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Currency Comments

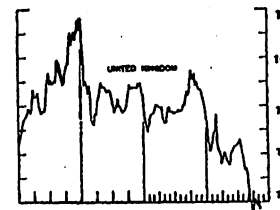
Dec. 27th, 1977

British Pound

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Jan-Nov
Balance of Trade in Bln Stg													
1975	-.275	-.290	-.118	-.291	-.016	-.160	-.293	-.401	-.205	-.224	-.287	-.195	-2,560
1976	-.173	-.246	-.016	-.263	-.341	-.364	-.527	-.293	-.376	-.354	-.509	-.215	-3,462
1977	-.532	-.189	-.239	-.129	-.244	-.301	-.256	+.140	+.091	+.046	+.073		-1,540
Reserves in Bln US\$													
1975	6.833	7.064	7.117	7.132	6.491	6.198	6.259	6.004	5.859	5.713	5.606	5.429	
1976	6.785	7.024	5.905	4.848	5.423	5.312	5.370	5.029	5.158	4.703	5.156	4.129	
1977	7.196	7.787	9.620	10.132	9.903	11.574	13.420	14.850	17.170	20.210	20.390		
Unemployment Rate % of Labor Force													
1975	3.2	3.3	3.5	4.0	3.7	3.7	4.1	5.4	5.4	5.0	5.0	5.1	
1976	6.0	5.5	5.2	5.2	5.3	5.3	5.4	5.5	5.5	5.4	5.5	5.5	
1977	5.6	5.5	5.5	5.6	5.6	5.7	6.8	6.9	6.8	6.1	6.1	6.0	
WPI 1970=100													
1975	172.0	174.8	180.3	190.2	187.3	188.8	191.5	193.7	195.0	197.4	198.6	201.4	
1976	204.9	206.9	208.4	211.2	214.6	217.0	219.8	223.4	226.2	229.8	234.3	237.2	
1977	244.9	248.1	250.6	255.1	259.6	262.4	265.8	267.8	269.2	270.9	271.9		
Retail Price Index 1974=200													
1975	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0	
1976	147.9	149.8	150.6	153.5	155.3	156.0	156.3	158.5	160.6	163.5	165.8	168.0	
1977	172.4	174.1	175.8	180.3	181.8	183.6	183.8	184.7	185.7	186.5	187.4		
Money Supply Mln Stg													
1975			1 qtr	2 qtr	3 qtr	4 qtr							
1976			14,810	15,930	16,800	17,250							
1977			17,890	18,310	19,250	18,050							
1977			19,640										
Stg M3													
1975			35,290	35,940	37,060	37,970							
1976			37,650	38,810	40,460	40,450							
1977			40,540										
GRP in Bln Stg													
1975			22.70	24.94	26.50	28.98							
1976			28.19	29.16	31.03	33.61							
1977			32.00										
Balance of payments - Current Acct. in Bln Stg													
1975			-.316	+.343	-.625	-.303							
1976			-.039	-.533	-.637	-.411							
1977			-.516	-.280	+.399								
Gov't Finance in Bln Stg													
1975			-.980	-2,347	-2,308	-2,745							
1976			-4,410	-2,208	01,655	-1,513							
1977			-.527	-1,730									

Open Interest (Dec. 27) : 5,536
 Volume (Dec. 27) : 285
 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 - 1:15 pm
 (Chicago Time)
 Delivery Months : March, June, Sept., Dec.

Long-Term Bond Yields



Spot :187.85 Mar. 78 : 188.35 June 78 : 188.50 Sept.78 : 188.55
 Dec. 78 :188.50 Mar. 79 : 188.30

Over the past several weeks, the BP has risen nearly 6 cents principally as a result of: a) continued U.S. dollar weakness; b) a continuation of favorable economic statistics relating to price inflation & balance of trade; and, c) improved sentiment in the bond market, a potent magnet for overseas hot money flows. While there is nothing new about the first reason, common sense indicates that the dollar weakness has been overdone, at least in the near term. Rising purchasing power & artificially low interest rates will combine to create a mini-boomlet in consumer expenditures, a renewed rise in wage demands & a deterioration in the balance of trade. As pointed out in our opening remarks, weak oil prices will reduce substantially whatever benefits may be obtained from the North Sea, with serious implications for the peak production years of 1980-81.

The better sentiment in the Gilts market, mostly a result of some adroit maneuvering of the MLR by the Bank of England, does not obviate the fact that Stg M3 is already growing at an alarming 13-14 per annum; a guaranty of trouble for the near future.

Remain short placing stops at 190.00 basis Spot, close only. Concentrate selling on most distant positions as we expect the market to move to a sharp forward discount.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Jan-Nov.
Balance of Trade in Bln \$													
1975	-.120	-.178	-.170	+.041	-.033	-.213	+.002	-.280	+.053	+.007	-.189	-.091	-1,062
1976	+.135	-.032	-.027	+.062	+.150	+.052	+.024	+.349	+.271	+.190	-.118	+.130	+1,956
1977	+.130	+.109	+.502	+.149	+.029	+.129	+.125	+.298	+.050	+.524	+.243		+2,286
Money Supply** Narrowly Defined	4.90	5.49	6.97	6.67	8.35	9.32	8.87	9.60	9.12	10.66	10.40		
More Broadly	17.07	15.99	16.35	15.48	16.06	15.61	15.65	15.31	15.22	14.26	13.44		
M-3	16.31	15.87	15.93	15.94	15.69	15.14	15.44	13.93	15.01	14.60	14.07		
Unemployment Rate													
1975	6.5	6.7	6.9	7.0	7.1	7.2	6.9	7.3	7.0	7.3	7.1	7.0	
1976	6.6	7.0	6.9	7.4	7.1	7.0	7.3	7.2	7.3	7.6	7.3	7.5	
1977	7.5	7.9	8.1	8.3	7.9	8.0	8.1	8.2	8.3	8.3	8.4		
General Bank Loans **													
1976	15.88	18.39	20.93	20.25	20.62	21.00	20.91	21.16	21.25	20.92	20.26	21.36	
1977	21.31	21.22	18.52	19.38	18.88	18.55	18.07	17.16	15.90	15.66	14.41		
Reserves in Bln US\$													
1975	5.80	5.89	5.82	5.53	5.39	5.32	5.22	5.19	5.21	5.30	5.41	5.32	
1976	5.59	5.87	5.82	5.80	5.80	5.98	5.79	5.57	5.83	5.83	5.07	5.84	
1977	5.67	5.27	5.09	5.19	5.23	5.09	5.00	4.84	4.78	4.17	4.2		
CPI 1971=100													
1976	145.1	145.6	146.2	146.8	148.0	148.7	149.3	150.0	150.7	151.7	152.2	152.7	
1977	154.0	155.4	157.0	157.9	159.2	160.3	161.8	162.5	163.4	165.0	166.1		
Balance of Payments in Bln \$													
		<u>1 Qtr</u>	<u>2 Qtr</u>	<u>3 Qtr</u>	<u>4 Qtr</u>								
1975		-1.533	-1.280	-1.113	-1.281								
1976		-1.254	-1.218	-.537	-1.092								
1977		-.845	-1.44	-1.2									
Euro Deposit		<u>Nov. 23</u>	<u>Nov. 30</u>	<u>Dec. 6</u>	<u>Dec. 13</u>	<u>Dec. 20</u>							
1 Mo.	7 1/4	7 3/8	7 1/4	7 1/8	6 13/16								
3 Mo.	7 1/2	7 1/2	7 1/2	7 3/8	7 1/8								
6 Mo.	7 13/16	7 13/16	7 3/4	7 5/8	7 3/8								
12 Mo.	8.	8.	8.	7 5/8	7 5/8								

Open Interest (Dec. 27) : 1,665
 Volume (Dec. 27) : 150
 Contract Size : CDS100,000.00
 (Approx. US\$ 90,000.00)
 Min. 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.

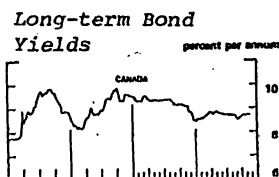
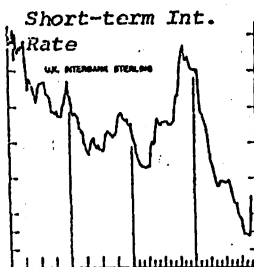
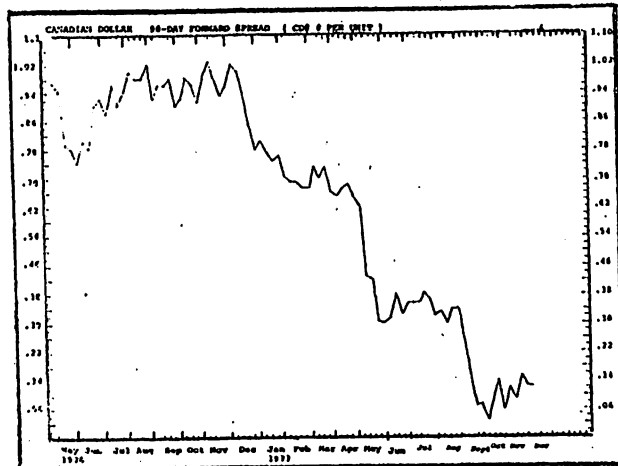
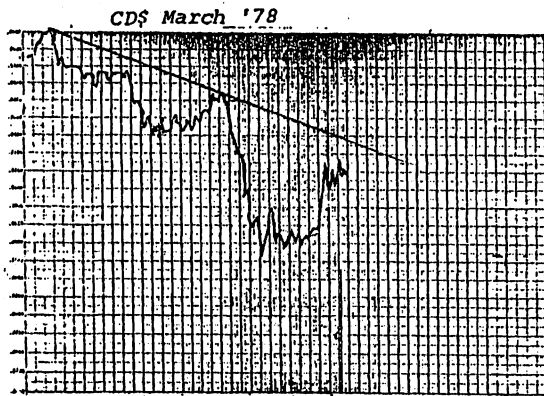
Spot : 91.24 Mar. '78 : 91.28 June '78 : 91.25 Sept. '78 : 91.28
 Dec. '78 : 91.28 Mar. '79 : 93.00

The recent spate of announcements concerning large offshore borrowings by Canadian corporations & Provincial utilities, forced large scale short covering of CD\$ short positions taking the spot rate to within a couple of points of the 92¢ mark, on an intraday basis. A steady downdrift followed as cooler nerves prevailed bringing Spot back to 91.27.

Offshore borrowing has lost a great deal of attraction as short term Canadian interest rates dropped to attain parity with their U.S. counterparts. Rumours that the Bank of Canada was about to lower its Discount Rate seem incompatible with recent growth rates of monetary aggregates, although a purely political gesture may not be ruled out as the imminence of a Federal election comes upon us. In line with interest rate trends, forward discounts have turned into minuscule premiums, thus weakening the technical underpinnings of the CD\$.

Another CD\$ drop of significance is almost a certainty. We therefore advise reinstating short positions (stopped out at 90.70 as per last month's comments) at market.

Place initial stops at 91.75 basis March '78, close only.



Deutsche Mark

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Nov	Total
Balance of Trade														
in Bln Marks 1975	+3.60	+3.49	+3.44	+2.81	+3.25	+3.09	+3.71	+1.74	+2.76	+2.84	+3.15	+3.22	+33.88	
1976	+2.49	+2.19	+3.85	+2.23	+3.28	+2.02	+2.59	+1.21	+4.66	+3.59	+3.0	+3.27	+31.11	
1977	+1.98	+2.73	+4.20	+2.94	+3.62	+2.89	+1.76	+2.52	+3.6	+4.81	+3.08		+34.13	
Balance of Payments														
in Bln Marks 1975	+1.57	+1.90	+1.42	+1.15	+ .75	- .05	- .14	-1.91	+ .93	+ .01	+1.45	+2.10	+ 7.08	
1976	+ .31	+ .51	+2.56	+ .13	+1.59	+ .22	- .52	-2.34	+2.31	+1.49	+1.69	+ .87	+ 7.95	
1977	- .37	- .05	+2.42	+ .98	+1.65	+ .76	+ .99	-1.43	-1.19	+3.13	+1.4		+ 8.29	
Net Monetary Reserves														
in Bln Marks 1975	82.90	85.30	86.20	83.70	82.90	82.30	80.50	80.20	80.00	80.70	80.0	78.7		
1976	84.7	86.5	84.4	92.8	90.7	90.8	89.7	93.1	94.2	96.3	93.3	85.8		
1977	85.3	85.6	86.4	85.5	85.1	85.3	87.0	86.5	84.9	87.4	89.8			
Unemployment Rate														
% of Labor Force 1975	5.1	5.2	4.9	4.7	4.4	4.4	4.5	4.5	4.4	4.6	4.9	5.3		
1976	5.9	5.9	5.2	4.8	4.2	4.0	4.1	4.1	3.9	4.1	4.3	4.8		
1977	5.5	5.3	4.8	4.6	4.1	4.1	4.3	4.3	4.0	4.2	4.4			
Cost of Living Index														
1970=100 1975	131.3	132.0	132.6	133.6	134.4	135.4	135.4	135.2	135.9	136.3	136.7	137.1		
1976	138.2	139.2	139.7	140.6	141.1	141.5	140.9	141.4	141.4	141.5	141.8	142.5		
1977	143.8	144.7	145.2	145.9	146.5	147.2	147.0	146.9	146.7	146.8	147.1			
Money Supply														
1977														
Year-over-Year M1	7.31	8.54	7.72	7.60	6.89	5.66	8.23	7.83	9.11	—	—	—		
M2	—	8.52	8.69	8.18	9.00	6.74	9.11	7.62	8.19	—	—	—		
M3	9.39	9.52	9.19	8.82	9.14	7.75	9.90	8.96	9.37	8.82	9.97			
GDP														
in Bln Marks 1975			1,000.0		1,018.4		1,038.0		1,068.0					
1976			1,094.0		1,115.6		1,132.4		1,157.6					
1977			1,168.8		1,182.4		—		—					
Gov't Finance														
in Bln Marks 1975			- 6.38		-10.61		- 6.36		-10.71					
1976			- 6.02		- 6.85		- 6.82		-10.41					
1977			- 2.15		- 4.74		- 6.53							
Euro Deposit														
1 Mo		Nov. 23		Nov. 30		Dec. 6		Dec. 13		Dec. 20				
3 Mo		4 1/4		4 3/16		4 1/16		3 15/16		3 1/8				
6 Mo		4 3/16		4 3/16		4 1/16		3 15/16		3 3/16				
12 Mo		4 1/4		4 1/4		4 1/4		4.		3 1/4				

Open Interest (Dec. 27) : 3,273 Volume (Dec. 27) : 281 Contract Size : DM 125,000.00 (Approx. US\$ 57,000.00)
 Minimum Fluctuation : .0001 (\$12.50) Daily Limit (Normal) : .00600 (\$750.00)
 Margin Required : US\$ 2,500.00 Round Turn Commission : US\$ 60.00 Delivery Months : March, June, Sept., Dec.
 Trading Hours : 8:45 a.m. - 1:10 p.m. (Chicago Time)

Spot : 46.55 Mar. '78 : 47.08 June '78 : 47.60 Sept. '78 : 48.15
 Dec. 78 : 48.85 Mar. '79 : 49.60

The enormous inflow of dollars has begun to be felt on German monetary aggregates. The widely defined money supply - M3 - rose sharply by a seasonally adjusted DM 8.7 bln in November after rising DM 7.8 bln the previous month and DM 2.5 bln in November 1976. Deutsche Bundesbank said that in the past six months M3 grew at a seasonally adjusted annual rate of 15.4 %, a definite acceleration over the year-on-year growth of 9.97%.

As predicted last month, the Bundesbank was forced to lower short term interest rates by half a percentage point while, at the same time, it increased substantially reserve requirements to be held against non-DM deposit liabilities.

The willingness (?) displayed by American Authorities to use swap lines & defend percent rates coupled with deteriorating fundamentals, make the DM a likely candidate for a short position.

Sell March '78 DM at 46.75 on stop; if done place protective stops above recent highs.

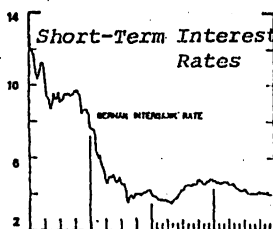
French Franc

Spot : 20.93 Mar. '78 : 20.36 June '78 : 20.25 Sept. '78 : 20.27

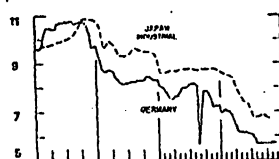
Despite the scant success that Mr. Barre has had with his anti-inflation program, the FFr has managed to gain vis a vis the U.S. dollar simply because the latter has been catastrophically weak. Furthermore, short term deposit rates remain most desirable & have attracted a considerable amount of hot money inflows. These favorable flows should begin drying up with the advent of the March elections while permanent & long term capital will continue to look for the nearest exit, thus decapitalizing French industry.

We continue to view unfavorably the near & long term outlook for the FFr.

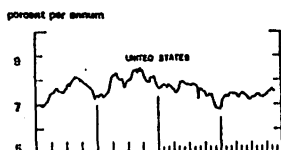
Remain short.



Long-Term Bond Yields



Long-term Bond Yields



		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Jan-Nov
Balance of Trade														
in Bln Francs	1975	-.11	+.89	+.83	+1.63	+1.79	+1.16	+.83	+1.23	+.09	-1.57	-.75	-.29	+6.02
	1976	-.92	-.24	-1.01	-.32	-1.01	-.81	-1.70	-2.46	-3.35	-4.71	-3.82	-1.32	-20.35
	1977	-2.38	-1.52	-1.24	-.38	-.44	-2.32	-.79	-1.85	+.42	+.12	-2.67		-13.05
Reserves in bln Francs														
Assets	1975	95.91	96.49	97.37	98.48	100.52	93.80	93.19	94.59	95.57	99.65	101.79	100.98	
	1976	99.71	95.61	87.52	88.38	88.21	86.64	85.51	85.21	86.48	86.52	91.53		
	1977	92.20	92.37	92.31	92.94	93.23	103.11	101.59	101.90	101.98	102.06	101.67		
Consumer Prices Index														
1970=100	1976	159.9	161.0	162.4	163.8	164.9	165.6	167.2	168.4	170.2	171.8	173.2	173.8	
	1977	174.3	175.5	177.1	179.4	181.1	182.5	184.1	185.1	186.7				
Retail Price Index														
1970=100	1975	145.9	147.0	148.2	149.5	150.6	151.7	152.8	153.8	155.1	156.4	157.3	158.2	
	1976	159.9	161.0	162.4	163.8	164.9	165.6	167.2	168.4	170.2	171.8	173.2	173.8	
	1977	174.3	175.5	177.1	179.4	181.1	182.5	184.1	185.1	186.7	188.2	188.9		
Money Supply														
Year-over-year	1977 M1	9.83	n/a	7.56	7.36	8.04	5.94	9.78	6.43	9.15				
	M2	13.63		12.30	10.98	11.30	10.05	11.20	11.82	12.89				
	M3	14.22		13.76	13.24	12.90	11.80	14.08	13.51					
Unemployment Rate	1977						5.2	5.4	5.5	5.3	5.0	4.8		
Balance of Payments														
in Bln FFf	1976			1 Qtr	2 Qtr	3 Qtr	4 Qtr							
	1977			-4.95	-2.54	-10.8	-9.98							
				-6.55	-3.2	-2.05								
Euro Deposit														
	1 Mo.			Nov. 23	Nov. 30	Dec. 6	Dec. 13	Dec. 20						
	3 Mo.			11 3/4	11 1/2	16 1/8	13 3/8	12 3/8						
	6 Mo.			12 5/8	13 7/8	14 7/8	14 1/8	13 3/8						
	12 Mo.			12 15/16	13 7/8	14 3/4	14 1/4	14.						
				12 5/8	12 7/8	13 5/8	13 1/4	13 1/2						
Open Interest (Dec. 27)	: 93			Volume (Dec. 27)	: 2			Contract Size	: FFR 250,000.00 (Approx. US\$ 50,000.00)					
Minimum Fluctuation	: .000050 (\$12.50)			Daily Limit (Normal)	: .00500 (\$1,250.00)									
Margin Required	: US\$ 4,000.00			Round Turn Commission	: US\$ 60.00									
Trading Hours	: 8:45 a.m. - 1:10 p.m. (Chicago Time)													

Japanese Yen

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec.	Total Jan-Nov
Balance of Trade														
F.A.S. Basis														
in bln U.S. \$	1975	-.631	+.598	+.789	+.645	-.019	+.495	+.534	+.516	+.412	+.350	+.434	+1.122	+4.123
	1976	-.554	+.669	+1.357	+.733	+.660	+.975	+1.005	+.587	+1.200	+1.140	+.541	+1.350	+8.353
	1977	+.077	+1.250	+1.560	+1.780	+.640	+1.480	+2.050	+1.150	+1.690	+1.860	+1.610		+15,147
Balance of Payments														
in Bln US\$	1975	+1.242	+.254	+.298	-.412	-.391	-.282	+.057	-.268	-.104	-.798	-.401	+.313	-805
	1976	-1.080	+.619	+.654	+.181	+.467	+.160	+.721	+.107	+.428	-.098	+.280	+.164	+2,439
	1977	-.864	+.453	+.935	+.359	+.390	+.699	+.937	+.300	+.511	+.324	+1.830		+5,874
Reserves														
in Bln US\$	1975	13.50	13.96	14.15	14.33	14.55	14.60	14.63	14.09	13.26	13.19	12.95	12.31	
	1976	13.15	13.95	14.18	14.93	15.21	15.39	15.94	16.29	16.49	16.58	16.72	16.50	
	1977	16.48	16.82	16.99	17.32	17.25	17.38	17.63	17.70	17.87	19.58	22.15		
Unemployment Rate	1977	1.88	1.87	1.89	1.90	2.03	2.09	2.13	1.90	2.05	2.02	2.02		
CPI														
1970=100	1975	165.5	166.0	167.6	171.3	172.5	172.4	172.8	172.4	175.6	178.6	177.3	177.2	
Rebased	1976	180.4	181.6	182.3	187.2	187.6	180.1	189.2	108.8	111.7	112.4	112.4	113.6	
Aug 1976 to 1975=100	1977	114.7	115.3	116.0	117.9	119.0	118.4	118.1	118.1	120.2	120.8	119.4		
WPI														
1970=100	1975	156.7	155.9	155.6	155.9	155.9	155.7	155.9	156.8	157.3	157.9	158.3	159.2	
	1976	160.5	161.6	162.6	162.5	164.1	164.9	166.9	167.3	168.0	168.2	168.7	168.9	
	1977	168.7	169.4	169.5	169.4	169.6	169.2	168.3	168.6	168.8	168.3	167.2		
Money Supply														
in bln Yen		1 Qtr	2 Qtr	3 Qtr	4 Qtr									
	1975	43,030	44,268	45,014	49,948									
	1976	49,755	51,787	51,033	56,179									
	1977	54,854	54,973	53,192										
GDP														
in Bln Yen	1975	139,683	143,929	147,279	150,456									
	1976	156,625	164,018	167,617	170,049									
	1977	174,786	182,722											
Open Interest (Dec. 27)	: 2,383													
Volume (Dec. 27)	: 89													
Contract Size	: JY12,500,000.00 (Approx. U.S. \$ 52,000.00)													
Min. Fluctuation	: .0000010 (\$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.													

Spot : 41.43 Mar.'78 : 41.94 June'78 : 42.32

At the present time it would seem that the Japanese trade delegation will be forced into some more dramatic trade concessions than have heretofore been offered, particularly in the area of agricultural imports - a fair & equitable request on the part of the U.S. although a difficult political trade off for the ruling Party. Coupled with the exceptionally high Yen-Dollar rate, we would expect a significant narrowing of the gargantuan trade surplus in months ahead.

Although a peak of sorts seems to have been reached, we prefer to remain sidelined insofar as speculative accounts are concerned. Hedge accounts should purchase deferred positions only if Spot betters ¥ 235/Dollar, on close.

Forward Disc. Annual Basis	Spot	Mar '78	Jun '78	Sep '78	Dec '78	Mar '79	Jun '79
	Mar '78	16.23	16.47	15.30	14.59	13.75	13.27
	Jun '78		17.36	15.57	14.62	13.60	13.21
	Sep '78			14.40	13.86	13.02	12.72
	Dec '78				13.81	12.79	12.62
	Mar '79					12.19	12.45
	Jun '79						13.11

	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Balance of Trade in Mln US\$	1975 -8,711	-9,917	-10,739	-12,767
	1976 -7,351	-8,606	-10,622	-8,575
	1977 + 11	---		

	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Money Supply in Bln Pesos	1975 96.02	100.03	98.46	122.36
	1976 112.78	116.73	123.69	157.97
	1977 n/a	n/a	n/a	

	1975	1976	1977
Int'l Reserves in Mln US\$	1,479	1,399	1,320
	1,501	1,563	858
	1,422	1,439	---

	1975	1976
Industrial Prod. Index 1970=100	132.4	143.2
	144.	144.6
	139.7	140.0
		142.6
		138.0

Open Interest (Dec. 27)	Volume (Dec. 27)	Contract Size
: 2,382	: 25	: MP 1,000,000.00
Min. Fluctuation : .00001 (\$10.00)	Daily Limit (Normal) : .00150 (\$1,500.00)	(Approx. US\$ 43,000.00)
Margin Required : US\$ 4,000.00	Round Turn Commission : US\$ 60.00	
Trading Hours : 8:45 am - 1:10 pm (Chicago Time)		Delivery Months : March, June, Sept., Dec.

MEXICO WILL RELAX AUSTERITY PROGRAM

5% Growth for '78 Is Announced
in \$40 Billion Budget, Which Is
23.6% Higher Than '77's

Special to The New York Times

Mexico City, Dec. 15 - The Mexican Gov't plans a cautious relaxation of its austerity program next year, allowing the economy to grow by about 5 percent but still maintaining its fight against inflation.

Announcing its 1978 budget last night, the Gov't said it would emphasize development in agriculture and small and medium-sized industries and would strengthen the country's balance of payments through stepped-up investment in the oil industry.

The \$40. billion budget is 23.6 percent higher than this year's actual spending levels but taking inflation into account implies a rise of less than 10 percent in real terms.

With its heavy emphasis on capital investment and its continuing control on current spending, the budget is expected to be inferentially approved by the Int'l Monetary Fund, which is guiding Mexico's economic recovery program through a "letter of intent" worked out last year.

David Ibarra Perez, Finance Minister, said that net foreign borrowing by the public sector next year would be limited to \$3 billion, the same level established by the I.M.F. for 1977. Gross foreign borrowing, however, will be closer to \$10 billion.

Balance Is Sought

With high unemployment bringing growing social pressures, the Gov't has tried in its budget to strike a balance between expanding economic activity and spiraling inflation.

Gross domestic product, therefore, is expected to grow 5 percent in 1978, up from 2.6 percent for this year, while inflation should fall from 21 percent this year to 12 to 15 percent next year.

"We are seeking an equilibrium that will create the conditions for sustained and more rapid development after 1979," said Ricardo Garcia Sainz, Budget and Planning Minister. "The target for the next five years (1978-1982) is an average growth of between 6 and 7 percent per year."

At least 60 percent of all public investment in industry will go to oil, with the state monopoly, Petroleos Mexicanos, expecting a budget of \$6.2 billion. Oil production should rise by 16.4 percent to average 1.31 million barrels per day in 1978, while exports should average 300,000 barrels per day, 45 percent higher than this year.

As in previous years, an important share of public spending - 26.5 percent or \$7.3 billion - will go in 1978 to health and education. Next year, Mexico's educational system is expected to have 13 million students, 20 percent of the entire population, with 9.5 million children in primary schools alone.

Spot	: 44.20	Mar. '78	: 42.40	June '78	: 40.56	Sep '78	: 39.10
Dec. '78	: 37.75	Mar. '79	: 36.60	June '79	: 35.40		

Forward discounts have begun to widen rather significantly giving a 'topping' appearance to the charts of deferred contracts, i.e. June & Sept. '78.

Seasonal weakness expected to develop sometime around Feb.-Mar. associated with more realistic discounts (to reflect inflation rates of 20-30%p.a.) will further depress the forward contracts, allowing us to cover short positions at a profit.

Remain short but stand ready to cover on 125-200 point setbacks.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Jan-Nov
Balance of Trade													
in Bln Sfr													
1975	- .569	- .319	- .279	- .347	- .058	+ .112	+ .020	- .143	- .048	+ .098	+ .445	+ .237	-1,028
1976	- .124	+ .031	0	+ .176	+ .007	+ .083	- .325	- .160	+ .294	+ .230	- .133	+ 386	
1977	- .032	- .114	- .350	- .168	- .125	- .146	+ .005	- .615	- .03	+ .007	+ .152		-1,416
Reserves													
in Bln Sfr													
1975	9.29	9.93	11.15	9.34	9.75	10.58	9.72	10.19	10.10	9.74	9.77	14.70	
1976	11.31	11.05	13.51	12.29	12.10	16.07	14.57	13.55	15.82	13.20	13.86	20.40	
1977	13.20	13.55	15.73	12.48	12.25	15.49	13.09	12.94	14.75	13.31	14.77		
CPI													
1966=100													
1975	160.4	160.9	161.5	161.9	163.1	163.7	163.4	163.8	164.3	164.7	165.2	165.0	
1976	165.9	165.8	165.5	165.5	165.2	165.5	165.7	166.4	166.0	166.3	166.7	167.1	
1977	167.4	167.5	167.2	167.4	167.3	168.4	168.5	168.5	168.6	169.0	100.1 (Revised 1977 =130)		
WPI													
1963=100													
1975	152.7	152.2	149.5	149.3	148.9	147.8	147.6	147.9	146.8	146.6	146.2	146.2	
1976	146.1	146.4	147.1	147.7	147.6	148.1	148.4	148.2	148.0	147.6	147.6	147.9	
1977	148.3	148.5	149.3	149.4	149.5	149.0	148.4	147.1	147.6	146.5	146.1		
Annual													
GDP in Bln Sfr		1976	1975	1974	1973	1972	1971	1970	1969				
		6.4	6.44	6.43	6.39	6.23	6.19	6.14	6.07				
Balance of Payments													
in Bln U.S. Dls													
		+3,430	+2,587	+171	+280	+220	+ 80	+ 70	+524				
Money Supply													
in Bln Sfr													
1975		54.32	54.69	54.83	56.10								
1976		57.33	58.56	59.10	60.49								
1977		61.08	61.82										
Gov't Finance													
in Bln Sfr													
1975		+ 236	+ 20	- 193	-1,829								
1976		- 115	+ 185	+ 570	-2,017								
1977		- 145	+ 95										
Euro Deposit													
		Nov. 23	Nov. 30	Dec. 6	Dec. 13	Dec. 20							
1 Mo.		2 7/16	3.	2 5/8	2 11/16	2 1/8							
3 Mo.		3.	3.	2 1/2	2 5/8	1 9/8							
6 Mo.		2 15/16	3.	2 5/8	2 11/16	2 1/4							
12 Mo.		3.	2 15/16	2 11/16	2 7/8	2 3/4							

Open Interest (Dec.27) : 4,141
 Volume (Dec.27) : 655
 Contract Size : Sfr 125,000.00
 (Approx. U.S.\$ 58,000.00)
 Min. Fluctuation : .0001 (\$12.53)
 Daily Limit (Normal) : .0060 (\$750.30)
 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.

Spot : 48.64 Mar '78 : 49.29 Jun '78 : 49.99 Sept '78 : 50.55
 Dec. '78: 51.20 Mar. '79 : 51.88

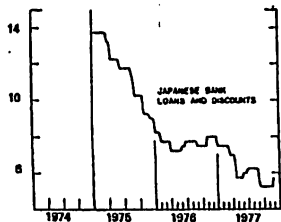
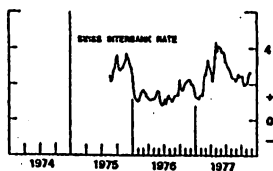
After breaking intraday the psychologically important 50¢ mark, the Sfr reacted on President Carter's speech affirming the determination of the U.S. authorities to defend the dollar & eased to tonight's 48.65-48.75 level. The 4-day decline of approximately 3% shows up as barely a wrinkle on the long term chart, emphasizing the enormity of the dollar crisis.

Mr. Carter's message did not discuss any measures currently being contemplated by the Treasury or the Federal Reserve, if such is indeed the case. It has been interpreted to mean, however, that the U.S. gov't stands ready to make use of its massive \$20 bln swap lines, a prospect that if spelled out would deter further noxious speculation, at least temporarily.

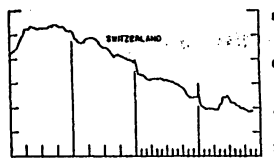
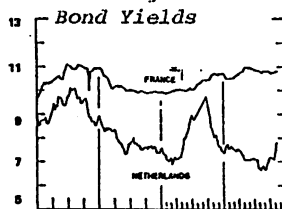
We continue to feel that the only solution to the problem lies with the Federal Reserve, namely, a tightening monetary policy. Long term capital that would normally reach the American shores due to political safety & grossly undervalued corporate assets (the recent spate of foreign takeovers of American public corporations is just such a proof) is being scared away by a policy of 'benign neglect' of the dollar. Higher interest rates will attract short term capital, firm up the exchange rate & open up the American economy to foreign long term capital, thus allowing us to indulge in the unnecessary 'oil deficit' game.

Remain long Sfr raising stops to 47.90 basis March '78, close only.

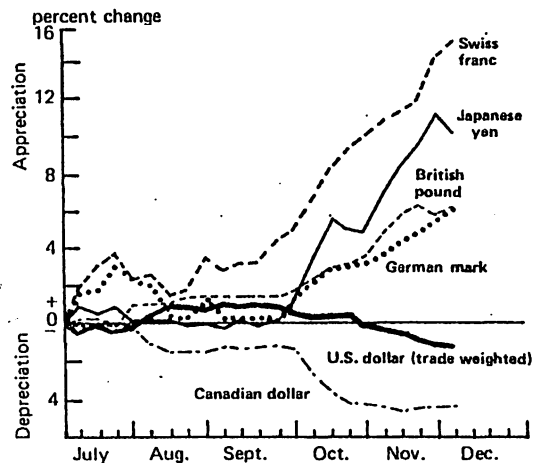
Short-term Interest Rates



Long-term



Movements of exchange rates of several currencies relative to the U.S. dollar since July 1, 1977 (Weekly)



Commodity Comments

December 27, 1977

OUTLOOK 1978

The new year will wrestle with two somewhat conflicting economic forces. On one hand, a massive U.S.- created and exported monetary inflation capable of launching the Western World into another 1972-73 type boom. On the other hand, the dramatic blunting of the single most potent deflationary weapon ever wielded against the industrialized world: the price of oil. We shall treat the monetary developments in those sections that deal directly with the interest rate futures and currencies. Following is, then, an attempt to forecast oil prices and the manifold implications it carries vis a vis economic growth and inflation.

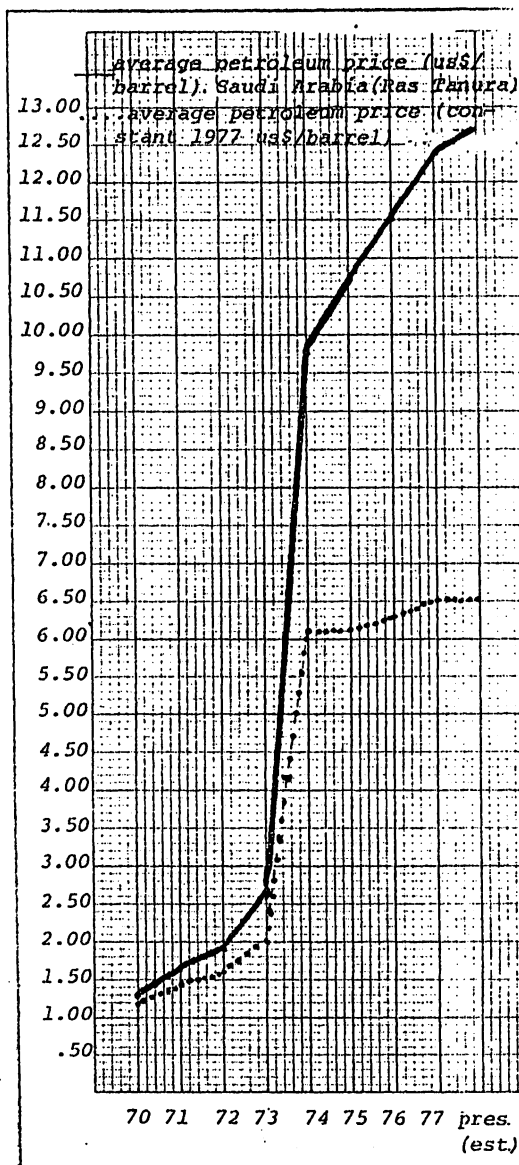
The much publicized freeze of OPEC's benchmark crude Arabian light at \$12.70/barrel was, undoubtedly, the result of an oil glut that is now being perceived as being merely temporary, but which may, in the course of time, prove to have been permanent.

With world demand for oil running at 49.5 million barrels per day (Mb/d) during 1977, 'residual' OPEC supplies of just 31 mb/d are needed, up from 28-29 mb/d required during the recessionary years of 1974-75 but unchanged from 1973 levels. What is noteworthy is the fact that OPEC capacity has grown to over 39.0 mb/d in the face of mounting capacity outside of OPEC, i.e., North Sea, North Slope, Mexico, China, etc. While Saudi-Arabia conceded openly that it has the power to regulate prices (i.e. firm them up) by taking upon itself the task of cutting production by as much as 2 mb/d (the perceived present surplus), a quick mathematical computation yields the surprising result that OPEC excl Saudi Arabia can still produce 28 mb/d.

Saudi Arabia - if still intent on maintaining prices - would, therefore, have to selflessly cut output to just 3 mb/d, an absurd proposition. The alternative, an OPEC supervised mechanism of quotas and allocations, would hardly be feasible considering the extremely varied political and economic needs of the 12 other members. With world demand for oil growing at just 1% per annum, existing and growing excess capacity should crack the OPEC cartel.

In coming weeks, the American Congress will be in a position to accelerate the demise of OPEC and perhaps even deliver the coup de grace before the new year is out. We are referring to deregulation of (or at least a substantial increase in) natural gas prices. Let us hope that sense will prevail.

And now some of the implications. In the first place, a continuing drop in real terms, if not in nominal prices, of oil will,



all by itself, become a potent reflationary force in the industrialized world. It has been calculated that the U.S. economy lost as much as 5% of its potential output since the tripling of prices in 1973. Some of it will be reactivated while new projects will once again become feasible. The bullish effects on the Japanese economy, a pillar of the world economy, cannot be dismissed lightly when one considers that Japan imports over 99% of its oil. Similarly, the great majority of non-oil exporting LDC's will be given a (temporary) reprieve although the good news will just come too late for the likes of Zaire, Peru and Turkey.

The intractable OPEC surplus of \$45-60 billion (1974-1975), a huge tax on Western resources comparable to the German reparation payments of the '20's, will, in all likelihood, amount to less than \$25 billion for 1978 and perhaps, with some good luck, disappear altogether in 1979.

For the U.S. in particular, falling real, and perhaps, nominal prices will, to a certain degree, cushion the inevitable tightening of monetary policy with the consequence that a financial squeeze will have only a small impact on the real economy - much like 1966-67 or even 1969-70.

And now the bad news. The huge capital investments and hopes of the UK and Mexico will show increasingly meager returns and will leave these countries, particularly the latter, saddled with enormous and unlikely-to-be-repaid debts. Despite such distortions, one might argue that, on the whole, the breakup of the world's most successful CARTEL will be a source of satisfaction to the inhabitants of this planet.

Season's greetings for another profitable year.

The following is an explanation of our ranking system:

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

Cocoa

**** March '78 : 139.55
 ***** September '78: 124.55

Relentlessly bearish talk has driven this market substantially lower this past few weeks despite little concrete indication that either deliverable supplies are ample (just 36 against the expired N.Y. December position and none yet against the expiring London option) or that West African crops are higher than last year or even that consumption has really begun to suffer.

The recent Gill & Duffus forecast of world cocoa production and consumption for 1977/78 contains three significant concessions to the bulls, all previously discussed in our previous comments, to wit:

- a) the 1976/77 deficit has been revised upwards for the third time in recent months, this time to 85,000 tonnes from 77,000 tonnes estimated in November, so that carryovers are minimal.
- b) overall grindings for 1977/78 have been revised upwards to reflect the possibility of more aggressive Russian purchases and are now put at just 1% below 1977 figures, although a sharper and little justified drop is expected vis a vis 1976/77 season.
- c) Ghana's main crop is now being put at just 305,000 tonnes, a considerable downward revision from November.

OPEC Production			
Major Mideast OPEC:	September Volume billion b/d	% Change from '76	Output Capacity billion b/d
Saudi Arabia	8,884.6	+4.3	11,840
Iran	5,971.2	-7.6	16,850
Iraq	2,400.0	0.0	3,100
Kuwait	2,283.6	-4.2	3,340
Abu Dhabi, UAE	1,646.9	+0.9	2,050
Qatar	329.6	-27.8	650
OTHER OPEC:			
Venezuela	2,360.0	-2.8	2,700
Nigeria	2,000.0	-2.3	2,400
Libya	2,030.1	+1.2	2,500
Indonesia	1,888.8	+11.7	1,800
Algeria	850.0	-10.4	1,100
Gabon	225.0	+2.3	250
Ecuador	141.0	-35.0	225
**OPEC Total:	31,039.0	-1.4	139,200

** Includes minor producers
 * Estimated
 † Revised
 Source: Petroleum Intelligence Weekly

The Gills & Duffus report forecast a 1977/78 surplus of 99,000 tonnes mostly attributable to sharp increases in production in both Nigeria and Ivory Coast amounting to approximately 80,000 tonnes. While official confirmation exists for the latter's crop, little is yet known about Nigeria where Cocoa cultivation and harvesting have taken a definite second seat to industrialization and oil extraction.

Given the recent depreciation of the dollar, the steep discounts on forward deliveries, and the worldwide inflationary trends, we seriously doubt that consumption for the 1977/78 season will be down. Furthermore, the final outcome of the Ghana and Nigeria and Temporao crops is still unknown. At the very least they will be extremely late.

U.S. NOVEMBER COCOA-CHOCOLATE PRODUCT IMPORTS (in pounds)

	<u>COCOA BEANS</u>	<u>COCOA BUTTER</u>
Nov. 77	10,588,842	100,000
Oct. 77	18,069,756	2,728,113
Nov. 76	25,944,184	1,444,763
Jan.-Nov. 77	373,226,415	34,001,271
Jan.-Nov. 76	490,297,708	46,181,761

	<u>UNSWEETENED CHOCOLATE</u>	<u>UNSWEETENED COCOA</u>
Nov. 77	9,070,811	6,365,725
Oct. 77	9,514,450	13,200,929
Nov. 76	3,560,277	12,486,607
Jan.-Nov. 77	71,512,584	142,245,234
Jan.-Nov. 76	40,326,825	153,169,553

Having broken the 145-146 support area, the trend has turned downwards, as suggested last month. It should be noted, however, that an area of considerable support lies just beneath present levels, i.e. 136-140 basis March '78.

We look to reinstate long positions on a close above 146 basis March '78. In the interim remain sidelined.

Coffee

*** $\frac{1}{2}$ March '78: 192.46
 *** $\frac{1}{2}$ July '78: 157.75

Having decisively broken out above the major downtrend line and, in the process, gone through our stop of 180.00 basis March, we re-evaluate the fundamentals and find them inconclusive.

The USDA's third estimate, issued December 14th, called for world supplies of 69.6 million bags; 300,000 bags less than was estimated in September. This figure, however, does not take into account the announcement made by the Ivory Coast December 23rd that that country, due to extremely adverse weather, would harvest 100,000 tonnes or 1.7 million bags less this year than in 1976/77. Brazil's production is still estimated at 17 million bags and still the game continues between it and consumers to see who has the most patience. Currently the IBC has denied sales for January shipment in spite of their stated aim of selling one million bags a month - a requisite for much needed foreign exchange. Clearly they want \$2.10/lb. or better. With roastings now nearing last year's pace we feel the IBC may be in the driver's seat in this waiting game.

On the demand side we've just mentioned that U.S. roastings are nearing last year's rate of usage. Green bean inventories are low; at the end of the third quarter they were 36% less than at the comparable time in 1976. Should the trend towards increased roastings indicates the shock effect of high prices at the consumer level has exhausted itself and that housewives are relatively inured, we must conclude the former course is most likely.

U.S. COFFEE IMPORTS WITH COMPARISONS (in pounds)

	<u>CRUDE</u>	<u>ROASTED</u>
Nov. 77	128,576,537	3,616,489
Oct. 77	84,005,511	2,461,267
Nov. 76	218,065,753	5,357,781
Jan-Nov 77	1,780,497,005	46,294,700
Jan-Nov 76	2,371,647,913	38,437,733

SOLUBLE COFFEE IMPORTS (in pounds)

	<u>U.S. TOTAL</u>	<u>FROM BRAZIL</u>
Nov. 77	1,025,315	328,996
Oct. 77	899,599	588,952
Nov. 76	5,649,755	3,943,916
Jan-Nov 77	54,279,256	35,867,845
Jan-Nov 76	62,257,794	47,127,233

On the other, or bearish, hand we note that foreign demand shows evidence of continued softness. Dutch roastings trail last year by 37% and the Soviet Union plans to curtail consumption by even more than the 25% reduction in 1977.

In Our Coffee Situation Report of March 1977 we stated that Brazil's strategy would be to bolster cash prices. As such, we recommended assuming short positions in deferred contracts until the discount widened to the point that supplies would ultimately be lent to the market. In effect, we shorted the same bear market twice. Again the Brazilians are holding up the cash price by rationing out supplies and, once again, backwardation is inordinately wide. However, with the overall trend of consumption improving, we feel now there is a greater likelihood of the discount shrinking by virtue of the deferreds advancing rather than the nearbys declining.

All told, we view the coffee market as a trading vehicle only. Swings can be expected between 213.00, the final settlement of the December contract, and 185.00 basis March. It seems the final demise of coffee prices will not occur until the South Americans harvest next year's crop in the spring and early summer.

Copper

**** March: 61.40
**** July : 63.20

Tempting; but not yet a buy.

Comex stocks continue to decline, now on an annual as well as a three month basis. However, with European activity continuing sluggish LME stocks remain burdensome so that, taken together, combined inventories are still increasing, although at a progressively decreasing rate. In addition, Comex open interest has ballooned over the past month so that, on an annualized basis, its rate of decline has slowed from -12% last month to -9% this month and its rate of increase on a three month basis has grown from 21.9% last month to 24.4% this month. We doubt that public participation is masking hedge lifting. We feel rather the public has moved too soon.

CIPEC has issued a statement agreeing in principle to cut back production but Chile, the largest producing member, continues to resist demands for a cutback. The raising of producer prices by 2.5 cents per pound is as much an attempt to reduce losses resulting from the former cathode price of 60¢ as it is an indication of increased demand by U.S. brass mills and is ultimately bearish. The charts look good, but we prefer to wait for more confirmation before acting. Remain sidelined.

Cotton

**** March '78 : 53.91
**** December '78: 57.12

The intermediate downtrend line of five months' duration was violated decisively on the news that next year's set-aside program would require a 20% curtailment of acreage. Given that the USDA's most recent estimate calling for production of 14.4 million bales implies a carryover of between 5.8 and 6.3 million bales, a 20% reduction in acreage next year, assuming yield and percentage of acreage harvested remain the same - 503 lbs/acre and 96% respectively - would result in total supplies exceeding this year's mark by roughly 700,000 bales. Such is the plethora of Cotton.

On the other hand there is every evidence of a pick-up in demand. Retail sales activity has firmed during the past several months and, if the inventory positions of consuming establishments may be used as a barometer, November's increase, the first monthly period of accumulation dating back to May, must be regarded as an optimistic sign. In addition, the seasonal tendency for prices to advance as much as 4¢ between now and July, of course, is an argument in favour of the bulls.

In conclusion, while we feel the lows have been seen, we are loathe to recommend aggressive long positions in view of the tremendous supply overhang. Unless the market breaks 56.00 basis March, the major downtrend line, and, since August, our stated point of entry, we regard cotton as a trading vehicle only having, as its limits, 51.00 and 56.00 cents.

Interest Rate Futures

* March '78 GNMA: 95.22
* June '78 GNMA: 95.06
* June '78 T Bill: 93.01

The long awaited rise in U.S. interest rates has begun in earnest. GNMA'S are down more than 1½ points since our last Comments, raising yields by approximately 20 basis points. Behind these developments lies the undisputable fact that the U.S. economy is much stronger than it is perceived to be. Commercial banks have been liquidating securities at an accelerated pace in recent months to accommodate rising loan demand. Liability management is back in vogue and the issuance of CD's has risen an astronomical \$15 billion since mid May of this year, a figure which, if added to basic M2 as it should be, results in money growth in excess of 12% per annum.

The Fed has ignored the huge bulge in monetary aggregates that occurred in the July-September quarter and has "base-drifted" to show relatively modest growth rates of 5-6% p.a. for the past 3 months, a neat but discouraging trick. In a masterful use of double talk, the Federal Open Market Committee voted to "tighten monetary policy slightly" at its meeting on November 15th but decided, however, "to leave the target rate for Federal Funds unchanged at 6 1/4%-6 3/4%." How one can accomplish a slight tightening without raising the cost of funds made available to the system is beyond this writer's comprehension. The sad truth is that the Fed, cajoled by the White House and under the leadership of a lame duck chairman, has succumbed to populist demands and has monetized the commercial banks' liquidation of securities.

Furthermore, as pointed out last month, short term rates have been stabilized to a certain degree by huge purchases made by foreign Central Banks. Last week the Federal Reserve reported that its holdings expanded no less than \$26 billion to a record \$76.34 billion, one-half of the entire U.S. Budget deficit for this year! As and when the U.S. dollar strengthens, inflows will revert to liquidation and outflows, thus accelerating the trend to higher interest rates.

It has been said that markets will never oblige the consensus opinion. At times, however, this consensus is realized but the magnitude and duration are either under or over-estimated. A case in point is a forecast made 6 months ago regarding the course of U.S. interest rates for the course of 1977. The eight respondents, as a group, foresaw a Federal Funds Rate climbing to 6% from 5.5%, three month TB's rising to 5.75% from 5%, long term government Bonds at 7.8% from 7.55% and high grade utility bonds at 8.45% from 8.15%.

The actual results (as of December 26th) were: 6.5%, 6.05%, 7.79% and 8.6% respectively. While the direction was correct, the magnitude of the rise was badly underestimated. With the consensus for 1978 looking for increases of 1 - 1½% in short term rates and ¾% in long term rates, we are willing to take a bet that the actual increases will turn out much larger; perhaps 2½% and 1¾%.

Remain firmly short GNMA's and Treasury Bills and add on any rallies.

Orange Juice	****	January '78: 106.60
	****	March '78: 106.40

Last month we recommended a stop at 118.00 basis January. At the time we thought of it as a safety net that would probably not be used. Obviously we didn't realize just how precarious our high wire act was.

A review of the spectacle: the vertiginous 220 expiration of the November contract made juice simply too glamorous. The weak public became believers at just the wrong time. A thirty day weather forecast calling for warm temperatures over the citrus belt drove prices down forcing those weak longs to cover fast thus driving prices down further. The trade offered no support, presumably noting that consumer resistance was beginning to infect the market; most recent data provided by the Market Research Corporation of America indicates the average 6 oz. tin of concentrate cost 60% more during the week of November 26th than it did in the same week of 1976 and that consumers responded by purchasing 37% less.

The major uptrend line was broken on the January and March contracts. But not on the May. The discount has narrowed to a meager 20 points. But the market has still moved into a contango.

Right now, and until the frost season passes, this market's prima mobilia is the weather. Fear of frost pushes the market up the limit and vice versa. As of this writing there is a slight fear (hope?) of frost. It should be noted however that each frost that almost but doesn't occur is like homeopathic medicine to the oranges inasmuch as it makes them that much more immune should a real freeze strike.

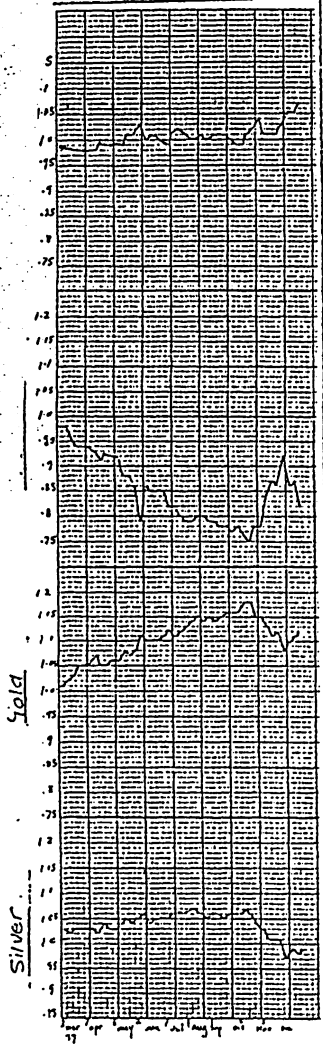
The fundamentals currently obscured by the weather are as follows: The UDSA's December estimate of production was absolutely, and surprisingly, unchanged from its October forecast. We say surprisingly because, when in October we termed the data - 169 million boxes, 1.28 gal/box yield - "definitively positive", the market vindicated our views. This time around the market barely took a breath before parachuting to a lower plateau - a weak sign if there ever was one. Movement has continued to perform apparently well, averaging 3.3 million gals per week since the season started December 4th. However, while this is in keeping with the average of the final 13 weeks of last season, it lags behind the beginning of last season by roughly 17.5%. In our special bulletin of October 17th we projected that demand during 1977/78 would be rationed in order to provide a "comfortable" year-end inventory of 42.5 million gallons. The reduction in consumption would thus be by 15%. At the time we felt that, in order for rationing to take place to that degree, wholesale prices which were then \$3.05 would have to average \$3.48 per doz. 6 oz. tins, futures would therefore average 155.00, and futures could achieve 185.00. Fifty percent of that formula has been realized. Its possible we over-estimated the sustenance of the market. Its probably the top was achieved the day November went off the board.

Taken altogether we've presented a less than conclusive case, leaning more to the bearish side of the scale but not yet willing to state that the bull has been slain. In the final analysis we rely on common sense which tells us that every fall must have as its consequence a bounce or every market decline must precede a rally. We can therefore recommend modest purchase of January and/or March risking only recent lows. Stay tuned. The curtain has not yet been drawn.

Precious Metals

**** February '78 Comex Gold: 166.20
 *** March '78 Comex Silver: 482.20
 ***** January '78 Platinum: 182.50
 ***** March '78 Palladium: 51.50

Relative Strength
 Precious Metals



The trend in precious metals has finely turned up, led by the exceptionally strong platinum group (see our previous comments).

Platinum sales to industry for the third quarter of 1977 amounted to 208,265 ozs, 22% ahead of the second quarter of 1977 but 5% below last year's third quarter. Palladium sales amounted to 131,698 ozs, a 13% drop from the previous quarter. Sales of platinum and palladium, collectively, to the automotive industry increased about 15% over the second quarter but, through the first 9 months of 1977, sales were 25% lower than the comparable period in 1976. For the year to date platinum usage in the U.S. is down from last year's corresponding period. Stocks of platinum, at 483,502 ozs, were considerably higher than the September 30, 1976 stocks, although 53,000 ozs lower than at year end of 1976. Palladium stocks increased once again for the quarter ended September 30, 1977, but at 400,006 they stood 59,760 ozs lower than at 1976 year-end.

The key to the platinum market's performance must necessarily be found elsewhere, namely, speculative buying meeting reluctant trade offers. This may be due to delivery difficulties encountered recently by the U.S.S.R. (for unknown reasons), disciplined selling by South African producers and a general desire by the trade to hold larger inventories. Since the buying has not been excessively euphoric, we prefer to maintain that the path of least resistance is upwards.

Retain long positions in Platinum and Palladium; add on weakness. Stop long position at 173 basis January '78, close only.

Gold and Silver prices have belatedly turned up and appear poised for another bull run. We would still prefer platinum over both gold and silver.

Sugar

*** March '78: 8.99

Sugar statistician F.O. Licht puts final 1976/77 stocks at 26.03 million tonnes and forecasts a staggering, record breaking stock level of 32 million tonnes for the end of the 1977/78 season. Sugar production is put at 92.6 million tonnes against consumption of 85-86 million tonnes for a production surplus of more than 6 million tonnes. C. Czarnikow Ltd. puts production just 568,000 tonnes lower than Licht, making for a remarkable agreement on final outturn this early in the season.

The mounting surplus, now estimated at 37.6% of annual consumption, will crush any and all hopes of stabilizing sugar prices in the 11¢/lb range, the purpose of the International Sugar Agreement now coming into force. The ISA, however, will work to the detriment of the producers as it will needlessly encourage further increases in production instead of allowing unreasonably low prices to force cutbacks in output. The clerical remedy for low prices is even lower prices as all economic textbooks teach. The ISA is bad medicine for a chronically sick producer industry.

For 1978 we foresee a wide trading range with the upper confines just short of 10¢/lb (a result of cheating by the Cartel members) and the lower confine at the 5½ - 6½¢ level. Trade the market accordingly.

Wood Complex:

*** January Lumber: 206.70
** March Lumber: 213.10
** May Plywood: 217.50

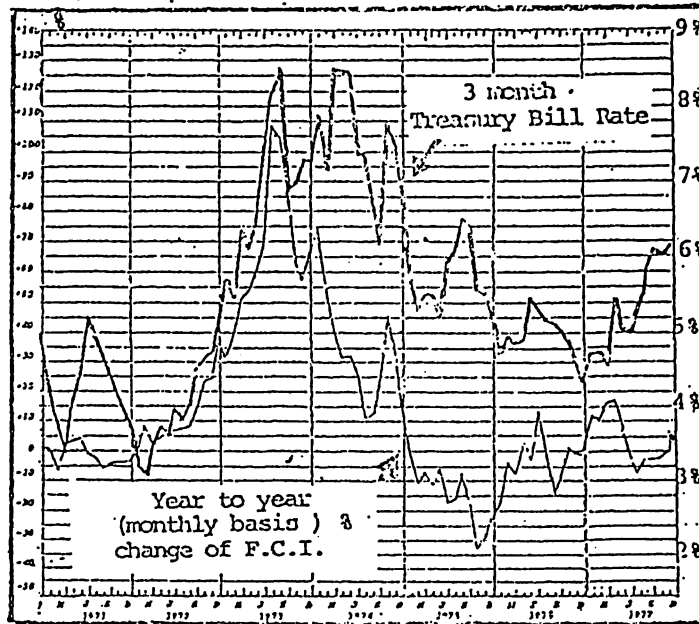
Housing construction managed a strong performance again in November with starts at a 2.11 million seasonally adjusted annual rate. The question is how long can such strength persist. Housing experts at the Federal Home Loan Bank board's seventh annual housing forecast conference estimated a decline in 1978 starts to 1.85 million units. However, although they anticipate a rise in interest rates, they do not feel the rise will be enough to trigger disintermediation. As per our comments on interest rate futures we feel credit tightness will be to a greater degree than the Federal Home Loan Bank and that disintermediation will occur. In November Mutual Savings banks had a net deposit inflow of just \$90 million, the smallest November gain since 1959.

Despite the bullish looking charts we note that spreads have widened, surely not a bullish sign, and that open interest has grown to unseasonably high levels.

Recommend assuming short positions in March and/or May contracts risking recent highs.

FRIEDBERG COMMODITY INDEX

NOVEMBER 30th, 1977: 211.48
DECEMBER 27th, 1977: 211.80
NET CHANGE: + 0.15%



Albert D. Friedberg

David B. Rothberg

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