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Nov. 30th, 1977

Currency Comments

British Pound

Spot : 181.65 Dec. 77 : 181.70 Mar. 78 : 181.50 June 78 : 180.95
 Sept. 78 : 180.50 Dec. 78 : 179.95 Mar. 79 : 180.00

	June	July	Aug.	Sept.	Oct.
Balance of Trade (Mln Stg)					
Jan-Oct. 1976 : -2,413					
Jan-Oct. 1977 : -2,013	-301	-256	+141	+80*	+31
Reserves (Mln US\$)	11,570	13,470	14,850	17,170	20,220
Retail Sales Index **	-2.6	-0.74	-1.56	-2.11	-1.21
Retail Price Index **	17.69	17.59	16.52	15.63	14.07
Unemployment Rate	5.70	6.80	6.90	6.10	6.10
W.P.I. **	20.92	20.93	19.87	19.00	17.89
1976					
	<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>	<u>4 qtr</u>	
Bank Rate (End of Period)	9.00	11.50	13.00	14.25	9.50 8.00 6.00
Treasury Bill Rate	9.04	10.19	11.26	13.99	11.20 7.72 6.55
1977					
	<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>		

Government Finance (Mln Stg)	Oct. 28	Nov. 3	Nov. 14	Nov. 18	Nov. 23
Deficit (-) or Revenue	-1,414	-2,204	-1,655	-1,513	- 572
Revenue	11,902	9,963	11,156	10,804	13,365
Expenditure	12,155	11,386	11,921	12,233	13,228

Euro Deposit	Oct. 28	Nov. 3	Nov. 14	Nov. 18	Nov. 23
1 Mo.	5.0	5 1/8	4 3/8	4 3/4	5.
3 Mo.	5 5/8	5 1/2	4 1/4	5 3/4	6 7/8
6 Mo.	6 1/4	6 1/2	5 1/2	6 1/4	7 1/8
12 Mo.	7 1/8	6 15/16	7.	7.	7 3/8

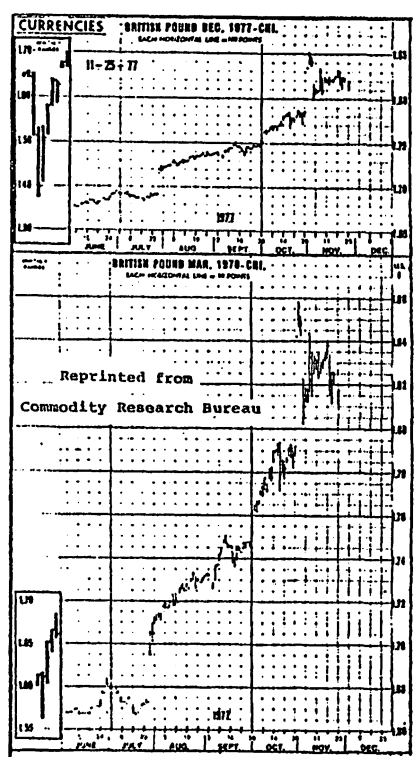
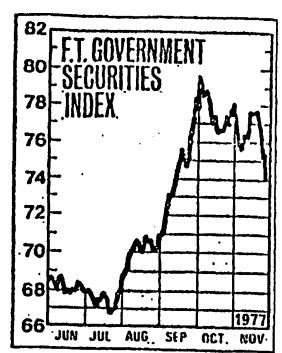
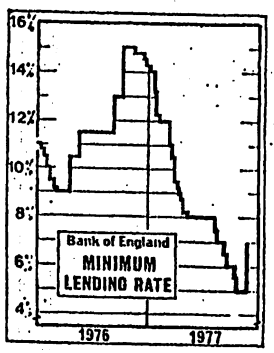
Open Interest (Nov. 30) : 5,489 Volume (Nov.30) : 351
 Contract Size : BP 25,000.00 (Approx. US\$ 45,000.00)
 Minimum Fluctuation : .00050 (\$12.50) Daily Limit (Normal) : .05 (\$1,250.00)
 Margin Required : US\$ 2,500.00 Round Turn Commission : US\$ 60.00
 Trading Hours : 8:45 am - 1:10 pm Delivery Months : March, June, Sept., Dec.
 (Chicago Time)

GROWTH OF THE MONETARY AGGREGATES (£m.)

	Money stock M1			Money stock M13			Bank lending*		Domestic credit expansion	
	Seasonally Unadjusted	Seasonally Adjusted	%	Seasonally Unadjusted	Seasonally Adjusted	%	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted
0	-197	-196	-1.1	235	459	1.2	701	304	—	—
17	278	58	0.3	323	429	1.1	261	371	733	777
8	425	180	1.0	- 72	-159	-0.4	15	160	-162	-110
9	-775	- 2	—	-950	-510	-1.3	679	38	-1,058	-1,065
10	10	134	0.7	-835	-416	-1.0	-301	-220	-1,207	-945
16	270	25	-0.2	262	43	0.1	- 83	- 10	338	100
20	823	687	2.6	1,058	899	2.3	308	296	967	779
8	170	64	0.3	190	253	0.6	120	464	117	395
15	440	203	1.4	461	303	0.8	124	313	224	-293
20	178	315	2.6	659	388	1.2	1,339	278	—	—
4 17	279	108	0.5	- 56	75	0.2	-100	379	-248	- 69
21	521	958	4.8	809	883	2.1	167	241	- 80	126
9	738	520	2.5	669	741	1.8	565	627	239	299

* private sector in sterling. Source: Bank of England.

The London Economist



BP ...

It is axiomatic that markets have strong tendencies to anticipate both favorable and unfavorable events. Economic forecasting can, therefore, rarely be timely even if accurate.

In our special study of The British Pound issued last May, we forecast an eventual rise to 1.80 over 18 months (at the time Stg was trading at 1.72) Predicated upon a strong current account surplus in 1978, plus a variety of psychologically boosting victories such as a single-digit inflation rate and an MLR of 6.5% by end of 1977.

As the events unfolded according to our script & the best hopes of Britons, foreign money inflows turned into tidal waves.

The Public Sector Borrowing requirements were met out of gilt sales to non-residents, interest rates collapsed (going to a ridiculous 5% - the lowest rate since 1960) & Sterling was 'unhooked' to allow its float to reach 1.85.

All these developments took place before a current account surplus materialized evidencing once again the anticipatory nature of markets.

What now? The neutralization of foreign money inflows by way of gilt sales to non-residents will cause The Bank of England a migraine headache & possibly, derail a promising monetarist approach. This is so as non-residents begin to liquidate gilt holdings (the accompanying chart shows that they have clearly topped out) & the Bank will have to monetize their sales in the interest of keeping long term interest rates stable. The potential for massive liquidation is attested by the fact that at least \$10 billion has come into the UK's money market seeking appreciation and return. Monetary targets will easily be exceeded which in turn will cause further sales & outflows & continuous foreign exchange pressure.

The bull phase of the UK's money, bond & share markets is over. What should have taken 18 months has materialized in just 6 months, too ephemeral for lasting success. To quote the conclusion of our May study " the Pound should appreciate to the 1.80 level over the next 18 months at which point it will be overvalued by a full 40%. It will eventually fall under the weight of its own overvaluation. "

Last month we suggested liquidating all long positions. Short sales are now in order but they should be made only on the deferred June, Sept., Dec. 78 contracts.

French Franc

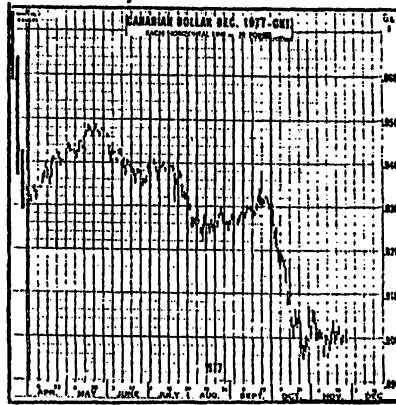
	Spot : 20.615	Dec. 77 : 20.51	Mar. 78 : 20.15				
		June	July	Aug.	Sept.	Oct.	
Balance of Trade (Mln FFr)							
Jan-Oct. 1976: -15,179							
Jan-Oct. 1977: -10,383		-2,320	- 797	-1,850	+421	+127	
Net Change of Foreign Exchange Assets **		19.0	18.8	19.59	19.52	18.02	
Retail Price Index **		10.20	10.10	9.91	9.69	9.55	
Unemployment Rate		5.2	5.4	5.5	5.3	---	
		<u>1976</u>			<u>1977</u>		
		<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>	<u>4 qtr</u>	<u>1 qtr</u>	<u>2 qtr</u>
Government Finance (Bln FFr)							
Deficit (-) or Surplus		-19.02	5.79	-20.5	21.09	-10.33	- 6.32
Revenue		77.82	96.94	76.47	99.51	97.38	102.5
Expenditure		96.84	91.15	96.97	78.42	107.71	108.82
		<u>Oct. 28</u>	<u>Nov. 4</u>	<u>Nov. 10</u>	<u>Nov. 18</u>	<u>Nov. 23</u>	
Weekly Reserves (Mln FFr)		94,722	94,762	94,738	...	...
Euro Deposit				(Nov.14)			
1 Mo.		2 1/4	10 3/8	13 5/8	11 3/8	11 5/8	
3 Mo.		10.	11 1/4	13 1/8	12 3/8	12 1/4	
6 Mo.		10 5/8	11 1/2	13 1/8	12 9/16	12 13/16	
12 Mo.		11.	11 5/8	12 7/8	12 1/4	12 1/2	
Open Interest (Nov. 30) :	171						
Contract Size :	FFr 250,000.00 (Approx. US\$						
Minimum Fluctuation :	.00005 (\$12.50)						
Margin Required :	US\$ 4,000.00						
Trading Hours :	8:45 am - 1:10 pm (Chicago Time)						
Volume (Nov.30) :	0.						
Daily Limit (Normal) :	.00500 (\$1,250.00)						
Round Turn Commission :	US\$ 60.00						
Delivery Months :	March, June, Sept., Dec.						

Remain short.

Canadian Dollar

Spot : 90.24 Dec.77 : 90.28 Mar. 78: 90.16 June 78: 90.11

	June	July	Aug.	Sept.	Oct.	
Money Supply						
Narrowly Defined	9.37	8.78	9.60	9.12	10.66	
More Broadly (M2)	15.61	15.65	15.31	15.22	14.26	
M3	15.14	15.44	13.93	15.01	14.60	
Balance of Trade (Bln \$)	+129	+125	+298	+50*	+489	
General Bank Loans (% Growth) **	18.57	18.07	17.16	15.90	15.66	
CPI **	7.67	8.37	8.33	8.40	8.77	
Food Price Index **	7.01	9.00	10.18	11.16	12.73	
Unemployment Rate	8.0	8.1	8.2	8.3	8.3	
Euro Deposit	<u>Oct. 28</u>	<u>Nov. 3</u>	<u>Nov. 14</u>	<u>Nov. 18</u>	<u>Nov. 23</u>	
1 Mo.	7 1/4	7 3/4	7 3/8	7 1/4	7 1/4	
3 Mo.	7 1/2	7 3/4	7 7/16	7 9/16	7 1/2	
6 Mo.	7 3/4	7 7/8	7 13/16	7 13/16	7 13/16	
12 Mo.	7 7/8	8 1/8	8.	8.	8.	
	<u>1976</u>				<u>1977</u>	
	<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>	<u>4 qtr</u>	<u>1 qtr</u>	<u>2 qtr</u>
Government Finance (Bln Cd\$)						
Deficit (-) or Surplus	...	-1.29	-1.23	-1.09	-1.34	-2.12
Revenue	...	8.84	9.67	9.95	11.52	8.82
Expenditure	...	8.97	9.96	10.35	12.06	9.89
Balance of Payment (Current Acct.)	-1,254	-1,130	-711	-1,092	-845	-1,458
Open Interest (Nov.30)	1,999	Volume (Nov.30)		688		
Contract Size	Cd\$ 100,000.00 (Approx. US\$ 90,000.00)					
Minimum Fluctuation	.0001 (\$10.00)	Daily Limit (Normal)		.00750 (\$750.00)		
Margin Required	US\$ 2,500.00	Round Turn Commission		US\$ 60.00		
Trading Hours	8:45 am - 1:10 pm (Chicago Time)	Delivery Months		March, June, Sept., Dec.		

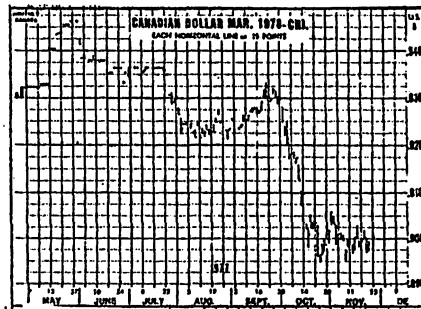
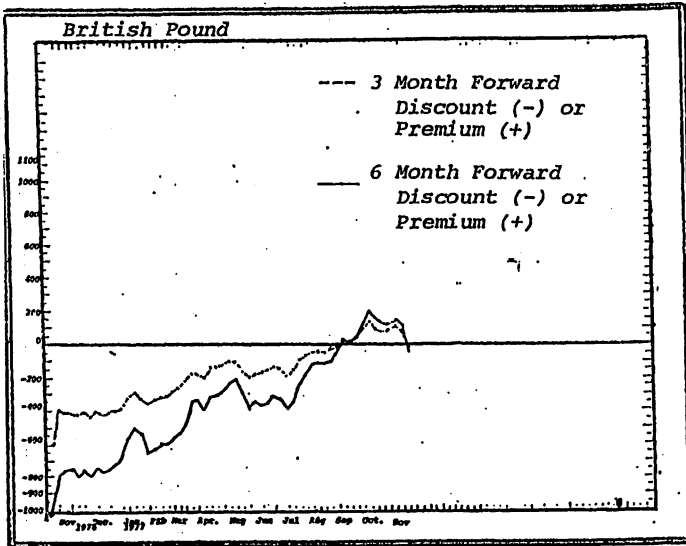


Large offshore borrowings have kept the Cd\$ from straying too far from the 90¢ level although, at times, the Bank of Canada has been seen intervening to steady the rate.

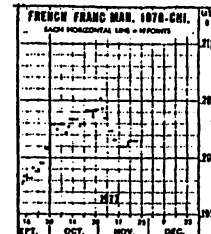
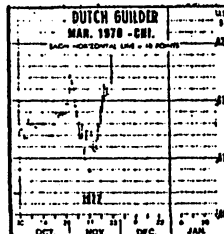
Private & official forecasters seem to be living in a fantasy world when they foresee an inflation rate of just 6.5% for 1978, even lower than the present annualized pace of 8 3/4% ! In our view, double-digit inflation for next year is assured, particularly in view of the enormous trade-weighted devaluation that has occurred over the past 6 months. An election will probably be called before the sad truth is recognized, i.e. no later than Spring of '78.

Present interest rates are too low to ration out credit; monetary expansion continues unabated as the banking system finances loan demand quite comfortably through savings & fixed term deposits. The latter & the former are thus still showing horrendous increases of 15% p.a. The Central Bank chooses to ignore broadly based monetary aggregates & sings praises to its conservatism by pointing to the 'subdued' pace of M1 growth.

Remain short, place stops at 90.75 basis Spot.



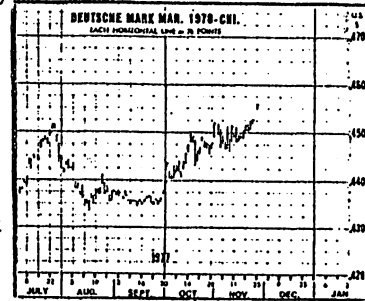
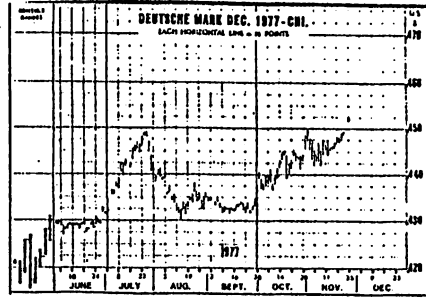
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Deutsche Mark

Spot : 45.02 Dec. 77 : 45.07 Mar. 78 : 45.40 June 78 : 45.75
 Sept. 78 : 46.00 Dec. 78 : 46.30 Mar. 79 : 46.87

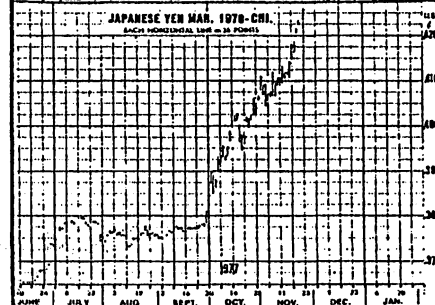
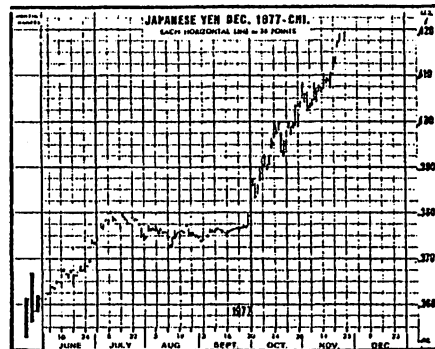
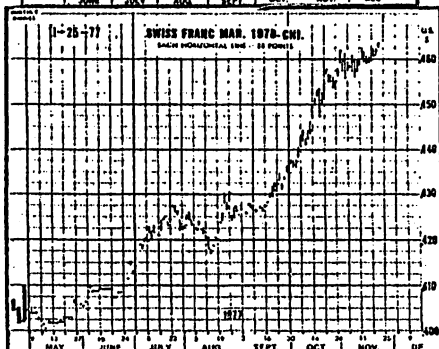
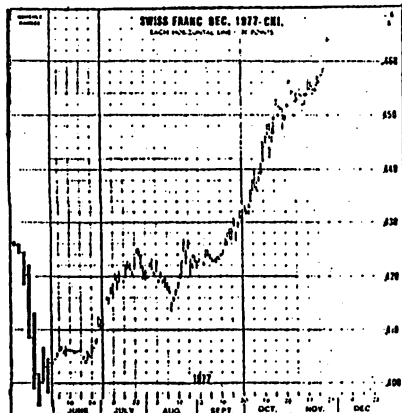
		June	July	Aug.	Sept.	Oct.
Balance of Trade (Mln Marks)						
Jan-Oct. 1976 :	28,137					
Jan-Oct. 1977 :	31,050	2,890	1,760	2,520	3,600	4,810
Balance of Payment (Mln Marks)						
Current Acct:						
Jan-Oct. 1976 :	5.6 bln.					
Jan-Oct. 1977 :	3.5 bln.	779	-1,990	-1,430	-1,700	3,100
Money Supply **						
M1	5.66	8.23	7.83	9.11		
M2	6.74	9.11	7.62	8.19		
M3	7.75	9.90	8.96	9.37		
NPI **	0.81	-0.03	-1.24	-1.11	...	
Cost of Living **	4.0	4.33	3.89	3.96	3.8	3.7 (Nov.)
Unemployment Rate	4.1	4.3	4.3	4.0	4.2	
Net Monetary Reserves (Mln Marks)						
Euro Deposit						
1 Mo.	3 7/8	3 13/16	3 7/8	3 13/16	4.	
3 Mo.	4 1/16	4.	4 1/8	4 1/8	4 3/16	
6 Mo.	4 1/16	4.	4 1/8	4 1/8	4 3/16	
12 Mo.	4 1/8	4.	4 1/8	4 1/8	4 1/4	
Government Finance (Federal Gov't)						
	1976				1977	
	1 qtr	2 qtr	3 qtr	4 qtr	1 qtr	2 qtr
Deficit (-) or Surplus (bln Marks)	-6.02	-6.85	-6.82	-10.40	-2.15	-4.74
Revenue	32.45	32.92	35.32	40.88	37.21	36.04
Expenditure	38.47	39.77	42.14	51.28	39.36	40.78
Open Interest (Nov.30) :	2,676				Volume (Nov.30) :	338
Contract Size	DM 125,000.00 (Approx. US\$ 57,000.00)					
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)				Delivery Months	: March, June, Sept., Dec.



Mindful of the weakness of the U.S. Dollar, we have carefully avoided an outright short sale recommendation in spite of developing fundamental worries about the German inflation rate & loss of external competitiveness.

Monetary aggregates have been strongly influenced by the Bundesbank's monetization of dollar inflows. As a result, M3 showed an unusual jump of DM 7.5 billion for October versus the previous monthly average of DM 4.5 billion. Current speculation will abate only when either the Bundesbank lowers its interest rate structure (quite probable) or the Federal Reserve raises the discount rate (less probable) or a combination of both. In addition, a cleaner float will have to be adopted if monetary targets are to be kept.

Remain sidelined.



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Japanese Yen

Spot : 40.97 Dec. 77 : 41.01 Mar. 78 : 41.34 June 78 : 41.69

	June	July	Aug.	Sept.	Oct.
Balance of Trade (Bln US\$)					
Jan-Oct. 1976 : 7,772					
Jan-Oct. 1977 : 12,700	1,490	2,050	1,150	1,690	1,860
Balance of Payment (Bln US\$)					
Jan-Oct. 1976 : 2,855					
Jan-Oct. 1977 : 4,062	699	937	300	511	324
Honey Supply **					
M1	5.10	6.20	6.10	6.30	
M2	11.00	11.20	10.90	11.3	
Reserves (Bln US\$)	17,380	17,630	17,770	17,870	19,580 22,150 (Nov.)
CPI **	8.52	7.88	8.55	7.61	7.47
WPI **	2.61	1.08	0.78	0.50	0.05
Unemployment Rate	2.09	2.13	1.90	2.11	...
	<u>1976</u>	<u>1976</u>	<u>1976</u>	<u>1976</u>	<u>1977</u>
Government Finance (Bln Yen)	<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>	<u>4 qtr</u>	<u>1 qtr</u> <u>2 qtr</u>
Deficit (-) or Surplus	-2,410	1,389	929	-3,198	- 318 -4,997
Revenue	2,434	6,620	2,623	1,732	3,909 4,053
Expenditure	4,844	5,232	1,694	4,930	4,227 9,050
Open Interest (Nov. 30)	: 3,375		Volume (Nov.30)	: 980	
Contract Size	: Yen 12,500,000.00	(Approx. US\$ 52,000.00)			
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)		Delivery Months	: March, June, Sept., Dec.	

Embarrassingly large trade surpluses are being offset by other current account items but the rest of the OECD nations are on a (dangerous) protectionist rampage & will not listen to reason. Preposterous calculations are circulating the U.S. State & Treasury Departments & Foreign Trade ministries of the EEC Countries showing that the Japanese trade surplus can be wiped out entirely with a 100 JY/Dollar rate! Ironically, the present Yen appreciation will make industry even more efficient & robust as the ongoing rise in bankruptcies weeds out the weak sisters.

The Bank of Japan has decided, at last, to make a stand at JY 240/Dollar &, in the process, has had to absorb well over \$1 billion this past week. The holding action is a bid to gain additional time & perhaps show a reversal in the mounting trade surplus. The effects should be felt within the next 3-4 months. In the long run, however, appreciation begets further appreciation; unless the U.S. stops flooding the world with unwanted dollars while at the same time its energy policy remains a non-starter, the JY will only undergo 'technical corrections' in an otherwise powerful secular bull market.

Remain Sidelined.

Swiss Franc

Spot : 46.26 Dec. 77 : 46.40 Mar. 78 : 46.88 June 78 : 47.45
Sept. 78 : 47.97 Dec. 78 : 48.55 Mar. 79 : 46.88

	June	July	Aug.	Sept.	Oct.
Balance of Trade (Bln SFr)					
Jan-Oct. 1976: +180					
Jan-Oct. 1977: -1,568	-146	+5.4	-615	-30	+7.5
C.P.I. **	1.75	1.70	1.25	1.60	1.62
Unemployment Rate	0.3	0.3	0.3	...	0.3
Reserves (Weekly)	<u>Oct. 28</u>	<u>Nov. 4</u>	<u>Nov. 14</u>	<u>Nov. 18</u>	<u>Nov. 23</u>
Bln SFr	13,310	13,350	13,180	...	14,120
Euro Deposit					
1 Mo.	1 1/4	1.	1 3/8	1 3/4	2 3/8
3 Mo.	2 1/16	2.	2 1/4	2 1/2	2 15/16
6 Mo.	2 1/2	2 1/4	2 3/8	2 5/8	2 7/8
12 Mo.	2 3/4	2 5/8	2 5/8	2 3/4	2 15/16
	<u>1976</u>	<u>1976</u>	<u>1976</u>	<u>1976</u>	<u>1977</u>
Government Finance (Bln SFr)	<u>1 qtr</u>	<u>2 qtr</u>	<u>3 qtr</u>	<u>4 qtr</u>	<u>1 qtr</u> <u>2 qtr</u>
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
Open Interest (Nov. 30)	: 3,341		Volume (Nov.30):	1,085	
Contract Size	: SFr 125,000.00	(Approx. US\$ 58,000.00)			
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)		Delivery Months	: March, June, Sept., Dec.	

The uptrend remains intact.

Remain long; raise stops to 45.60 basis December '77 & 45.90 basis March '78.

		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
NPI **		45.04	45.67	47.3	49.81	50.74	50.93	48.27	52.85	...
CPI **		25.21	25.86	26.09	26.66	26.81	28.29	29.13	30.59	...
Wages: Monthly Earnings **		42.78	38.46	41.85	33.04	26.81	...	...	...	...
Mining Production **		0	21.86	19.07	5.87	4.47	...	...	...	...
Crude Petroleum Production **		21.53	7.01	16.12	19.39	15.43	...	...	...	...
Export Prices **	Cotton	103.48	120.88	130.67	110.16	101.69	65.07	30.73	...	...
	Coffee	275.20	330.08	377.59	391.14	405.92	329.09	336.08	...	...
	Shrimp	118.46	181.70	134.80	146.14	117.70	153.50	158.06	...	...
Volume of Exports **	Cotton	- 3.33	-31.03	127.27	-46.91	23.91	71.05	-35.90	...	...
	Coffee	-39.73	0.39	16.43	-71.64	-49.61	-32.62	-65.24	...	...
	Shrimp	- 2.38	13.75	103.84	29.58	39.66	49.18	54.29	...	...

		Dec. 77	Mar. 78	June 78	Sep. 78	Dec. 78	Mar. 79
Spot	Spot	9.50	13.94	13.57	13.43	12.94	12.55
	Dec. 77		15.50	14.36	13.98	13.34	12.86
	Mar. 78			13.76	13.76	13.12	12.69
	June 78				14.25	13.26	12.77
	Sep. 78					12.73	12.48
	Dec. 78						12.63

Open Interest (Nov. 30): 2,426 Volume (Nov. 30) : 115
 Contract Size : Mx 1,000,000.00 (Approx. U.S. \$ 43,000.00)
 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) Delivery Months : March, June, Sept., Dec.,

Mexico's oil

Leaps and barrels

Mexico City

Estimates and guesstimates of the size of Mexico's oil reserves continue to grow. Last week, Mr Diaz Serrano, the boss of the national oil company, Pemex, was called to account before the Mexican parliament because many Mexicans have irrational objections to the pipeline that is to take gas now being uselessly flared in the Chiapas oil fields into the heart of Gringoland. Mr Diaz Serrano gave new figures for Mexico's reserves for oil and natural gas. Proven reserves are now put at 16.8 billion barrels (as against 11.2 billion barrels last December). Probable reserves are 29.2 billion barrels, and potential reserves that can be gauged by studying the latest geological information are a massive 120 billion barrels. For comparison, Venezuela's proven reserves stood at 15.3 billion barrels at end-1976.

Too good to be true? The oil is bubbling out. This week, on Tuesday, yet another record figure for Mexico's daily production was notched up: 1,165m barrels a day (b/d), about a third more than Britain now produces. The average for the year will turn out to be over 1.1m b/d—10% above the target level. The Reforma area, 6,000 square kilometres in the states of Chiapas and Tabasco, is a black goldfield. The most developed field, Antonio J. Bermudez, is now producing 1m b/d and has proven reserves of 4 billion barrels. The average yield per well in the new fields is 5,500 b/d, which compares with Middle East fields; some wells are producing 15,000 b/d.

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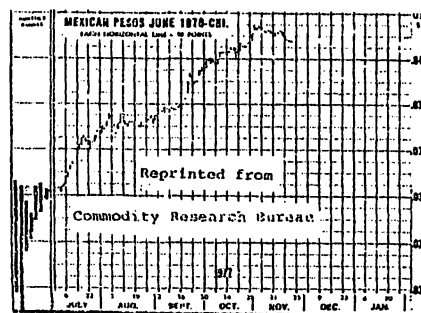
So how do the Mexicans estimate the total reserves? Some 60 structures with commercial oil potential have been identified in Reforma. But only four have yet been brought into production. And that's on land. The promising formation extends into the Gulf of Mexico where a further 8,000 square kilometres are being explored. So far, 120 promising structures have been discovered (the previous figure was 80). Four wells have been drilled in three structures, and each produced over 5,000 b/d. The plan is to explore 25 of the most promising more thoroughly and then put two production platforms on five of the best of these, each with 12 wells. Pemex expects that these 120 wells will be producing 270,000 b/d in 1982, or over 10% of the 2.2m b/d that is the official production forecast for 1982. Expect that forecast to be beaten.

The dismissal of the two top officials in Finance & Budget & their substitution by men generally viewed as more liberal and less concerned with recent IMF guidelines, sent tremors through the foreign exchange market—particularly the deferred months as the Spot continues to be buoyed by seasonal considerations.

The accompanying article which appeared in The Economist of London dated Nov. 12th, paints a glowing oil & gas 'future'. Mundane inflation & trade problems, however, are much closer in time than these 'rosy' forecasts & we expect them to hit home as soon as the tourist season wanes.

Remain short; place stops on deferred positions if Spot trades above 44.40.

** Over year ago same month.



Commodity Comments

***** Very Bullish
 ***** Bullish
 **** Bullish Neutral

*** Neutral Bearish
 ** Bearish
 * Very Bearish

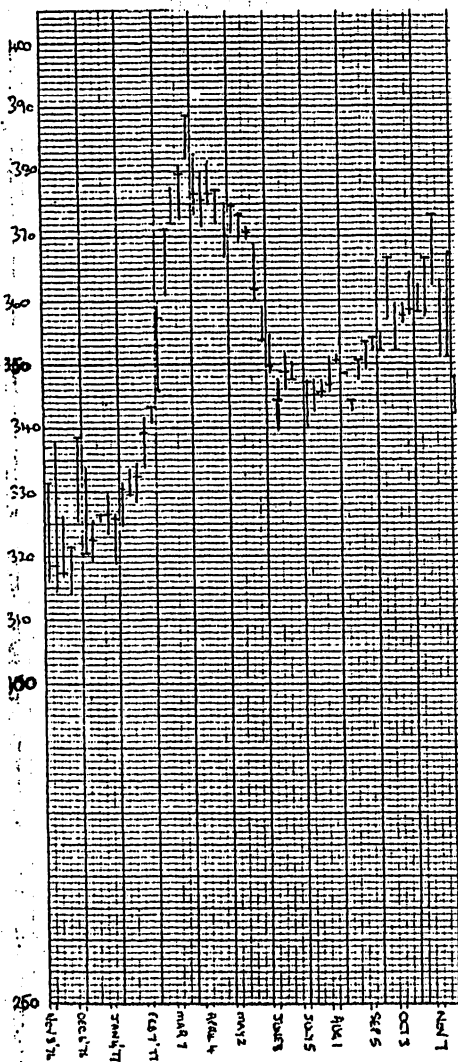
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Golden Myths

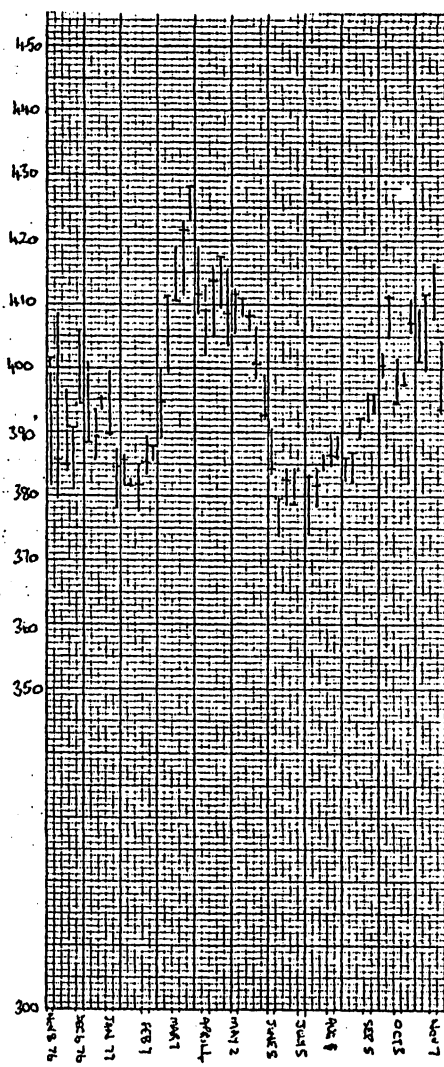
*** February 1978: Gold 159.70
 ** March 1978: Silver 485.40
 ***** January 1978: Platinum 173.80
 ***** March 1978: Palladium 55.00

Last month we alluded to the loss of the relative strength of gold, vis a vis the super-currencies. This month we can document it.

London Gold Fix / Swiss Franc Rate

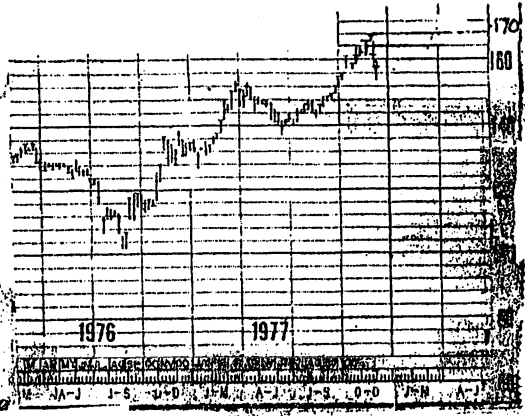


London Gold fix / Japanese Yen Rate



The accompanying charts have translated the weekly high, low and close of the dollar price of gold into Swiss Franc and Japanese Yen. Our starting point was November, 1976, the beginning of the recent Bull Phase. For comparison purposes we have also included a weekly gold chart denominated in U.S. dollars.

As is rather obvious, gold has not been a particularly rewarding investment to Yen or Swiss based investors. Not only has there been little appreciation since one year ago, but the recent frenzied rally peak of \$ 169.00 per ounce failed rather miserably in the attempt to better the March-April highs when the proper translation into Swiss Francs or Yen is made.



Courtesy of
Commodity Research
Bureau

We have taken the exercise one step further. Since gold is commonly believed to move in response to peoples fears and expectations about the U.S. dollar, we have taken those periods in which the dollar depreciated or appreciated by at least 5% and compared them to what has happened in the bullion markets. Our simple correlation yielded surprising results. (We use the Swiss Franc as a proxy for the appreciation or depreciation of the U.S. dollar). From 1972 to August of 1973 the Swiss Franc had two substantial upmoves in excess of 5% and two substantial downmoves in excess of 5%, averaging 23 1/4% for increases and 9 1/4% for decreases. Gold reacted with the same plus or minus signs but in a much sharper fashion. It's advances averaged 44 1/4% while its declines averaged 12%. The picture changes dramatically over the subsequent five years from late 1973 to late 1977. Whereas the Swiss Franc averaged increases of 21 1/4% gold lagged by just rising 13%, on the average. In decline, the Swiss Franc averaged minus 9.4% while gold once again lagged with declines averaging 1.2%. It is rather obvious that gold has been losing it's monetary trait. And with good reason. For in a world of floating exchange rates monetary reserves are no longer necessary. Furthermore, hot money seeking to hedge it's purchasing power has a perfectly viable alternative of investing in strong currencies where a return, although a small one, is available. So long as there exists a currency that yields to investors a real rate of return, such as the Swiss Franc, Japanese Yen and the German Mark at the present time, a dollar crisis need not involve bullion.

Gold has become a common-place commodity, no different than copper, silver, or perhaps even soybeans. The threat of huge monetary reserves ready to cash in on substantial upmoves is counter-balanced by the still mythological effect bullion commands in the minds of primitive and un-educated nations. Should a total flight from money occur on a global basis (when no currency yields as much as the expected rate of depreciation), all commodities will appreciate.

Gold holds no magic. We are back to square one. In a precious metals complex, platinum and palladium are the two most undervalued and the two best performers of the past few weeks. Gold and Silver have under-performed and technically look lower.

Remain long Platinum and Palladium positions. Remain sidelined as far as Gold is concerned and establish short positions in Silver risking recent highs.

Cocoa

***** March '78 148.20
***** September '78 132.80

Nigerian, Ivory Coast and Bahia cocoa afloat set off a heavy bout of liquidation in the London Terminal, particularly the expiring December position. The once unusual £ 450 premium, December over March, collapsed in just three trading days to £ 163. Nearby weakness punctured what was thought to be the only bullish argument and the deferred months sagged along, shrinking significantly the March-May, May-July, and July-September switches.

U.S. imports of cocoa and chocolate products during October with comparisons, are shown in census bureau figures, in pounds. The figures below belie any weakness in consumption.

	<u>COCOA BEANS</u>	<u>COCOA BUTTER</u>
Oct. '77	18,069,756	2,728,113
Sept. '77	13,937,002	2,975,152
Oct. '76	18,331,764	3,949,379
Jan-Oct. '77	362,637,573	33,901,271
Jan-Oct. '76	464,353,524	44,736,998

	<u>UNSWEETENED CHOCOLATE</u>	<u>UNSWEETENED COCOA</u>
Oct. '77	9,514,450	13,200,929
Sept. '77	9,371,637	12,539,267
Oct. '76	2,222,973	16,262,638
Jan-Oct. '77	62,441,773	135,879,509
Jan-Oct. '76	36,796,877	140,682,946

The present period is reminiscent of the late 1974 early 1975 market when cocoa prices were talked down by manufacturers and commission analysts despite the firm undertone in world-wide consumption and a growing crisis in production. At the time prices were cut in half before substantial base was established and the greatest cocoa market in history began in mid 1975. As history offers a valuable guideline (and this is doubtful when it comes to commodity future trading) cocoa prices will sag under the impact of commission house and manufacturer selling and/or abstention from the market and a new crisis is likely to emerge in the Spring or early Summer of 1978.

Remain long with protective stops at 145.00 basis March 1978. Do not establish short positions if stops are touched off for the fundamentals remain quite constructive.

Coffee

** December: 216.50
 ** March: 170.33
 ** January London £ 1778

The game seems to have reached the point of stalemate. Though appearances can be deceiving.

If the above sounds like an enigma, it is no more so than the coffee market itself. On the supply side there is evidence, if any was needed, that the alliance of producer nations formed last month to bolster prices by suspending sales has broken down as Guatemala and El Salvador have been accused by their fellows of selling out. In addition, coffee from Angola, some 50,000 bags of it, arrived in N.Y. for the first time in almost a year, indicating that country is prepared to resume sales. Most noteworthy is the admission by IBC Prez Calazans that Brazil's minimum export price of \$3.20 per lb. is a nominal figure only and that sales have been made. None of this is surprising news. In the case of Brazil in particular, the country suffered a foreign trade deficit last month and is thus pressured to return to the market. In the case of all producer nations generally there are simply too many beans to sit on. The FAO estimates 1977 world production at 4.4 mln. bags up a full 20% over last year. And next year's crop is only a half year from harvest. What is surprising is that in response to the selling the market has advanced rather than declined. The reasons can only be 1) The market refused to allow all the lying to obscure the facts which, as always, they discounted a priori and 2) Demand has resumed to a degree. Re the latter: while the cumulative roastings through mid November trailed 1976 by roughly 28%, the weekly roasting rate trailed last year's pace by only 16% versus the 2nd and 3rd quarter weekly pace which lagged behind last year's by as much as 35%. The enigma is thus explained. The stalemate in prices at between 205 and 215 basis spot seems to have resulted from a lowering of arms. Producers will agree to sell and consumers to buy provided, as stated by the former, prices stay at least where they are. Indeed the general fact of virtually all producer nations have made sober proclamations to the effect that "prices have now achieved reasonable levels", "marketing is more orderly", etc.

But as we said, appearances are deceiving. A market once set in motion acts according to Newton's first law; it requires an equal and opposite force to derail it. That force has not, as yet, made itself manifest. Had it done so, the previous rally peak of 180 basis March would have been superseded decisively. It hasn't been. (The deferreds have not even tested their previous rally highs). Until prices break that stop level we will continue to trade this market from the short side.

Copper

**** December: 56.6
 **** March: 57.9

We refer you to the study published in last month's Comments and note that only the 3 month rate of change in Comex Warehouse stocks and the annual rate of change in Comex open interest are performing, as they have since July, below the critical zero % increase reference line which we have dubbed the buy line.

Sluggish economic activity in Europe continues as a hinderance, however bullish looking chart configurations may be clues of positive things to come. Remain sidelined for now and keep in close contact.

Cotton

**** December: 51.35
**** March: 51.76

The USDA's November estimate called for an increase over October in harvested acreage to 13.2 million acres and in yield to 503 lbs per acre. Total production is now estimated at 13.8 million bales, 500,000 bales more than was estimated in October. In addition the USDA estimated, as suggested here last month, exports at 4.4 million bales versus their previous estimate of 4.6 million. Despite such bearish news the market has held firm as indications are that domestic demand is beginning to liven. October's monthly consumption data shows a daily rate of usage of 25,535 bales, up 6% over September. Given that we remain bullish on the U.S. recovery we'd be tempted to make a bullish case for cotton were it not for the tremendous overhang of textile imports, primarily from Japan, which like America's propensity to import cars, radios, steel etc. seems concomittant with the recovery. U.S. imports of cotton, wool & man made fibre textiles during September totaled 476.6 million square yards equivalent (SYE), up 19% over 1976 and the highest level since 1972. Until the textile sector of the trade imbalance is corrected we see little hope for domestic demand to pull up prices. The one hope may be overcommittment by farmers into Government loan and/or the seasonal tendency of cotton futures to bottom in December.

We end by reisterating last month's recommendations to refrain from purchasing until the December contract closes firmly above 51.90 and then placing stops at that level.

Interest Rate Futures

** March 1978 GNMA
** June 1978 TB

The monetary environment continues to worsen. Almost imperceptibly, the Federal Reserve is monetizing the ongoing liquidation of securities from the Commercial Banking System, which in October, showed a drop of 7.2% at an annual rate. Adjusted Federal Reserve Credit, the variable by which the Fed can influence Bank reserves & ultimately, money supply, has been growing at an accelerated pace. Whereas the year to year increase comes to 9.7%, the last six months shows an 11.3% increase and the last 2 months an astounding 13.6% rate of expansion.

In past issues, we have pointed out this 'misbehaviour' and gone as far as labelling as hypocritical the Fed's monetarist protestations. Minutes from the Fed's October meeting now made public, vindicate our harsh criticism. For example, according to the minutes some members of the group "indicated that they now had less confidence in the behaviour of the monetary aggregates as guides to monetary policy than they might have had earlier." Moreover, the committee's "basic goal was to contribute to the satisfactory performance of the economy rather than to pursue predetermined rates of monetary growth." In other words, monetarism does not work. Monetarism, as defined and understood by the Fed, is meaningless. True monetarism on the other hand, is the only rational explanation of the phenomenon we call inflation.

As pointed out many months ago, a weak U.S. dollar does not necessarily cause a domestic credit contraction and a sharp increase in interest rates just as it would in, say, the U.K., Italy, etc. The reason is simply that foreign central Banks, having absorbed large inflows of U.S. dollars in support operations, re-invest proceeds in the U.S. Treasury market, thus financing the growing U.S. fiscal deficits while, at the same time, relieving the U.S. bond markets natural downward pressure. The magnitude of such "fraud" savings is staggering: for the past month it has been running at a \$1 billion/week clip. Such a development is, naturally, counterproductive in that the U.S. dollar is not able to regain equilibrium in the foreign exchange markets. It should be obvious that a strengthening of the dollar, whenever it will come, will see massive liquidation of these foreign Treasury holdings, which when coupled with heavy Federal Government's borrowing requirements, would unleash bearish forces on the bond market.

The Fed can no longer be called hypocritical. It is merely political. And the monetary aggregates are out of control.

We are bearish on GNMA & TB. Sell March 1978 GNMA at market placing protective stops 16/32 above present levels. Add to June 1978 short position at market.

Orange Juice

***** January: 125.60
***** March: 122.00

After achieving a vertiginous 139.75 basis January and an orbital 220.00 basis the expired November, the juice has suffered a virtually vertical and merciless free fall. Our diagnosis of the patient leaves us to conclude that, despite the bruises, he is still vigorously intact and prepared, once again, to scale to new contract highs; i.e. the drop has been a correction and has served only to shake out the dross.

Fundamentally the market remains unchanged and rosy. The USDA made no forecast of supply during November - the next major report is due December 9th - therefore our projection of total availability of 214.3 million gallons including temples and imports remains unchanged. We termed the number "definitely positive" in mid October and see no reason to think otherwise now 6 weeks later. On the demand side; movement has been consistently outdistancing expectations, averaging 3.45 million gallons over the previous six weeks even in the face of wholesale price increases from \$3.05 to \$3.30 per dozen 6 oz tins October 31st and, for the first time, no 30 day period of grace for retailers to buy at the old price. In an attempt to ration the flow and maintain inventory (at a still uncomfortable level) - cold storage stocks declined to 452.9 million lbs. from October 15th to November 15th, 64% less than last years - Minute Maid & Snow Crop raised their card prices by 20¢ per dozen 6 oz tins yesterday. This action conforms perfectly to the analysis presented in our special bulletin dated October 17th. We concluded then as we do now, "...futures can average 155 and have the potential to achieve 185."

Technically the market continue to show the same uncanny regularity its demonstrated over the past six months. The recent fall has violated no uptrends of major consequence.

In sum we remain convinced of higher prices and thus recommend adding to long positions at present levels. Place protective stops at 118.00 last January, as always, on close only.

Sugar

*** March 1978: 9.27
*** October 1978: 10.18

In its most recent crop report the USDA forecast U.S. production of sugarcane for sugar and seed at 27.2 million short tons, 5% below the record 28.8 million short tons produced last year. It forecast sugarbeet output at 25.6 mln. tons, 13% below last year. U.S. sugar imports next year are expected to be about 4.6 million short tons with the assumption that beginning stocks, now projected at 3.6 million tons, will decline by about 500,000 tons in 1978.

Since September 27th, when the free world price of raw cane sugar fell to 6.69/lb. prices have recovered somewhat despite having had to absorb heavy sales particularly from the Dominion Republic. Consuming nations are thought to be keenly aware of stockpiling 'cheap' sugar before the ISA cartel came into effect. Furthermore, there exists serious doubts regarding the U.S. farm loan program and its effect on U.S. imports (domestic sugar can be 'loaned' to the Federal Government at 13.5¢ and be replaced by cheaper imports.)

Having technically broken out on the upside of a 5 month trading band (basis March 1978) an aggressive short posture is no longer in order.

Cover all short positions and move to the sidelines.

Wood Complex

***** January Lumber: 202.60
***** January Plywood: 211.00

The axiom, stated earlier in reference to the British Pound, that markets tend to anticipate news may be restated here. Last month we painted a rather bearish picture of the woods, pointing out that permits for new construction had declined probably as a result of the ebb in savings deposits into federally insured savings & loans associations. Nevertheless we averred that our technical indicators, ie our scrutiny of the markets themselves, gave us a buy signal. Sure enough, October's housing data surprised everyone as starts exceeded a two million-unit annual rate for the fourth consecutive month while single-family starts set an all-time record. Prices have responded accordingly, advancing \$20.00 since last writing.

Work was begun on new homes at a seasonally adjusted annual rate of 2,179,000 units last month, up 6% over September and 27% over October 1976. Singles were begun at a 1,555,000 - unit annual rate, up 2% from September and the highest level since 1959. And, most importantly, permits authorizing new construction rose even more strongly than starts - by 9.3% to a 1.852 million seasonally adjusted annual rate. Lending activity remains strong as evidenced by October's deposits exceeding withdrawals by \$2.24 and it now seems that it will take a full 1% increase in interest rates to effect disintermediation and, even then, 3-6 months time to effect the housing industry.

Once again the technical aspect looks sound. Once again we recommend buying the woods and looking for as much as \$20.00 profit. Place stops at 280.00 basis January lumber and 200.00 basis January plywood.

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

Friedberg Commodity Index

October 1977: 207.85
November 77: 211.48
Net Change : + 1.75%

Albert D. Friedberg
David B. Rothberg

Many of you have the delightful problem of being in the position where you have sizable commodity profits. Under the provisions of the Income Tax Act, you may choose to treat these profits as Capital Gains. If you do, you have a choice. You may either pay the tax due and keep the balance or buy a Forward Averaging Annuity and pay less tax. In most cases, it is advisable to take the Forward Averaging Annuity route.

We are in the fortunate situation of being in contact with one of the most competent Forward Averaging Annuity brokers in the country. His service includes advice as to the structuring of the contracts, amounts, commutability, assignability and timing. As for timing, the Income Tax Act states that you must take action not later than 60 days after the year end in which the gain is incurred. We therefore request that you look into this matter at your earliest convenience. Kindly address all inquiries to Al Friedberg personally.

