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Coffee

September, Ldn: £2,971
November, Ldn: £2,678

The struggle with the Brazilians has entered a new and potentially dangerous phase as the IBC, apparently making what we assume will be their last desperate attempt to bolster cash prices, seem to be in the process of engineering a squeeze in London. They may be successful. We recommend covering short positions until the current turmoil is decided.

As of September 15th, 2,089 positions remained outstanding in the September contract which expires the end of the month. Against these there are, as of today, 1,755 contracts certified as being tenderable in licensed warehouses. Presumably the open interest has declined since the 15th, nevertheless we feel the potential for a squeeze exists; the longs could demand from the shorts who do not have adequate supplies to satisfy them.

We suspect it is the Brazilians who are long. Of the 1,857 contracts already tendered only 153 of these have been retenders. This surprisingly small number suggests the market is in strong hands; ie. its not the public. Given that Robustas, a poorer grade coffee, is selling at a premium to Manizales, the deliverable grade in N.Y., one can safely assume its not in the hands of the roasters either. Last Monday Interbras, the arm of the IBC, claimed once again it had no coffee and announced intentions to purchase 330,000 bags of Robustas in London. (The IBC has virtually been chased out of N.Y.). Three hundred thirty thousand bags equals 3,989 contracts, almost exactly the sum of the outstanding open positions plus those contracts already tendered minus those retendered. We assume the Brazilians have purchased all coffee thus far tendered and that they will demand delivery of the rest.

As such we recommend, once again, covering all short positions. The Brazilians may or may not win this battle. They will definitely lose the war. Look to resell should prices break below £2,550 basis November or on a three to five hundred pound rally. Should this latter course be adopted we strongly recommend you keep in close contact.

Interest Rate Futures

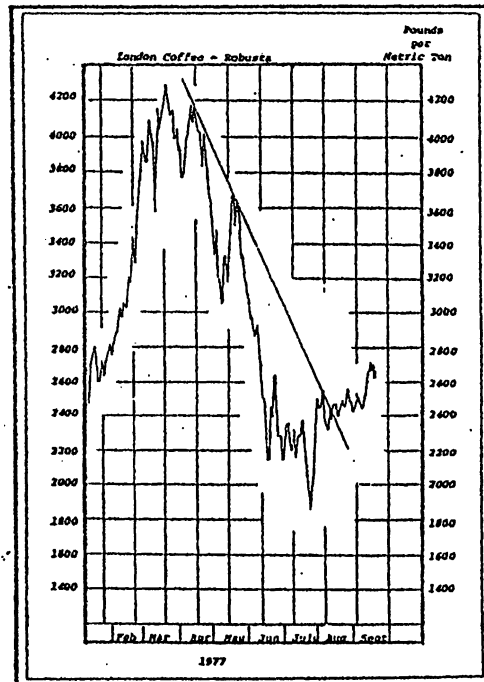
December '77: 98.09
March '78: 97.26

The risk reward ratio has become unattractive mostly as a result of the Fed's inability to control the monetary aggregates. Also, the revised GNP figures are showing a higher than estimated rise in unit labour costs, possibly shifting the "underlying" inflation numbers to 7 1/2% per annum. Finally, the large amount of off-budget financing and the possibility of an effective tax cut to come under the tax reform package now being considered, may well 'crowd out' the money markets in months ahead.

Liquidate long positions, thus nailing down good profits. Remain sidelined.

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