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Currency Comments

Sept. 30th, 1977

British Pound

| | 1976 | | | | 1977 | |
|-------------------------------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr |
| Government Finance (Mln Stg) | | | | | | |
| Deficit (-) or Surplus | -1,410 | -2,208 | -1,655 | -1,513 | - 469 | n/a |
| Revenue | 11,895 | 9,920 | 11,082 | 10,722 | 13,495 | |
| Expenditure | 12,121 | 11,347 | 11,848 | 12,153 | 13,261 | |
| Lendings minus Repayments | 1,184 | 781 | 889 | 82 | 703 | |
| | <u>Mar. 77</u> | <u>Apr. 77</u> | <u>May 77</u> | <u>June 77</u> | <u>July 77</u> | <u>Aug. 77</u> |
| Balance of Trade (Mln Stg) | | | | | | |
| Jan-Aug. 1976: -2,057 | -239 | -129 | -244 | -301 | -256 | +141 |
| Jan-Aug. 1977: -1,749 | | | | | | |
| Balance of Payment (Mln Stg) | | | | | | |
| Jan-Aug. 1976: - 960 | - 22 | +111 | n/a | - 81 | - 36 | --- |
| Jan-Aug. 1977: --- | | | | | | |
| Reserves (Mln US\$) | 9,620 | 10,130 | 9,903 | 11,570 | 13,420 | 14,850 |
| * 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 | 16.52 |
| Unemployment Rate | 5.5 | 5.6 | 5.6 | 5.7 | 6.8 | 6.9 |
| * NPI | 20.25 | 20.79 | 18.87 | 20.92 | 20.93 | 19.87 |
| | <u>Aug. 30</u> | <u>Sept. 6</u> | <u>Sept. 13</u> | <u>Sept. 19</u> | <u>Sept. 26</u> | |
| Euro Deposit - | | | | | | |
| 1 Month | 7 1/2 | 7 3/8 | 6 3/8 | 5 5/8 | --- | |
| 3 Month | 7 3/4 | 7 5/8 | 6 3/4 | 6 5/8 | | |
| 6 Month | 8 1/2 | 7 3/8 | 7 1/2 | 7. | | |
| 12 Month | 9 1/8 | 8 7/16 | 7 3/8 | 7 3/16 | | |

| | | |
|---|--|--|
| Open Interest (Sept. 20) \$366 | | Average Volume (Sept. 77): 487 |
| Contract Size : Bp 25,000.00 | | Approx. U.S. \$: 42,000.00 |
| 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 am - 1:10 pm (Chicago Time) | | Major Delivery Months : Mar., June, Sept., Dec. |

Spot : 174.48 Dec. 77 : 174.70 Mar. 78 : 174.65 June 78 : 174.80
 Sept. 78 : 174.85 Dec. 78 : 174.80 Mar. 79 : 161.15

The BP continues to trade steadily in the 174.15-174.50 area, with frequent intervention on the part of the Bank of England. Forwards have moved decisively to a premium as short term interest rates continue to plummet.

Despite rising unemployment, labor unrest is on the uptick. Working days lost because of industrial stoppages totalled 798,000 in August, compared with July's 298,000 & the August '76 total of 321,000 according to the Dep't of Employment. In the first eight months of this year the number of days lost because of strikes has risen to 5,180,000, slightly more than double the year-earlier total. No doubt, labor is out to catch up the earning losses suffered as a result of Phases I & II. Once a reflation gets underway (due to a new Healy budget but, more importantly, due to negative interest rates) the labor situation will get out of hand.

Remain nervously long; raise stops to 173.90 basis Spot.

| | Mar 77 | Apr. 77 | May 77 | June 77 | July 77 | Aug. 77 |
|--|--------|---------|--------|---------|---------|---------|
| Money Supply % | | | | | | |
| Narrowly Defined | 6.97 | 6.67 | 8.35 | 9.32 | 8.78 | 9.77 |
| More Broadly (M2) | 16.35 | 15.48 | 16.06 | 15.61 | 15.65 | 15.32 |
| M3 | 15.93 | 15.94 | 15.69 | 15.14 | 15.44 | 13.94 |
| Balance of Trade (Mln \$) | | | | | | |
| Jan-Aug.1976 : | - 85 | | | | | |
| Jan-Aug.1977 : | + 502 | + 149 | + 29 | + 129 | + 125 | + 326 |
| *General Bank Loans (Percentage Growth) | 20.19 | 19.38 | 18.91 | 18.57 | 18.08 | 17.09 |
| * CPI | 5.47 | 7.56 | 7.57 | 7.67 | 8.37 | 8.33 |
| * Food Price Index | - 0.12 | +6.20 | 6.11 | 7.01 | 9.00 | 10.18 |
| Unemployment Rate | 8.1 | 8.3 | 7.9 | 8.0 | 8.1 | 8.2 |

| | Sept. 1 | Sept. 6 | Sept. 13 | Sept. 19 |
|-----------------------|---------|---------|----------|----------|
| Euro Deposit - | | | | |
| 1 Mo. | 7 5/16 | 7 7/16 | 7 5/16 | 7 5/16 |
| 3 Mo. | 7 7/16 | 7 7/16 | 7 7/16 | 7 5/16 |
| 6 Mo. | 7 13/16 | 7 11/16 | 7 11/16 | 7 9/16 |
| 12 Mo. | 7 15/16 | 7 13/16 | 7 13/16 | 7 11/16 |

Open Interest (Sept.28) : 1225
Contract Size : CD\$ 100,000.00
Minimum Fluctuat : .0001 (\$ 10.00)
Margin Required : US\$ 2,500.00
Trading Hours : 8:45 am - 1:10 pm (Chicago Time)

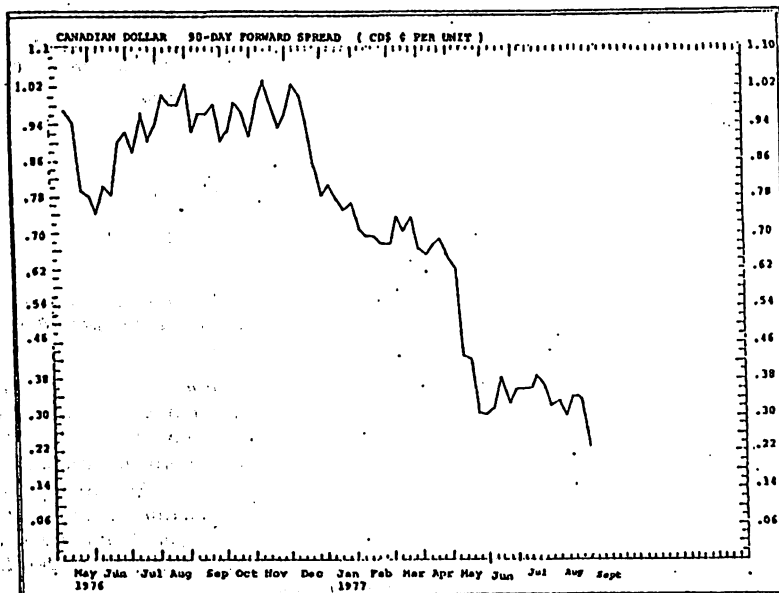
Average Volume : 361
Approx. U.S. \$: 93,000.00
Daily Limit (Normal) : .0075 (\$750.00)
Round Turn Commission: US\$ 60.00
Major Delivery Months: March, June, Sept., Dec.

Spot : 93.12 Dec.77 : 93.01 Mar. 78 : 92.90
 June 78: 92.87

The prospects for heavy Artic Pipeline financing (possibly some from abroad) & renewed U.S. dollar weakness have given the CD a slight lift. Rallies, however, have been checked at the 93.30 area.

Short term interest rates in the U.S. have nearly achieved parity with their Canadian counterparts and, as a result, discounts have all but disappeared out of the deferred Canadian positions. A recent pronouncement from Governor Bouey of the Bank of Canada hints of continued accomodation in monetary policy given the present sluggish state of the economy. Coupled with continued firmness in U.S. rate, (see Interest Rates Futures), a weak CD is almost an inevitability.

If stopped out at 93.25 basis December 1977, reinstate short positions, but only on the nearby options. Place stops at 93.50 basis Spot, close only.



Deutsche Mark

| | Mar. 77 | Apr. 77 | May 77 | June 77 | July 77 | Aug 77 |
|---------------------------------------|---------|---------|--------|---------|---------|--------|
| Balance of Trade (Bln Marks) | | | | | | |
| Jan-Aug. 1976: 19,887 | | | | | | |
| Jan-Aug. 1977: 22,640 | +4,200 | +2,940 | +3,620 | +2,890 | +1,760 | +2,520 |
| Balance of Payment (Bln Marks) | | | | | | |
| Jan-Aug. 1976: 2.3 Bln | | | | | | |
| Jan-Aug. 1977: 2.0 Bln | +2,420 | +1,000 | +1,650 | + 779 | -2,000 | -1,400 |
| 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 | - 0.3 | --- |
| * Cost of Living | 3.94 | 3.77 | 3.83 | 4.0 | 4.33 | 3.89 |
| Unemployment Rate | 4.8 | 4.6 | 4.1 | 4.1 | 4.3 | 4.3 |

| | 1976 | | 1977 | | | |
|---|---------|---------|---------|---------|---------|---------|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr |
| Federal Government Finance (Bln Marks) | | | | | | |
| Deficit(-) or Surplus | - 6.02 | - 6.85 | - 6.82 | -10.40 | - 2.15 | - 4.75 |
| Revenue | 32.45 | 32.92 | 35.32 | 40.88 | 37.21 | 36.03 |
| Expenditure | 38.47 | 39.77 | 42.14 | 51.28 | 39.36 | 40.78 |

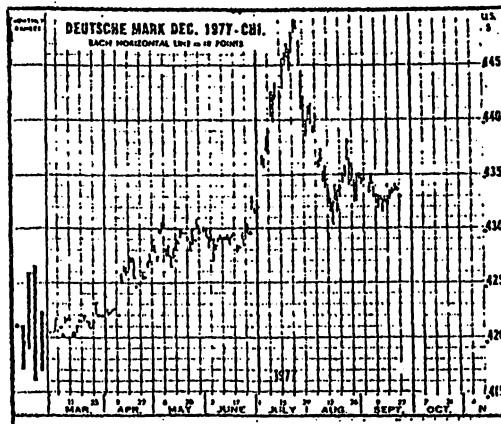
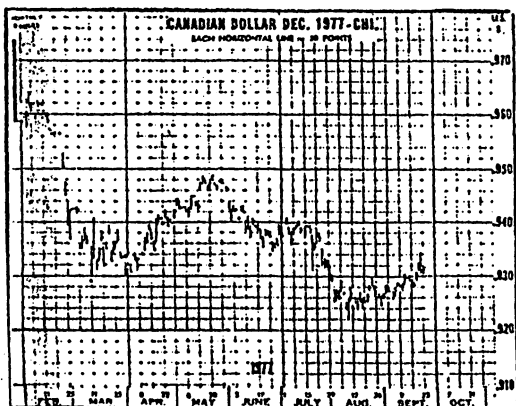
| | Aug. 30 | Sept. 6 | Sept. 13 | Sept. 19 | Sept. 26 |
|--|---------|---------|----------|----------|----------|
| Net Monetary Reserves (Bln Marks) | 86,500 | 83,600 | 85,600 | 84,900 | --- |
| Euro Deposit - | | | | | |
| 1 Month | 4. | 3 7/8 | 3 7/8 | 3 15/16 | --- |
| 3 Month | 4. | 3 7/8 | 4. | 3 15/16 | --- |
| 6 Month | 4. | 4. | 4. | 4 1/16 | --- |
| 12 Month | 4 1/16 | 4 1/8 | 4 1/8 | 4 1/8 | --- |

Open Interest (Sept. 28) : 1183
 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 (Sept.77): 239
 Approx. U.S. Dollar : 55,000.00
 Daily Limit (Normal) : .0060 (\$750.00)
 Round Turn Commission : US\$ 60.00
 Major Delivery Months : Mar., June, Sept., Dec.

Spot : 43.15 Dec. 77 : 43.47 March 78 : 43.79

Remain sidelined (See Swiss Franc)

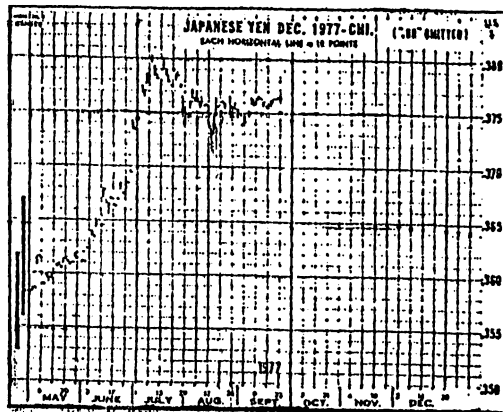
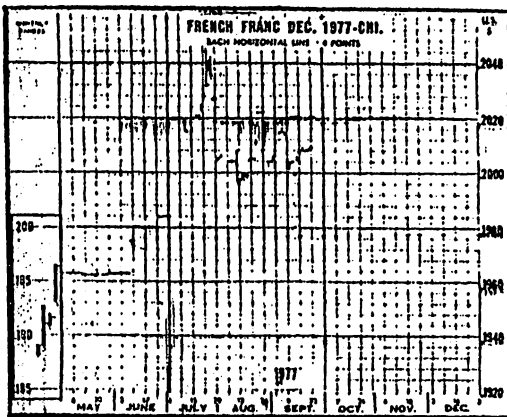


| | 1976 | | | | 1977 | |
|--|------------------------------------|---------|----------|----------|---|---------|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr |
| Government Finance (Bln FFR) | | | | | | |
| Deficit (-) or Surplus | --- | 5.79 | -20.50 | 21.09 | --- | --- |
| Revenue | --- | 96.94 | 76.47 | 99.51 | --- | --- |
| Expenditure | --- | 91.15 | 96.97 | 78.42 | --- | --- |
| | Mar. 77 | Apr. 77 | May 77 | June 77 | July 77 | Aug. 77 |
| Balance of Trade (Bln FFR) | | | | | | |
| Jan-Aug. 1976: - 8,519 | | | | | | |
| Jan-Aug. 1977: -10,931 | -1,240 | - 383 | - 441 | -2,320 | - 797 | -1,850 |
| *Money Supply | | | | | | |
| M1 | 7.56 | 7.36 | 8.04 | 5.94 | --- | --- |
| M2 | 12.30 | --- | 11.30 | 10.05 | --- | --- |
| M3 | 13.76 | 13.20 | 12.90 | 11.80 | --- | --- |
| *Net Change of Foreign Exchange Assets | - 2.58 | + 5.46 | + 5.69 | +19 | + 18.8 | --- |
| *Retail Price Index | 9.05 | 9.52 | 9.82 | 10.20 | 10.10 | 9.91 |
| | Sept. 1 | Sept. 9 | Sept. 15 | Sept. 22 | Sept. 28 | |
| Weekly Reserves (Bln FFR) | 94,024 | 94,322 | 94,366 | 94,368 | --- | |
| Euro Deposit | | | | | | |
| 1 Month | 9 1/2 | 10 1/8 | 9 5/8 | 9 1/2 | --- | |
| 3 Month | 10 1/8 | 10 1/2 | 10 1/8 | 10 1/8 | | |
| 6 Month | 10 7/8 | 11 1/8 | 10 7/8 | 10 3/4 | | |
| 12 Month | 11 7/8 | 12. | 11 7/8 | 11 5/8 | | |
| Open Interest (Sept. 28): | 264 | | | | | |
| Contract Size | : FFR 750,000.00 | | | | Average Volume (Sept. 77): 26 | |
| Minimum Fluctuation | : .00005 (\$12.50) | | | | Approx. U.S. \$: \$50,000.00 | |
| Margin Required | : US\$ 4,000.00 | | | | Daily Limit (Normal) : .00500 (\$1,250.00) | |
| Trading Hours | : 8:45 am - 1:10 pm (Chicago Time) | | | | Round Turn Commission : US\$ 60.00 | |
| | | | | | Major Delivery Months : March, June, Sept. Dec. | |

Spot : 20.34 Dec. 77 : 20.29 March 78 : 20.07

The renewed general weakness of the U.S. dollar coupled with the Left's failure to form a united front, make us nervous shorts.

Either hedge short French Franc with a long JY or SFR or cover outright looking for a new opportunity in months to come.



Japanese Yen

| | 1976 | | | | 1977 | |
|--------------------------------------|------------------------------------|--|---------|---------|---------|---------|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr |
| Government Finance (Bln Yen) | | | | | | |
| Deficit(-) or Surplus | -2,410 | 1,389 | 929 | -3,198 | - 318 | --- |
| Revenue | 2,434 | 6,620 | 2,623 | 1,732 | 3,909 | --- |
| Expenditure | 4,844 | 5,232 | 1,694 | 4,930 | 4,227 | --- |
| | Apr. 77 | May 77 | June 77 | July 77 | Aug. 77 | |
| Balance of Trade (Mln US\$) | | | | | | |
| Jan-Aug. 1976: 5,432 | | | | | | |
| Jan-Aug. 1977: 9,150 | 1,780 | 640 | 1,490 | 2,050 | 1,150 | |
| Balance of Payment (Mln US\$) | | | | | | |
| Jan-Aug. 1976: 1,829 | | | | | | |
| Jan-Aug. 1977: 3,227 | 359 | 390 | 699 | 937 | 300 | |
| Money Supply | | | | | | |
| M1 | 7.6 | 3.8 | 5.1 | 6.2 | --- | |
| M2 | 11.5 | 11.2 | 11.0 | 11.2 | --- | |
| Reserves (Mln US\$) | 17,320 | 17,250 | 17,380 | 17,630 | 17,770 | |
| *C.P.I. | 8.31 | 9.27 | 8.52 | 7.88 | --- | |
| *W.P.I. | 3.60 | 3.35 | 2.61 | 1.08 | 0.78 | |
| Unemployment Rate | 1.90 | 2.03 | 2.09 | 2.13 | --- | |
| Open Interest (Sept. 28): | 1871 | Average Volume (Sept.): 69 | | | | |
| Contract Size | : Yen 12,500,000.00 | Approx. U.S. Dollar : \$48,000.00 | | | | |
| Minimum Fluctuation | : .000010(\$12.50) | Daily Limit (Normal) : .00060(\$750.00) | | | | |
| Margin Required | : US\$ 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. | | | | |

Spot : 37.72 Dec. 77 : 37.95 Mar. 78 : 38.09 June 78 : 38.15

The immense political pressure on the Japanese as a result of their mounting trade surpluses, makes the JY a cinch for continued revaluation.

Remain firmly long looking for a new upside target of between 3900 & 3950.

Mexican Peso

| Forward Discount (Annual Basis) | Spot | Dec. 77 | Mar. 78 | June 78 | Sept. 78 | Dec. 78 | Mar. 79 | | | | | |
|---|------------------------------------|--|-----------------|-----------------|----------|---------|---------|---------|---------|-----|--------|--------|
| | | 21.0 | 16.64 | 15.14 | 15.50 | 14.40 | 13.78 | | | | | |
| | Dec. 77 | 14.23 | 13.94 | 14.79 | 13.78 | 13.78 | | | | | | |
| | Mar. 78 | | 14.16 | 15.63 | 14.13 | 13.53 | | | | | | |
| | June 78 | | | 17.72 | 14.13 | 13.81 | | | | | | |
| | Sept. 78 | | | | 12.08 | 12.40 | | | | | | |
| | Dec. 78 | | | | | 13.11 | | | | | | |
| Exports | | Jan 77 | Feb. 77 | Mar. 77 | Apr. 77 | May 77 | June 77 | | | | | |
| Cotton | a. ** | 103.48 | 121.04 | 132.02 | 120.09 | 101.69 | --- | | | | | |
| | b. | - 3.33 | -31.03 | -56.14 | +22.86 | +23.91 | --- | | | | | |
| Coffee | a. | 276.11 | 330.14 | 377.71 | 391.14 | 405.92 | --- | | | | | |
| | b. | -39.72 | 0.39 | - 9.73 | -71.64 | -49.61 | --- | | | | | |
| Shrimp | a. | 118.46 | 171.20 | 127.13 | 163.81 | 117.70 | --- | | | | | |
| | b. | - 2.38 | +13.75 | +103.84 | +29.85 | +39.66 | --- | | | | | |
| ** a. & increase of prices. b. & increase or decrease of volume. | | | | | | | | | | | | |
| W.P.I. | | 45.04 | 45.67 | 46.30 | 49.81 | 50.74 | 50.94 | | | | | |
| C.P.I. | | 25.21 | 25.86 | 26.09 | 26.65 | 26.81 | 28.29 | | | | | |
| 1975 | 1976 | 1977 | | | | | | | | | | |
| 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr | Apr | May | |
| Reserve Money (Bln Pesos) | 111.08 | 118.61 | 120.88 | 140.84 | 139.71 | 137.86 | 135.77 | 130.95 | 125.40 | --- | 140.99 | 132.47 |
| Gov't Finance (mln Pesos) | | | | | | | | | | | | |
| Deficit | 8,575 | 6,988 | 9,617 | 16,869 | 10,356 | 6,811 | 13,092 | 27,034 | 5,387 | --- | --- | --- |
| Revenue | 22,777 | 26,361 | 24,974 | 28,965 | 28,889 | 35,162 | 32,120 | 38,390 | 42,841 | --- | --- | --- |
| Expenditure | 31,352 | 33,349 | 34,591 | 45,834 | 39,345 | 41,973 | 45,212 | 65,424 | 48,228 | --- | --- | --- |
| Open Interest (Sept. 28): | 1388 | Average Volume (Sept.): 107 | | | | | | | | | | |
| Contract Size | : MP 1,000,000.00 | Approx U.S. Dollar : 42,000.00 | | | | | | | | | | |
| 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 am - 1:10 pm (Chicago Time) | Major Delivery Months : March, June, Sept., Dec. | | | | | | | | | | |
| Spot | : 44.00 | Dec. 77 : 42.46 | Mar. 78 : 40.95 | June 78 : 39.50 | | | | | | | | |
| Sept. 78: | 37.75 | Dec. 78 : 36.61 | Mar. 79 : 35.41 | | | | | | | | | |

The growth of Federal Government revenues for the 11 qtr of 1977 has shown a significant deceleration from year-ago levels as they are reported to be 40% higher than the 1976 equivalent while the 1st qtr 1977 showed a 48% gain year-to-year. The better fiscal performance can be ascribed to the extremely high rate of inflation in the IV qtr 1976 & 1st qtr 1977 which affects revenues far more quickly than expenditures. Monetary creation by the Bank of Mexico is once again running out of control with May figures showing a huge 40% annualized expansion.

Add to short positions in deferred months, provided they are at discounts of 15-17% p.a. or less.

Swiss Franc

| | 1976 | | | | 1977 | |
|-------------------------------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr |
| Government Finance (Mln SFR) | | | | | | |
| Deficit (-) or Surplus | - 115 | 185 | 570 | -2,017 | - 145 | 95 |
| Revenue | 3,012 | 4,077 | 3,456 | 3,236 | 3,278 | 4,075 |
| Expenditure | 2,971 | 3,967 | 3,443 | 4,804 | 3,297 | 4,568 |
| Lendings Minus Repayments | 156 | - 75 | - 557 | 449 | 126 | - 588 |
| Balance of Trade (Mln SFR) | <u>Mar. 77</u> | <u>Apr. 77</u> | <u>May 77</u> | <u>June 77</u> | <u>July 77</u> | <u>Aug. 77</u> |
| Jan-Aug. 1976: + 1 | | | | | | |
| Jan-Aug. 1977: -1.5 Bln | -350.50 | -168 | -125 | -146 | + 5.4 | -615 |
| * C.P.I. | 1.03 | 1.15 | 1.27 | 1.75 | 1.70 | 1.26 |
| Unemployment Rate | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 |
| Weekly Reserves (Mln SFR) | <u>Aug. 30</u> | <u>Sept. 5</u> | <u>Sept. 13</u> | <u>Sept. 19</u> | <u>Sept. 26</u> | |
| | 12,940 | 12,800 | 12,020 | 12,480 | --- | |
| Euro Deposit - | | | | | | |
| 1 Mo. | 2 3/16 | 2 3/8 | 2 3/8 | 2 11/16 | --- | |
| 3 Mo. | 2 5/16 | 2 3/8 | 2 1/2 | 2 3/4 | | |
| 6 Mo. | 2 15/16 | 2 15/16 | 2 15/16 | 3 1/4 | | |
| 12 Mo. | 3 3/16 | 3 1/8 | 3 1/8 | 3 5/16 | | |

Open Interest (Sept. 28): 1983
 Contract Size : SFR 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 (Sept.): 323
 Approx. U.S. Dollar : 54,000.00
 Daily Limit (Normal) : .0060 (\$750.00)
 Round Turn Commission : US\$ 60.00
 Major Delivery Months : March, June, Sept., Dec.

DM/Sf Ratio : Spot : 1.012 Dec. 77: 1.009 Mar. 78 : 1.0064

Spot : 42.64 Dec. 77 : 43.08 Mar. 78 : 43.51 June 78 : 44.10
 Sept. 78 : 42.03

A statement made by the President of the Swiss National Bank to the effect that tight money will be used to combat inflation while the rise of the SF will be of secondary consideration, set off a huge speculative stampede into the SF, with the latter recording 5 consecutive new high closes versus the U.S. dollar. Having regretted this lapsus linguae the Swiss National Bank countered to dampen enthusiasm by prohibiting 30-day forward sales to non-residents. After a one-day minor correction, the bull-move continued. The Euro-currency & Euro-deposit 'system' is much too sophisticated to be taken aback by harmless & primitive bans on forward trading.

Having crossed 42.50 basis Spot, a long position became interesting (as per last month's Comments). Remain long, placing stops at 42.00 basis Spot.

