



**Friedberg & Co. Ltd.**

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Currency Comments

Sept. 6th, 1977

**Canadian Dollar**

Spot : 93.01 Dec. 77: 92.64 Max. 78: 92.35 June 78: 92.30

	Mar. 77	Apr 77	May 77	June 77	July 77
<b>Money Supply %</b>					
Narrowly Defined	6.97	6.67	8.35	9.32	8.78
More Broadly (M2)	16.35	15.48	16.06	15.61	15.65
M3	15.93	15.94	15.69	15.14	15.44
<b>Balance of Trade (Mln \$)</b>					
Jan-July 1976: - 89					
Jan-July 1977: + 1,156	+502	-149	+29	+129	+125
<b>* General Bank Loans (percentage Growth)</b>	20.19	19.38	18.91	18.57	18.08
<b>* C.P.I.</b>	5.47	7.56	7.57	7.67	8.37
<b>* Food Price Index</b>	-0.12	+ 6.20	6.11	7.01	9.00
<b>Unemployment Rate</b>	8.1	8.3	7.9	8.0	8.1
<b>Real GNP (Based on 1971 Dirs)</b>					
	<u>2nd Qtr 1977</u>	<u>1st Qtr 1977</u>	<u>4th Qtr 1976</u>	<u>3rd Qtr 1976</u>	
	-0.6%	+1.6%	-0.3%	-0.2%	
<b>Euro Deposit -</b>	<u>Aug 5</u>	<u>Aug 12</u>	<u>Aug 19</u>	<u>Aug 26</u>	<u>Aug 30</u>
1 Month	7 3/16	7 7/16	7 11/16	7 9/16	7 3/8
3 Month	7 3/16	7 7/16	7 9/16	7 9/16	7 3/8
6 Month	7 7/16	7 5/8	7 11/16	7 5/16	7 11/16
12 Month	7 11/16	7 3/4	7 13/16	8.	7 15/16

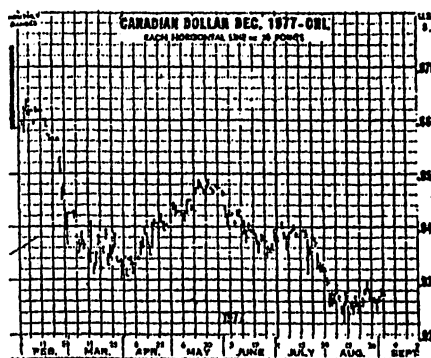
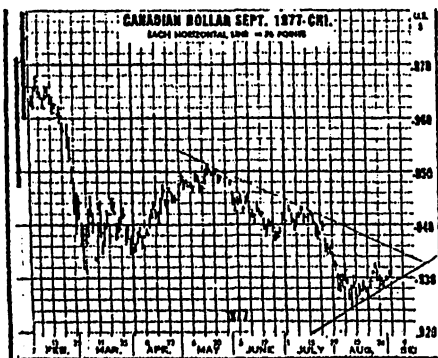
Open Interest (Aug 30) : 2,060	Average Volume (Aug 77): 523
Contract Size : CD\$100,000.00	Approx. U.S. \$ : \$ 93,000.00
Minimum Fluctuation : .0001 (\$10.00)	Daily Limit (Normal) : .0075 (\$750.00)
Margin Required : US\$ 2,500.00	Round Turn Commission : US\$ 60.00
Trading Hours : 8:45 am - 1:10 pm (Chicago Time)	Major Delivery Months : Mar., June, Sept., Dec.

With the recent release of GNP figures, showing the third drop in four quarters, the Bank of Canada has become a bit more accomodative. Short term money market rates, which had risen almost 50 basis points, have now receded slightly while excess secondary reserves in the banking system have increased rather dramatically. Since the pace of loan demand has only slowed down marginally, we suspect that the Bank of Canada wants to see somewhat lower rates, risking a bulge in monetary aggregates.

With the demise of Finance Minister Donald MacDonald, a fall budget is a near certainty. The budget will no doubt shift emphasis from an anti-inflation to a anti-unemployment stance. The merry-go-round is about to start; more gov't deficits, more 'crowding-out', less private investment, less productivity, all accompanied by a generous monetary policy whose second folly is watching only M1, when M2 & M3 are just growing out of sight.

We'll stick to our double-digit inflation and severe shortages ( if controls are not removed ) scenario for 1978.

Reamin short the December '77 CD\$ with stops at 93.25, on close only.



# British Pound

Spot : 174.10 Dec. 77: 173.40 Mar. 78: 172.70 June 78: 172.75  
 Sept 78: 171.25 Dec. 78: 171.00 Mar. 79: 161.15

	Spot/ Dec. 77	Spot/ Mar 78	Spot/ Jun 78	Spot/ Sep 78	Spot/ Dec. 78	
% Discount from Spot (Annualized)	1.61	1.61	1.03	1.64	1.42	
	Mar 77	Apr 77	May 77	Jun 77	July 77	Aug 77
Balance of Trade (mln Stg)						
Jan-July 1976: -1,764	-239	-129	-244	-301	-256	n/a
Jan-July 1977: -1,890						
Reserves (mln U.S.\$)	9,620	10,130	9,903	11,574	13,420	14,850
* WPI	20.25	20.79	18.87	20.92	20.93	
* Retail Sales Index	-2.27	-4.96	-2.24	-2.60	-0.74	
* Retail Price Index	16.73	17.46	17.14	17.69	17.59	
Unemployment Rate	5.5	5.6	5.6	5.7	6.8	6.9
Balance of Payment :						
Current Account (mln Stg)						
Jan-July 1976: -787	-22	+111	n/a	-81	-36	
Jan-July 1977: n/a						
	Aug 5	Aug 12	Aug 19	Aug 26	Aug 30	
Euro Deposit -						
1 Month	7 3/4	7 7/8	7 3/8	8.	7 1/2	
3 Month	8.	8 1/4	8 1/8	8 1/4	7 3/4	
6 Month	8 1/2	8 3/4	8 1/2	8 11/16	8 1/4	
12 Month	9 5/8	9 1/2	9 1/16	9 1/8	9 1/8	

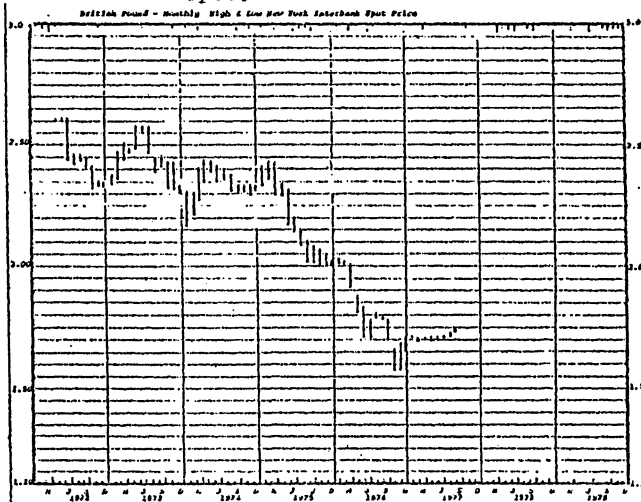
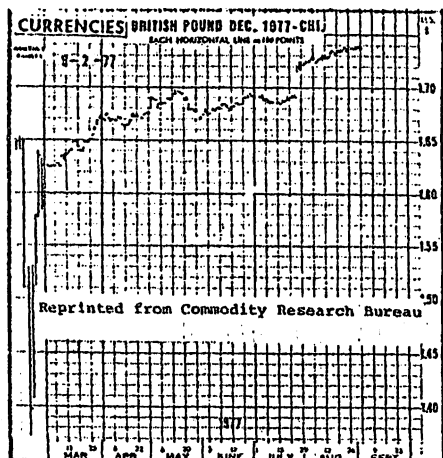
Open Interest (Aug 30): 3,738  
 Contract Size : Bp 25,000.00  
 Minimum Fluctuation : .0005 (\$12.50)  
 Margin Required : US\$ 2,500.00  
 Trading Hours : 8:45 am - 1:10 pm  
 (Chicago Time)

Average Volume (Aug 77): 234  
 Approx. U.S. Dollar : US\$ 43,000.00  
 Daily Limit (Normal) : .05 (\$1,250.00)  
 Round Turn Commission : US\$ 60.00  
 Major Delivery Months : Mar., June,  
 Sept., Dec.

Once again the Bank of England, in the process of trying to slow the ascent of the BP has enlarged its embarrassingly high reserves, this time by almost 1 bln dollars. The battle against inflation is beginning to turn some favorable numbers. As an example, in the six months to August 31st large firms posted price increases at an annual rate of 11.7% compared with an annual rate of 20.9% in the six months ended March 31st. Barring a catastrophic Government/Labor confrontation, single digit inflation may be achieved at the end of this year. The balance of trade battle, on the other hand, is 'progressing' much too slowly and despite the much publicized North Sea Oil contributions the cumulative trade deficit for this year still exceeds last years. This may be explained by unusually large imports of equipment necessary to extract oil but the fact remains that progress to date is disappointing.

Interest rates in the UK are beginning to scrape bottom. This may, in the course of the next few months, cause some headaches. In the first place, gilt sales to the non-bank public have been greatly facilitated by the ongoing bull market. This may backfire once interest rates begin to climb again and the Gov't may have to resort once again to printing money in order to finance it's deficit. Secondly, the extremely low level of interest rates vis a vis underlying inflationary rates is in itself an extremely powerful reflationary dosage which will be evident in months to come by a pick-up in loan demand. Reflation at this stage may be the right policy to follow in attempting to combat unemployment, but it is much too early if the battle against inflation is to be won.

We are now about to enter the more difficult phase of the BP bull market. Long positions and capital gains are no longer to be taken for granted and caution is the watchword. Remain long with stops at 173 basis Spot.



# French Franc

3

Spot 20.34 Dec. 77: 20.145 Mar. 78: 20.05

	Mar 77	Apr 77	May 77	June 77	July 77
Balance of Trade (mln FFR)					
Jan-July 1976: -5,629					
Jan-July 1977: -9,081	-1,240	- 383	- 441	-2,320	- 797
* Net Change of Foreign Exch. Assets	-2.58	+5.46	+5.69	+19	+18.8
* Retail Price Index	9.05	9.52	9.82	10.2	10.1
* Money Supply					
M1	7.56	7.36	8.04	n/a	n/a
M2	12.30		11.30		
M3	13.76	13.2	12.9		
	July 28	Aug 4	Aug 11	Aug 18	Aug 25
Weekly Reserves (mln FFR)	93,692	93,756	93,913	93,922	94,024
Euro Deposit -					
1 Month	11 5/8	12 5/16	10 13/16	10 3/8	9 1/2
3 Month	11 3/8	11 11/16	11 1/2	11 1/16	10 1/4
6 Month	11 3/8	11 3/4	11 5/8	11 1/2	11
12 Month	12 3/8	12 5/16	12 7/16	12 9/16	12 1/8
Open Interest (Aug 30) :	162				
Contract size :	FPR 250,000.00				
Minimum Fluctuation :	.00005 (\$12.50)				
Margin Required :	US\$ 4,000.00				
Trading Hours :	8:45 am - 1:10 pm ( Chicago Time )				
Average Volume (Aug 77) :	5				
Approx U.S. Dollar :	\$50,000.00				
Daily Limit :	.00500 (\$1,250.00)				
Round Turn Commission :	US\$ 60.00				
Major Delivery Months :	Mar., June, Sept., Dec.				

In an attempt to stem rising unemployment and a feeling of malaise among the working population, the Gov't has introduced a new budget with a deficit in excess of 2 billion dollars. The deficit will be covered by tapping the money markets under the name of a National Loan. This huge borrowing attempt will certainly crowd out potential private borrowers whose confidence and predisposition to undertake badly needed capital investment are at a very low ebb.

A highly charged political atmosphere, an extremely high base rate of inflation, a disastrous international trade performance and an ongoing capital flight will be taking their toll very soon on the Franc.

Remain short.

# Deutsche Mark

Spot : 43.05 Dec. 77: 43.35 Mar. 78: 43.61

	Mar. 77	Apr. 77	May 77	June 77	July 77
Balance of Trade (mln Marks)					
Jan-July 1976: +18,677					
Jan-July 1977: +20,120	+ 4,200	+2,940	+3,620	+2,890	+1,760
Balance of Payment (mln Marks)					
Current Account					
Jan-July 1976: +4,577					
Jan-July 1977: +4,051	+ 2,420	+ 1,000	+1,650	+ 760	-1,300
* Money Supply					
M1	7.72	7.60	6.89	5.66	8.23
M2	8.69	8.18	9.00	6.74	9.11
M3	9.19	8.82	9.14	7.75	9.90
* W.P.I.	1.32	0.68	0.62	0.81	- .3%
* Cost of Living	3.94	3.77	3.83	4.0	4.33
unemployment rate	4.8	4.6	4.1	4.1	4.3
	July 29	Aug 9	Aug 15	Aug 23	Aug 30
Net Monetary Reserves (mln Marks)	87,000	87,200	86,900	86,300	86,500
Euro Deposit					
1 Month	3 7/8	3 13/16	3 7/8	3 15/16	4.
3 Month	3 7/8	3 7/8	3 15/16	3 15/16	4.
6 Month	4.	3 15/16	4.	4.	4.
12 Month	4 1/8	4.	4.	4 1/16	4 1/16
Open Interest (Aug 30) :	2,300				
Contract Size :	DM 125,000.00				
Minimum Fluctuation :	.0001 (\$12.50)				
Margin Required :	US\$2,500.00				
Trading Hours :	8:45 am - 1:10 pm ( Chicago Time )				
Average Volume (Aug 77) :	480				
Approx. U.S. Dollar :	\$53,000.00				
Daily Limit (Normal) :	.0060 (\$750.00)				
Round Turn Commission :	US\$ 60.00				
Major Delivery Months :	Mar., June, Sept., Dec.				

The German economy continues to give signs of deterioration. On one hand, year to year inflation figures show a trough of 3.77% per annum in April and a steady, albeit small, uptrend since then. At the same time, industrial production has flattened out in the past few months while the sensational int'l trade performance has been giving signs of tiring, with the latest July figures showing the smallest gain since Aug. 76. Monetary growth at a slightly higher pace than desired will make further reflation difficult and dangerous. The action has now shifted to the powerful Japanese Yen and the always glamorous Swiss Franc.

# Japanese Yen

Spot : 37.37    Dec. '77 : 37.49    March 1978: 37.58    June '78: 37.72

	Mar. 77	Apr. 77	May 77	June 77	July 77
Balance of Trade (mln US)					
Jan-July 1976: +4,845					
Jan-July 1977: +7,990	+1,560	+ 1,780	+ 640	+ 1,480	2,050
Balance of Payment (mln US)					
Jan-July 1976: +1,722					
Jan-July 1977: +2,930	+ 935	+ 359	+ 390	+ 699	+ 940
Reserves (mln US\$)	16,990	17,320	17,250	17,380	17,360
*Money Supply					
M1	9.4%	7.6%	3.8%	5.1%	
M2	12.2%	11.5%	11.2%	11.1%	
*C.P.I.	9.40	8.31	9.27	8.52	7.88
*W.P.I.	4.24	3.60	3.35	2.61	1.08
Unemployment Rate	1.89	1.89	1.90	2.03	2.08
Open Interest (Aug 30) : 1,534	Average Volume (Aug 77) : 152				
Contract Size : Yen 12,500,000	Approx. U.S. Dollar : \$48,000.00				
Minimum Fluctuation : .0000010 (\$12.50)	Daily Limit (Normal) : .000060 (\$750.00)				
Margin Required : U.S. \$3,000.00	Round Turn Commission : US\$ 60.00				
Trading Hours : 8:45 am - 1:10 pm Chicago Time	Major Delivery Months : Mar., June, Sept., Dec.				

Despite the recent revaluation, Japanese exports continue to soar. Export letters of credit for August totalled \$4,913,000,000 up 29.9% from a year earlier according to the Ministry of Finance. Export letters of credit in July were \$4,785,000,000 up 10.1% from July 1976.

Retain long positions looking for an eventual target of 38.60 basis Spot.

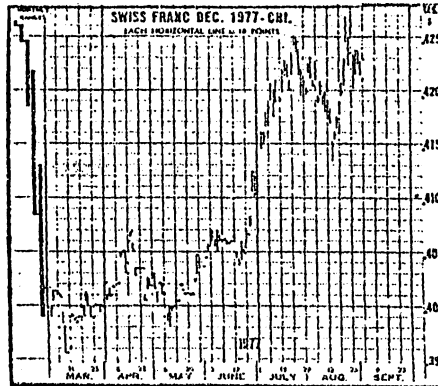
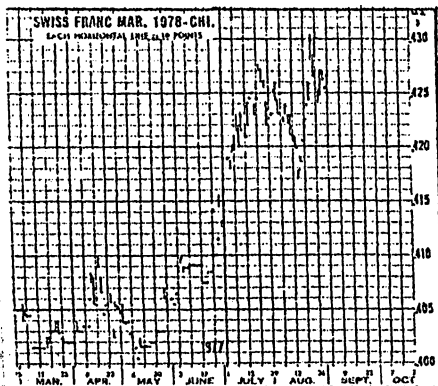
# Swiss Franc

Spot : 41.76    Dec. 77: 42.22    Mar. 78: 42.58

	Mar. 77	Apr. 77	May 77	June 77	July 77
Balance of Trade (mln SFR)					
Jan-July 1976: +324					
Jan-July 1977: -849	-350.5	-168	-125	-146	+ 5.4
* Money Supply (M1)	+6.49%	-0.84%	+4.59%	+6.79%	
*CPI	1.03	1.15	1.27	1.75	1.70
Unemployment Rate	0.5	0.5	0.4	0.3	0.3
Weekly Reserves (mln SFR)					
July 30	13,090	12,880	12,070	n/a	12,940
Euro Deposit -					
1 Month	2 9/16	2 1/4	2 3/16	2 3/16	2 3/16
3 Month	2 15/16	2 1/2	2 7/16	2 7/16	2 5/16
6 Month	3 7/16	3 1/16	3 3/16	3 1/16	2 15/16
12 Month	3 9/16	3 3/8	3 3/8	3 1/2	3 3/16
Open Interest (Aug. 30) : 1,710	Average Volume (Aug 77) : 405				
Contract Size : SFR 125,000.00	Approx. U.S. Dollar : \$52,000.00				
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 am - 1:10 pm (Chicago Time)	Major Delivery Months : Mar., June Sept., Dec.				

Rather surprisingly the SF managed to post a new post-war record high against the U.S. Dollar. In the process, the DM/SF ratio moved below 103, thus continuing the pattern of better relative strength in favor of the latter. Strengthen the SF may be just that : a switch from German Marks. Short term interest rates continue to ease off but uniquely among highly industrialized nations they show a positive real rate of return ( in excess of 1% per annum in the 6 months position ).

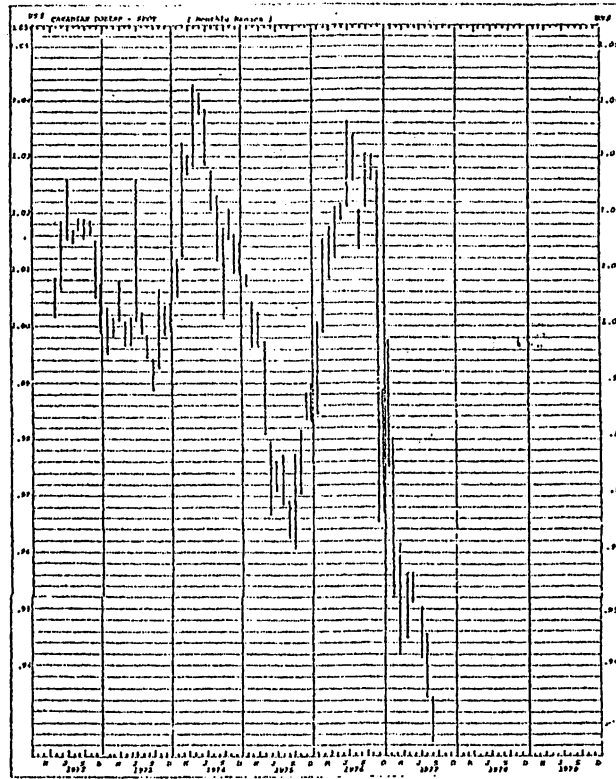
We prefer to remain sidelined but note that a decisive breakout above 42.50 basis Spot would turn us rather bullish and would advocate long positions particularly in the nearby options.



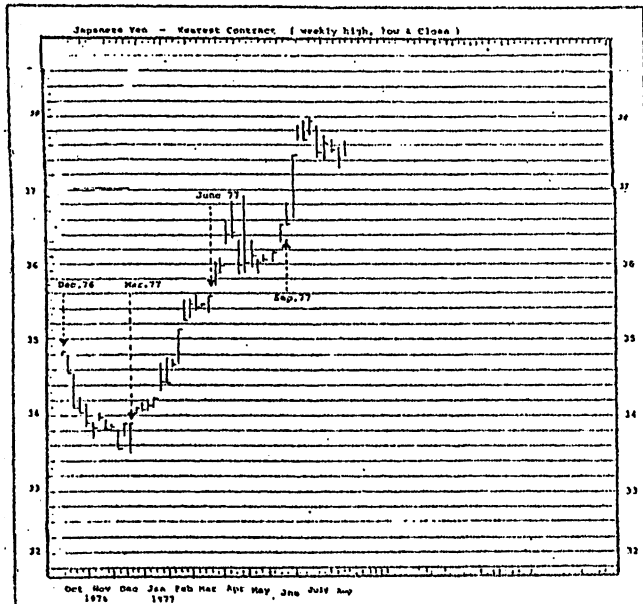
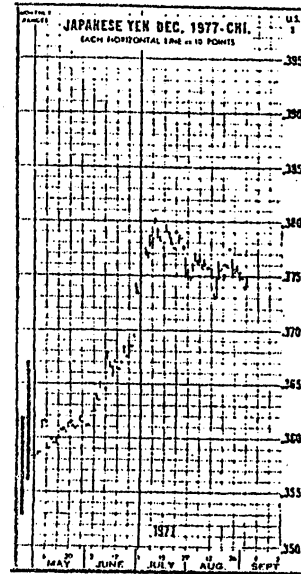
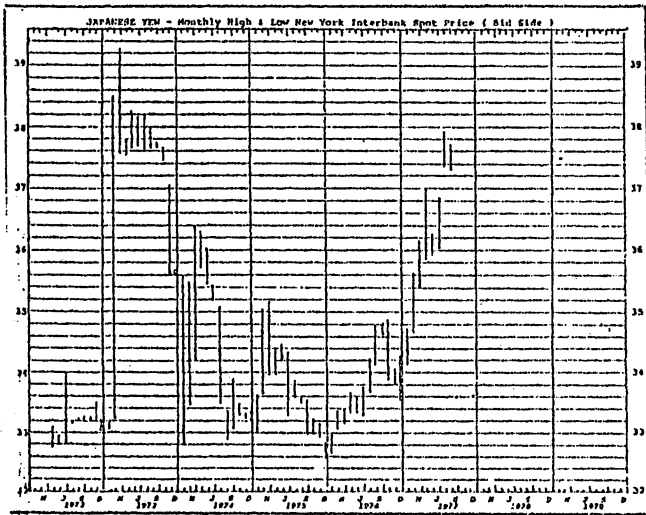
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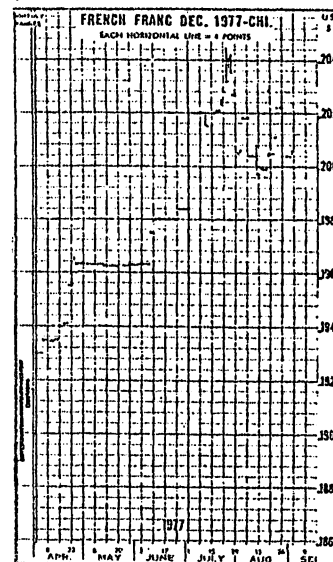
CD\$



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# Mexican Peso

Spot : 43.50 Dec. 77: 41.25 Mar. 78 : 39.16 June 78: 37.70  
 Sep. 78 : 35.85 Dec. 78: 34.20

Forward Disc. (Annual Basis)	Dec. 77	Mar. 78	June 78	Sept 78	Dec. 78
Spot	20.68	19.95	17.78	17.59	17.10
Dec. 77		20.27	17.21	17.45	17.09
Mar. 78			14.91	16.91	16.89
June 78				19.63	18.57
Sept 78					18.41

Exports:		Jan 77	Feb 77	Mar 77	Apr 77	May 77
Cotton	a. **	103.48	121.04	130.63	110.32	n/a
	b.	- 3.33	-31.03	-56.14	+22.86	
Coffee	a.	376.11	330.14	377.71	391.14	
	b.	-39.72	+ 0.39	- 9.73	-71.64	
Shrimp	a.	118.46	171.20	127.13	163.81	
	b.	- 2.38	+13.75	+103.84	+29.25	
* WPI		45.04	45.67	46.3	49.81	50.74
* CPI		25.21	25.36	26.09	26.65	26.81

Open Interest (Aug 30): 1,534  
 Contract Size : MP 1,000,000.00  
 Minimum Fluctuation : .00001 (\$10.00)  
 Margin Required : US\$ 4,000.00  
 Trading Hours : 8:45 am - 1:10 pm (Chicago Time)

Average Volume (Aug 77): 44  
 Approx. U.S. \$ : \$41,000.00  
 Daily Limit (Normal) : .00150 (\$1,500.00)  
 Round Turn Commission : US\$ 60.00  
 Major Delivery Months : Mar., June  
 Sep., Dec.

Remain short December '77 & March '78 MP.

