spot supplies remain exceedingly scarce; origins are not following the market lower. Ghana, beset by political, economic and industrial unrest, is suffering from a dangerous dry spell. Wide pod rot infestation has been reported in Bahia.

Our guess is that there is a strong likelihood that peak prices have been seen, at least for the next four months. Poor crops and a better(?) economic climate may mitigate the decline and perhaps a new bull move will be born in December.

All long positions should be liquidated should September '77 close below 2.00/lb. in N.Y. and £2650/ton in London. In that case, small short positions may be warranted but only in new crop months, especially December '77 and March

Coffee

\* September '77: 208.38  
\* March '78: 183.75

Going down, down, down . . .

Last month's recommendation to "be prepared to cover March '78 short positions between 167.00 and 182.00 . . . on the next major rally we would be sellers of September 1977," was certainly timely. On July 5th March bottomed at 176.00 before rallying to 204.00, we sold September almost immediately at 238.00 and covered at 190.00.

U.S. JUNE COFFEE IMPORTS, IN LBS.

	Crude	Roasted
June 77	150,373,471	2,602,317
May 77	161,844,029	4,430,749
June 76	246,559,441	5,273,942
Jan-Jun 77	1,386,315,535	32,889,101
Jan-Jun 76	1,424,077,670	20,094,457

SOLUBLE COFFEE IMPORTS.

	U.S. Total	From Brazil
June 77	7,409,645	978,459
May 77	6,699,090	4,814,333
June 76	6,891,971	5,310,629
Jan-Jun 77	41,716,087	27,715,013
Jan-Jun 76	36,927,950	26,951,777

On the supply side of the current equation, Brazil has held firm in its policy of withholding beans from the market, having raised export quotas to the equivalent of \$3.20/lb. even in the face of Colombia having lowered its tax to competitive levels. A financial crisis is in the offing in Santos as exporters, starving for some semblance of cash flow, are being forced to sit on coffee they purchased in March at prices 50% above present free market offerings. Sixty percent of the 77/78 crop of 15.3 million bags (IBC estimate) to 17.0 million bags (USDA estimate) is already harvested. The Brazilians are facing a U.S. Market which is presently roasting approximately 25% fewer beans than last year - 8,635 thousand bags versus 10,759 thousand bags as of July 16th - and a European market slowed down by traditional summer vacations. While it is reasonable to assume that U.S. consumption will probably not decline any further and that it may even rise marginally, and while it is safe to conclude that Europeans will return from the Cote D'Azur, we do not believe the Brazilians will be able to hold out another month.

Add to previously established short positions. This elevator doesn't stop again until 150.00

Copper

\*\* September 1977: 54.90

Stopped out at 58.00, as per last month's Comments.

Stand aside.

Cotton

\*\* October, 1977: 54.67  
\*\*\* March, 1978: 55.45

Last month's recommendation to "... place stops at recent lows - 59.40 basis October ... if prices break through these support levels, we must re-evaluate our (bullish) position " was, we must admit, the only profitable advice we've given since March.

The reason for the disastrous tumble was obscured by what seemed to us genuinely bullish fundamentals. The final carry-out figure of 2.75 mln. bales - a number we arrived at six months before the USDA - certainly seemed a powerful encouragement to propel prices to \$1.00. In retrospect we observe that so low a carry out was rendered much less significant than it normally would be by a subtle coincidence of bearish events: 1) The 1977/78 crop, despite the west coast drought, was flourishing bountifully 2) mill activity has stayed sluggish and the mills continue to regard future activity pessimistically - note the recent article in Newsweek concerning clogged up denim inventories, and 3) soybeans crashed precipitously.

Last month's prospective plantings report called for planted acreage of 13,354 thousand acres, 14% above last year, but 3% below the initial estimate in April. More recently the USDA broadly forecast mill demand at between 6.5 and 7.0 mln. bales, exports between 4.0 and 5.0 mln. bales, and carry-out between 3.5 and 4.0 mln. bales. The ICAC, in its July summary, projected 1977/78 world production at 64.0 mln. bales, up 10% from this year, but given this year's low carry-out, estimated at 19.0 mln. bales, total supplies should be up only 3% over last year.

Taking all things into consideration we believe that 1) over the short term prices will continue to drift lower before finding support in the neighbourhood of 50¢ 2) over the long term cotton is "worth" 60-65¢.

Remain sidelined.

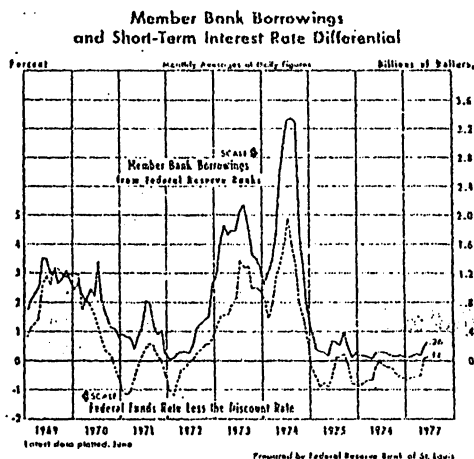
Interest Rate Futures

\*\*\*\*\* September GNMA: 98.21  
 \*\*\*\* September TB: 94.39

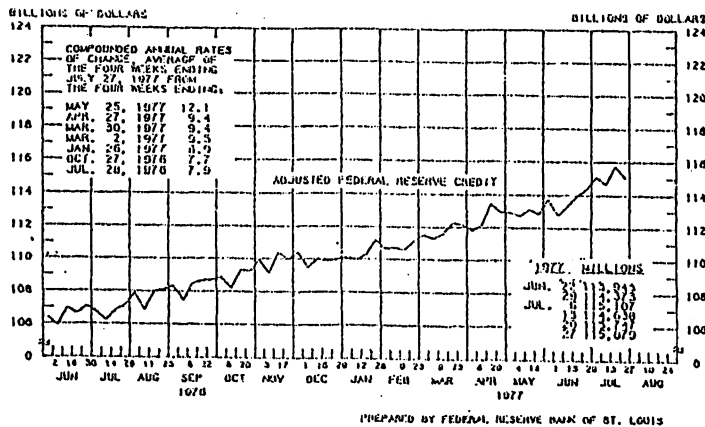
The recent currency crisis coupled with too-rapid growth in the monetary aggregates, prompted the Federal Reserve to allow Funds to trade up to 5 7/8%, well above its former 5 1/8 - 5 3/8% range. The bulge in M<sub>1</sub> and M<sub>2</sub> should come as no surprise to Fed watchers as Federal Reserve Credit has been growing at a faster clip than warranted by the avowed M<sub>1</sub> lid of 6 1/2% per annum. We are puzzled by the contradiction that has developed between word and action. Either the Fed had been politically intimidated to keep short-term rates below market clearing levels (in relation to its control of holdings of securities, the main component of Federal Reserve Credit), or it has become aware of the developing weakness of the economy and the liquidity trap previously discussed. At any rate, the dollar crisis galvanized it into bringing rates more in line with moderate growth; aggregates should return to acceptable growth rates fairly soon. In view of the economic scenario now unfolding, we question whether strict 'monetarist' targets will be adhered to. It should also be noted that the task of maintaining a modest growth in Federal Reserve Credit may be made much easier should loan demand taper off from these levels. The recent sharp drop in commodity prices augurs well for such a development.

In short, a) a more restrictive Federal Funds policy should bring monetary aggregates back into line within a few weeks; b) a pronounced economic slowdown now becoming apparent will make that task even easier, resulting in c) a policy change, later in the year, to abandon strict 4 - 6 1/2% M<sub>1</sub> growth rates in favour of a more 'flexible' policy to combat recessionary forces.

We remain bullish on GNMA's leaving stops at 98.00, close only, basis September 1977. In two-three weeks, roll over to December 1977.



When the Discount Rate is lower than Fed Funds (a positive number), Member Bank Borrowings climb. Ergo, the Fed must raise the Discount Rate to control the aggregates effectively.



Orange Juice

\*\*\*\*\* September 1977: 115.75  
 \*\*\*\*\* January 1978: 99.30

Our special report on FCOJ is available to subscribers for \$5.00.

Last month we ended by stating "The technical action impresses us so much that we advise establishing modest long positions at present levels." Our only mistake was in qualifying ourselves with the adjective modest. As though fueled by vitamin C itself this magnificent market has appreciated investment by 360%.

Clearly this year's supply, estimated at 229.0 mln. gals, 7% less than last year, is tight relative to movement (consumption) which is currently running about 10% ahead of last year and is estimated to total 193.0 mln gals or 1% more than 75/76. Backwardation has widened to more than 16¢ from 7.70¢ last month.

F.C.O.J. has managed to belie the overall commodity index and is now the only market left which is performing at its all-time highs. The obvious question is how high.

Taking into account both the inflation factor - FCOJ has lagged other commodities in achieving its inflation value - plus current fundamentals, we have computed a price of \$1.24/lb. This level was almost achieved this morning as prices rose almost limit up to 121.70 before falling ultimately to limit down. Given the almost uninterrupted advance to present heights a correction is inevitable. The degree of the correction is difficult to gauge. Our technical indicators suggest it will be minor. As such, we assume that the momentum of the market may push prices 10 - 15¢ higher.

Beyond these levels the salient factor is next year's outturn. Our projection call for supply to total between 227.6 and 234.8 mln. gallons. These are neutral to bearish numbers. However, we note there are those who, because of the severe drought that has plagued South East Florida, call for production to be as much as 25% less than we do. This being the case FCOJ could be worth \$2.00 plus this time next year. Next year's supply is anybody's guess at this point. The USDA's first forecast isn't due until October 12th. Until then a most likely scenario would be for prices to trend gently higher as processors pay insurance premiums to hedge against the oncoming hurricane season.

Add to previously established long positions on dips. Respect must be paid the uptrend line which at present levels stands at 1.00.

Precious Metals

\*\*\*\*\* December 1977 Comex Gold: 148.30  
 \*\*\* September 1977 Comex Gold: 454.70  
 \*\*\*\*\* October 1977 Platinum: 151.00  
 \*\*\*\*\* September 1977 Palladium: 42.50

As these Comments are going to press, the IMF will conduct its new monthly auction on behalf of the Trust Fund. The common price method will be used under which all successful bidders will be awarded gold at the lowest accepted price.

At the last auction, on July 6th, the IMF received bids totalling 1,358,400 ounces compared with 1,014,000 received at the June auction. The average of the accepted bids totalled \$140.85/oz and the price awarded for the successful bidders was \$140.26/oz., slightly under the day's afternoon Fixing.

The recent currency turmoil has firmed up bullion: prices have been zig-zagging upwards from their mid-June lows of \$137/oz. and are now challenging their March-April downtrend.

In our last issue we advised buying at 145 on stop basis the London Fix. Today's close of 145.80 fulfills this requirement. At the risk of being whipsawed one time too many, we now advise placing sell stops at 142.00 basis December '77 on close.

Remain long Silver with stops at 440 basis September '77.

Remain long Platinum and Palladium.

Sugar

\* September 1977: 7.85

\* October 1977: 8.09

The plethora of bearish developments in the World Sugar Market have been overshadowed in the past few weeks by the talks that took place in London. In that meeting proposals have been put forward on various schemes designed to stabilize sugar prices and a U.N. Conference will probably be reconvened in Geneva around September 12th. While the U.S. proposal suggesting a \$4/ton charge on all freely traded Sugar to finance a 3 million ton stockpile may yet be accepted by all parties, it is doubtful any impact will be made on near term prices.

The European beet crop seems in excellent shape and as much as 3 million tons may be available for export compared with just 1.7 million tons in the current campaign.

Post-harvest pressure should keep this market on the defensive despite talks of centralization.

Remain firmly short - eventual lows of 5 - 6c/lb. should be achieved no later than early October.

Wood Complex

\*\* November Lumber: 182.80

\*\* November Plywood: 195.90

Last month's buy recommendation was negated almost immediately after writing by a technical sell signal. We issued a short bulletin to that effect to physical traders who subscribe to our WOOD COMPLEX REPORT. Logistics prohibit our sending these updates to all subscribers. We apologize but take the opportunity to note that our often advised "stay in close contact" is not offered loosely.

Housing starts during June slumped 6.6% from May to 1,833,000 units. Construction of singles fell to 1,383,000 units from 1,467,000 units and permits, the indicators of future activity fell from 1,615,000 to 1,602,000 - just 0.8%.

We continue to view this market optimistically over the long term. However, over the short term we remain, at best, neutral to bearish.

Stay sidelined.

*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 B. Rothberg.