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## Currency Comments

POPULISM

Feb. 27th, 1978

The hopes expressed by many observers including the writer, in early 1977 about a possible return to conservative fiscal and monetary policies in the U.S. are now being clearly and most conclusively dashed.

For fiscal year 1979 (year ending Sept. 30th, 1979) the Administration plans a federal budget deficit of 61 bln dlrs on the unified budget, and a 34 bln dlrs deficit on the high employment budget. It should be noted that the latter is highly stimulative and an unusual occurrence in an economy that will be entering its fifth year of economic expansion. Given present trends in federal expenditures it is more than likely that the deficit has been underestimated by 5-10 bln dlrs. In fact, Federal spending increased at a moderate 5.6% annual rate in the first half and an unusually high 18% rate in the second half fuelled by an increase in grants-in-aid to state and local gov't which reflected the Administration's 1977 economic stimulus program for purposes of expanding local public works, public service employment, and other employment and training programs. It is also likely that half or more of the Carter reforms will fall by the way-side and it could mean approx. 5 bln dlrs less revenue than what the budget projects. As surely as Carter is a Democrat, the Federal Reserve will be called upon to monetize this unprecedented deficit, so as not to crowd out the budding demand for funds from the private sector.

Last month we expressed hopes for a de-synchronization of economic cycles of the Western World which would come about by a tightening of monetary policy on the part of the Federal Reserve over the next 8-12 weeks and which would result in short term capital inflows which would stabilize the dollar, reduce inflationary expectations, and narrow the trade deficit, thus restoring badly needed confidence. We warned that if the Federal Reserve demured, "... the dollar will fall to pieces, domestic inflation will accelerate seriously, interest rates will skyrocket and the inevitable depression will ensue."

Our hopes are being extinguished. Federal Reserve Credit has accelerated in recent months; for the past 8 weeks it has grown at an astonishing 19.2% annualized rate, well ahead of the 12.9% rate of growth over the past 6 months and the 11.6% rate of growth over the past year. Similarly, Monetary Base has expanded at a 13.7% rate of growth over the past 2 months and well ahead of its already high 9.6% rate of growth of the past year. These increases in the 'raw material' of money supply have as yet not worked their way through the popular measures of monetary aggregates; the so called multiplier has been in a steady downtrend ever since mid-Oct. 1977, probably a result of a heavy drain of currency from the banking sector. This theory finds support when we examine the growth rate of the currency component of the money supply: an 11.7% annualized increase for the past 8 weeks, well ahead of the 9.9% increase registered for the past 12 months. While these phenomena can be partially explained by the greater needs for currency normally associated with a strong and growing level of economic activity, we suspect that a lack of confidence and the weakness of the dollar may finally be taking a toll on consumer behaviour - more transactions are going on unreported to tax authorities and perhaps a large amount of cash is being 'smuggled' out of the country for fear of possible exchange controls. The frenzied purchases of diamonds and other collectables, a sign of the times, are mostly made for cash.

International Commodity  
Futures Brokers  
Foreign Exchange  
Dealers  
Members Winnipeg  
Commodity Exchange



British Pound

Spot 193.60 Mar.78 : 193.55 June 78 : 193.45  
 Sept.78:193.55 Dec.78 : 193.25 Mar. 79 : 192.50  
 June 79:192.50

	Aug 77	Sep 77	Oct 77	Nov 77	Dec 77	Jan 78
Balance of Trade (Mln Stg) Jan 1977: -532	+141	+ 80	+ 31	+ 73	- 71	-324
Reserves (Mln US\$)	14,850	17,170	20,210	20,390	20,560	20,870
Retail Sales Index **	-1.56	-2.11	-1.21	-2.93	+1.11	-1.12
Retail Price Index **	16.52	15.63	14.07	13.03	12.14	9.92
W.P.I. **	19.80	19.00	17.89	16.05	15.22	13.0
Unemployment Rate	6.90	6.10	6.10	6.10	6.00	6.0

	Jan 27	Feb. 6	Feb 10	Feb 16	Feb 23
Euro Deposit %					
1 Mo.	6 3/4	6 7/8	6 7/8	7 3/4	6 1/4
3 Mo.	6 7/8	7.	7.	8.	6 3/4
6 Mo.	7 1/4	7 7/16	7 7/16	8.	7 1/4
12 Mo.	7 3/8	8 1/4	8 1/4	8 1/2	8 1/4

Open Interest (Feb. 27th) : 4,212      Volume (Feb. 27th): 600  
 Contract Size : BP 25,000.00 (Approx. U.S. \$ 48,500.00 )  
 Minimum Fluctuation : .00050 (\$12.50)      Daily limit(Normal) : .05 (\$1,250)  
 Margin Required : US\$ 2,500.00      Round Turn Commission: \$60.00  
 Trading Hours : 8:45 - 1:10(Chicago Time)      Delivery Months: Mar,Jun,Sep,Dec.

The fundamental background is worsening steadily. The monetary aggregate most widely watched, M3, has easily surpassed its upper target of 14% per annum and will soon require some tightening. Under such conditions, Gilts may begin to crumble and force heavy sterling liquidation. Furthermore, in an attempt to forestall a rapid increase in long term interest rates, the Bank of England may be forced to monetize Gilts and thus further upset monetary growth targets.

January's balance of trade deficit is only the first indication that " oil's not well " with the U.K.

We are bearish but unfortunately the U.S. dlr weakness deters us from taking a short BP / Long U.S. position. We would rather sell Dec. 78 BP / Buy Dec. 78 DM at present levels.

Deutsche Mark

Spot : 48.83 Mar.78 : 48.90 June 78 : 49.53  
 Sept.78: 50.05 Dec.78 : 50.55 Mar. 79 : 51.00

	Aug 77	Sep 77	Oct 77	Nov 77	Dec 77	Jan 78
Balance of Trade (Mln Marks) Jan 1977: 1,980	2,520	3,600	4,810	3,080	4,220	1,900
Balance of Payments (Mln Marks) Jan 1977: -3,790	-1,430	-1,200	3,400	1,400	2,600	-2000
W.P.I. **	1.9	1.7	1.5	1.7	2.4	-0.1
Cost of Living **	3.89	3.96	3.8	3.7	3.5	3.2
Unemployment Rate	4.3	4.0	4.2	4.4	4.8	5.4

	Jan 20	Jan 27	Feb 3	Feb 10	Feb 16	Feb 23
Net Monetary Reserves Mln Marks	90,300	90,100	90,100	89,700	89,400	...
Euro Deposit %						
1 Mo.	3.	3 1/16	3	3 1/4	3	3 1/4
3 Mo.	3.	3 1/8	3 1/8	3 5/16	3 1/16	3 1/4
6 Mo.	3 3/16	3 1/4	3 3/16	3 5/16	3 3/16	3 1/4
12 Mo.	3 5/16	3 3/8	3 1/4	3 3/8	3 1/4	3 5/16

DM...

Open interest (Feb. 27th ) : 3,354 Volume (Feb. 27th ) : 1,220  
 Contract Size : DM 125,000.00 (approx. U.S. \$ 62,000.00 )  
 Minimum Fluctuation : .0001 (\$12.50) Daily Limit (normal): .0060 (\$750)  
 Margin Required : US\$ 4,000.00 Round Turn Commission: \$60.00  
 Trading Hours : 8:45 -1:10 Chicago Time Delivery Months:Mar,Jun,Sep,Dec.

The Bundesbank bought 4.95 mln dlrs when the U.S. unit was fixed at 2.0774 Marks ... Feb. 16 IMM Bulletin  
 The Bundesbank said the Federal Reserve Bank of New York supported the dollar in the final Qtr of 1977 with Mark sales totalling nearly 2 bln Marks under the existing swap arrangement between the German Central Bank and the Federal Reserve System. The latest figure updates the total of 1 bln Marks which the Bundesbank gave in Dec. as the amount the Federal Reserve had drawn under the Bundesbank swap line between Oct. 1 and Dec. 9. The Bundesbank said its own intervention to support the dollar on the spot market over the 3 month period exceeded 6 bln Marks. ... IMM Bulletin

French Franc

Spot 20.91 Mar.78: 20.84 June 78: 20.50  
 Sep.78 : 19.82 Dec.78: 19.73

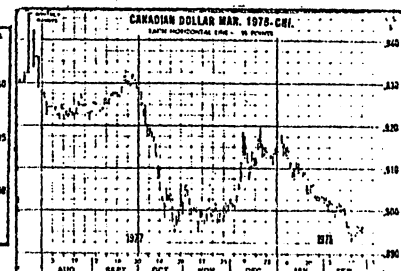
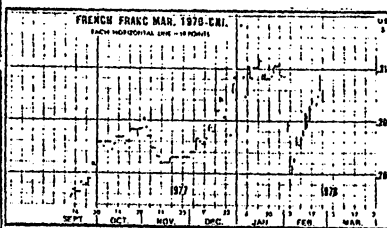
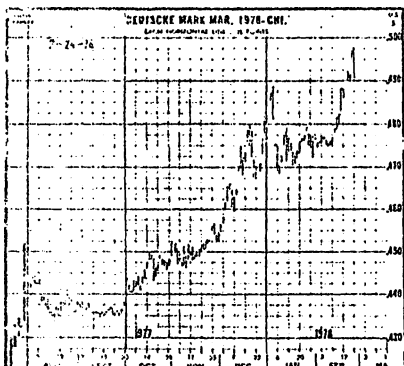
	Sep 77	Oct 77	Nov 77	Dec.77	Jan 78
Balance of Trade (Mln FFr)					
Jan 1977 : -2,470	-1,890	+ 420	+ 127	+1,310	-1,850
Net change of Foreign Exchange Assets	19.59	19.52	18.02	17.51	16.91
Retail Price Index **	9.91	9.69	9.55	9.06	9.18
Unemployment Rate	5.5	5.3	5.0	4.8	...
	Jan 27	Feb 6	Feb 10	Feb 16	Feb 23
Weekly Reserves (Mln FFr)	99,556	99,461	98,344	98,394	...
Euro Deposit					
1 Mo.	11 5/8	18 1/2	17.	14 1/2	13 3/8
3 Mo.	13 1/4	16 1/4	15 3/4	15.	13 3/4
6 Mo.	13 3/8	15.	14 3/4	13 7/8	13 1/8
12 Mo.	13 3/4	14 5/8	14 1/4	13 1/4	12 7/8

Open Interest ( Feb. 27th ) : 468 Volume (Feb. 27th ) : 18  
 Contract size : FFR 250,000.00 (Approx U.S. \$ 52,000.00 )  
 Minimum Fluctuation : .0005 (\$12.50) Daily Limit (Normal): .005 (\$1,250.00)  
 Margin Required : US\$ 5,000.00 Round Turn Commission : US\$ 60.00  
 Trading Hours : 8:45 - 1:10 Chicago Time Delivery Months:Mar,Jun,Sep,Dec.

French Intervention: The Bank of France sold between 10 and 15 mln dlrs when the dollar was fixed at 4.9385 franc compared with 4.8900 on Friday (Feb 3) It also sold some Marks at the 234.94 Franc fix(232.43)... IMM Bulletin 6/2  
 The Bank of France sold 5 mln dlrs when the dollar was fixed at 4.9030 Francs against 4.8820 Thursday(Feb.9) ... IMM Bulletin 10/2

Can French Communists be less dangerous than American Central Bankers?  
 We think yes.

Cover all short positions at market.



## Canadian Dollar

Spot 89.60 Mar.78:89.59 June 78:89.50  
 Sept.78 :89.55 Dec.78:89.48

	Aug 77	Sept77	Oct 77	Nov 77	Dec 77	Jan 78
Balance of Trade (Mln Dlr)						
Jan 1977 :	+119	+298	+ 50	+524	+180	+420
General Bank Loans** (% Growth)	17.16	15.89	15.66	14.48	12.79	12.33
Money Supply**						
M1	8.73	8.34	9.49	10.27	11.91	11.42
M1B	7.82	7.37	8.35	9.40	10.57	10.34
M2	13.91	13.00	12.86	12.05	11.67	10.91
M3	14.93	15.42	14.94	14.50	13.19	13.01
C.P.I. **	8.33	8.40	8.77	9.13	9.50	9.0
Food Price Index **	10.18	11.16	12.73	13.90	15.36	14.88
Unemployment Rate	8.2	8.3	8.3	7.9	8.3	8.3
Euro Deposit						
	Jan 27	Feb 6	Feb 10	Feb 16	Feb 23	
1 Mo.	7.	7 1/8	7 1/8	7 1/4	7 1/4	
3 Mo.	7 1/4	7 1/4	7 3/8	7 3/8	7 3/8	
6 Mo.	7 9/16	7 5/8	7 5/8	7 3/4	7 3/4	
12 Mo.	7 11/16	7 3/4	7 5/8	7 15/16	7 15/16	

Open Interest (Feb. 27th ): 1790      Volume (Feb. 27th ): 153  
 Contract Size : CD\$100,000.00 (Approx. U.S. \$ 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 - 1:10 Chicago Time      Delivery Months : Mar,Jun,Sep,Dec.

The election-oriented Liberal Party continues to fumble in monetary & exchange matters. Conceding large losses in futile support operations and pressured by the Opposition, the Gov't of Canada announced that it would use approx. 1/4 of its stand-by credit in US\$ with Canadian banks to maintain 'orderly conditions' in the foreign exchange markets while trying to arrange a relatively large loan in European markets to cover part of the enormous financing requirements for this coming fiscal year. Monetary policy continues relatively easy so that efforts at currency stabilization will prove unrewarding. High double digit inflation will be inherited by the new gov't, Liberal or Conservative, and a new stop and go cycle will presumably be started in early 1979.

Remain short, lowering stops to 90.50 basis Spot.

## Swiss Franc

Spot 53.20 Mar.78: 54.35 June 78:55.39  
 Sep. 78: 56.30 Dec.78: 57.32 Mar. 79:58.10  
 June 79: 58.70

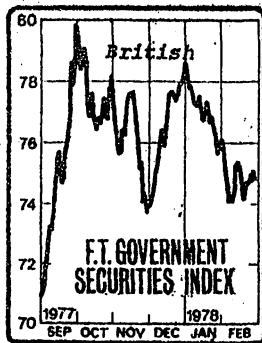
	Sep 77	Oct 77	Nov 77	Dec.77	Jan78
Balance of Trade (Mln Sfr)					
Jan 1977:	-85	-30	+ 7.5	+152	+491
C.P.I.**	1.56	1.62	1.15	1.08	...
Unemployment Rate	0.3	0.3	0.4	0.4	0.5
Money Supply	+ .03	+ .04	+ .06	...	...
Weekly Reserves (mln SFr)					
	Jan 27	Feb 6	Feb 10	Feb 16	Feb 23
	18,550	18,670	18,560	18,950	19,400
Euro Deposit %					
1 Mo.	7/16	7/16	7/16	7/16	1/4
3 Mo.	15/16	1 3/16	3/4	11/16	7/16
6 Mo.	1 9/16	1 7/16	1 5/16	1 3/16	3/4
12 Mo.	2 1/8	2 1/16	2.	1 7/8	1 3/8

Open Interest (Feb.27th): 4,168      Volume (Feb 27th): 429  
 Contract Size: SFr 125,000.00 (approx. U.S. \$ 68,000.00 )  
 Minimum Fluctuation : .0001 (\$12.50)      Daily Limit (Normal) : .0060 (\$750)  
 Margin Required : US\$ 5,000.00      Round Turn Commission: 60.00  
 Trading Hours: 8:45-1:10 Chicago Time      Delivery Months: Mar,Jun,Sep,Dec.

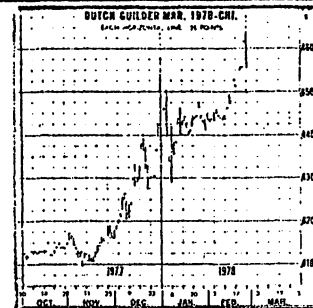
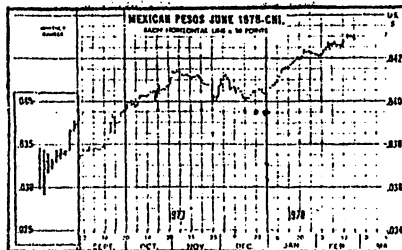
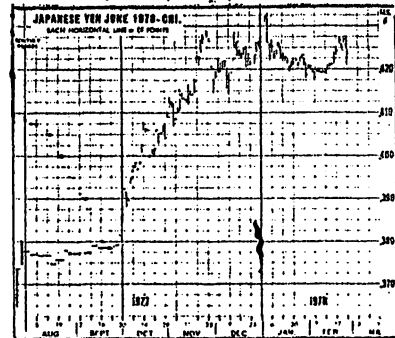
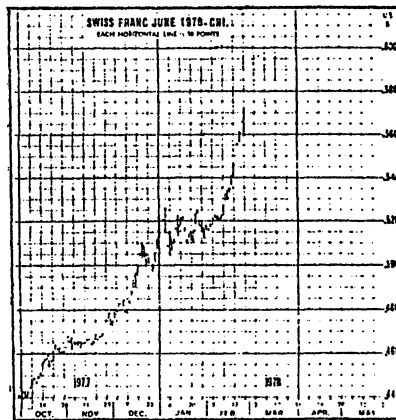
# Japanese Yen

Spot	41.85	Mar 78:	41.89	June 78:	42.00	
June 78:	42.44	Sep 78:	42.92			
		Sep 77	Oct 77	Nov 77	Dec 77	Jan 78
Balance of Trade (Mln US\$)		1,690	1,860	1,610	2,680	+350
Jan 1977: -77						
Balance of Payments (Mln US\$)		511	324	1,830	1,860	- 200
Jan 1977: -846						
Money Supply **	M1	6.30	5.4	6.2	7.1	...
	M2	11.3	10.6	10.8	10.7	...
Reserves (MLN US\$)		17,870	19,580	22,150	22,850	23,370
C.P.I.**		7.61	7.47	6.23	4.8	...
W.P.I.**		0.50	0.05	-0.01	-0.15	-1.5
Unemployment Rate		2.05	2.02	2.	2.08	...

Open Interest (Feb. 27th): 6,636 Volume (Feb 27th): 1,386  
 Contract Size: Yen12,500,000.00 (Approx. U.S.\$ 53,000.00 )  
 Minimum Fluctuation: .000010(\$12.50) Daily Limit ( Normal ): .0006(\$750)  
 Margin Required : US\$ 4,000.00 Round Turn Commission : \$60.00  
 Trading Hours :8:45-1:10 Chicago Time Delivery Months: Mar,Jun, Sep, Dec.



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# Mexican Peso

Spot	:44.00	Mar 78:	43.80	June 78:	42.98
Sep 78:	41.83	Dec.78:	40.82	Mar 79:	39.72
June 79:	38.70				

Forward Disc.  
Annual Basis

	June	Sep	Dec	Mar	Jun
Spot	9.27	9.86	9.64	9.73	9.63
June		10.7	10.05	10.11	9.95
Sept			9.96	10.08	9.98
Dec.				10.78	10.39
Mar 79					10.27

Mexico's balance of payments showed an overall surplus of \$216.3 mln in the third quarter of 1977, Bank of Mexico Figures show. This Compared with a surplus of \$16.2 mln in the second quarter, and a deficit of \$653.6 mln in the third quarter of 1976. It brought the accumulated surplus for the first three quarters of 1977 to \$400 mln, compared with as overall deficit of \$723 mln in the same 1976 period... The money Manager

Open Interest (Feb. 27th) 2,329 Volume (Feb.27): 93  
 Contract Size :MP 1,000,000.00 (Approx. US\$ 43,000.00)  
 Minimum Fluctuation : .00001(10.00) Daily Limit (Normal ): .0015(\$1,500)  
 Margin Required :US\$ 6,000.00 Round Turn Commission: \$60.00  
 Trading Hours: 8:45-1:10 (Chicago Time) Delivery Months: Mar, Jun, Sep, Dec.

Maintain short positions in forward months.

# Commodity Comments

This month only Interest Rate Futures and Precious Metals are discussed in the introduction to currency comments.

The following is an explanation of our ranking system:

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

## COCOA

\*\*\*\*\* March '78  
\*\*\*\*\* September '78

Bearishness was so thick it could have been cut with a knife. Mention the word Cocoa and you would have conjured up images of a classical bear market, of a seller's dream. Advisory services, chart services, Commission houses and Trade houses nearly unanimously predicted a fall to the .90 - 1.10 per lb. area no later than this May. Stubbornly, we refused to believe that grand old Cocoa was dying. The case was too pat and so we called it. Deferred Cocoa positions continued to receive five star designations (bullish) for so long as the size of the critical Ghana crop remained unknown. More importantly, and inspired by bullish vibrations, the writer allowed a substantial East European and Russian Cocoa offtake for the 1977/78 crop year.

Towards the end of January, Cocoa had turned into a very dull affair - albeit with a distinct downward bias-with Origins meeting the market at every rallying opportunity. The key March '78 contract in New York made a one year low, then, strangely enough, lacked follow through and prices held in an extremely narrow range amid the lowest turnover on the New York Cocoa Exchange seen for a long time. The base lasted just long enough to meet the relentless 8-month downtrend which connected the old time peak reached in July and the subsequent rally tops of September, November and December.

The 'breakout' was timed perfectly; on the 23rd of February Trade sources reported that some 5,000 bags of Bahia Cocoa for February shipment were registered for sale to the Soviet Union and, before New York's opening of the 24th, the well-known Gill and Duffus Cocoa report was predicting a revised and somewhat lower production surplus for 1977/78 of 86,000 tons. And then came the bomb-shell: the USSR, market rumors had it, had bought at least 10,000 tons of Nigerian Cocoa and perhaps as much as 15,000 tons. Some traders claimed knowing the USSR had bought nearly 7,000 tons of various West African Origins while still other traders knew of smaller purchases and some price fixing totalling in all under 3,000 tons. The news had a lightening effect on an extremely oversold and despondent market - over just 3 days prices advanced as much as 1600 points.

Where do we go from here? If increased purchases made by Russian and other Eastern European interests materialize along the lines that we outlined a few months ago and, at the same time, the Main Ghana crop does not exceed 275,000 tons, as is now probable, Cocoa will have embarked on the third massive leg of the seven year bull market. Given the extraordinarily high reward to risk ratio, hedgers and serious speculators are invited aboard.

Buy July and September '78 at market risking recent lows. Understandably, our initial target is still a bit hazy but we remain confident of a minimum target of 160-175 basis September '78.

## COFFEE

\*\* March: 183.00  
\*\* July: 149.75

The cat and mouse game continues. The odds now favour the consumer bears.

Brazil shipped 419,000 bags of coffee worth \$103 mln. during January, considerably less than December's shipments of 950,000 bags valued at \$250 mln. With shipments during the first three weeks of February continuing slow IBC prez Calazans announced a reduction in the export quota so that Brazilian coffee is now fairly freely available at roughly 180¢ a lb. FOB.

With domestic stocks at record low levels - 1.7 mln. bags as of December 31st; 1.0 mln less than at the end of the third quarter and .5 mln. less than at the end of 1976 - one would have expected a flurry of buying activity in response to Brazil's actions. Initial reports indicate such has not been the case. Thus far it seems that, even with the reduced price, roasters and buyers still on a hand to mouth basis only. It is possible a 'wait and see how low prices can fall' attitude prevails, however, one must remember that, as predicted in our special coffee report of last May, consumption has been irrevocably damaged. Per capita use of green beans fell from 16 lbs. in 1962 to 12.8 lbs. in 1976 to just 9.5 lbs. in 1977. Authoritative sources indicate roastings in January ran 17% less than in January 1977. New products like Hills Brothers special blend which brews 20% more coffee per pound - the company plans introduction this spring - should become increasingly plentiful and insure against any measurable per capita increase in usage. Roasters simply don't need as much inventory as before.

The poor response to their lower price must have shaken the Brazilians. Within a week they returned to their old scare tactics and announced a terrible drought in Parana and a fungus as well. The message to roasters is: "you better buy now before its too late." We interpret it as evidence of a certain desperation.

Still, before recommending aggressive short positions we point out the inordinately wide forward discounts. In view of them we can only look to trade this market, at present, from the short side. Having been stopped out of long positions as per our last month's comments, sell March and/or May coffee at present levels placing fresh stops at the previous peak of 180.00 basis May. Should the market break 150, we'd be more adamant.

\*\*\*\*: March:55.4

\*\*\*\*\*: July: 57.5

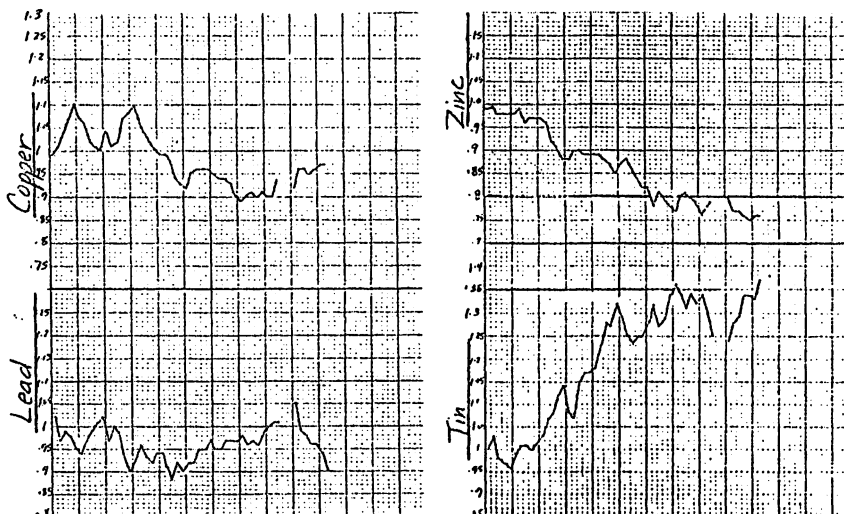
COPPER

We continue to analyze the market in terms of rates of change of LME and Comex Stocks and the rate of change of Comex open interest. Our basic assumption is that a decline in stocks and open interest on a three month and twelve month basis indicates dealers are lifting short hedges as they sell off their inventories which they've stored in exchange warehouses. Plugging the end of February numbers into our model we note both Comex and combined Comex and LME stocks declining on both a three month and year - over - year basis for the first time since this model was used November 1st. Open interest is declining on a year - over - year basis but by less than it was last month. On the more sensitive three month basis, however, open interest is increasing at a rate of slightly over 14%. It is possible that, as in the 1972/73 bull market, speculative interest is masking hedge lifting. If so, then one final washout may be necessary before the turn-around.

In sum, with five of six of our indicators flashing buy signals, we feel a buying opportunity is in the offing. Place stop buys in the market above the current downtrend line, presently at 59.70 basis July.

**Relative Strengths  
of Base Metals**

(Weekly; March '77  
to February 24, '78)



COTTON:

\*\*\*\* March: 55.10  
\*\*\*\* July: 57.72

The only bit of worthwhile news is today's announcement by the USDA that U.S. Cotton exports can be expected to be around 5.0 mln. bales, .3 mln. above earlier indications and predictable in light of the decline in the dollar. The USDA's monthly crop report and report on consumption have been inexplicably delayed and are due just after these Comments go to press. We feel safe in declaring that the delay will probably prove more exciting than the report itself.

Unable to break out above the 57.0 resistance area, basis March, despite a firm buy recommendation from a major brokerage firm, the market is totally uninspired. We predict a drying up of open interest only. Money is best invested elsewhere.

ORANGE JUICE

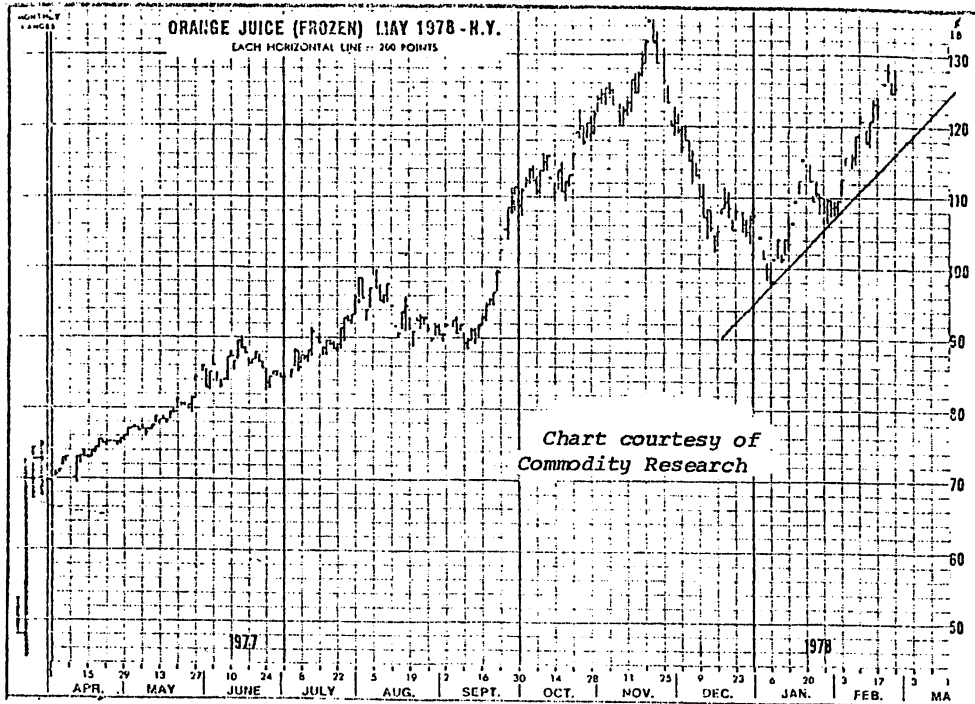
\*\*\* March: 125.20  
\*\*\* November: 117.85

Last Friday, Citrus World Inc. raised card prices by 25¢ to \$3.55 per dozen six ounce tins. Clearly the company feels that movement, despite running more than 30% below last year's pace, is still too strong when considering the processor's need to maintain a healthy year-end inventory of this extremely weather-vulnerable commodity. Cold storage stocks of concentrate as of February 1st totaled just 507.4 mln. lbs., the lowest number for the month since 1973.

The underlying dynamics of this market then, not accounting for the vagaries of the weather, are : 1) strong demand by the consumer who is being charged a price which, while 67% higher than last year, and the average of the previous ten years, is still relatively competitive when taking into account inflation and the prices of competing beverages and 2) producers' attempting to restrain demand for the aforementioned purpose of maintaining normal inventory levels. When factoring in the greed and fear inspired by the weather, the market action has been not so much simply volatile as mercurial and capricious; but, over the past month, very strong.

Our present sentiment is that the drop-off in consumption has been of a degree that makes Friday's price increase unwarranted. At the current rate inventories will be easily restored to safe levels. The frost season is more or less securely behind. The seasonal tendency is for prices to begin coming down at this time of year.

All told we view the market as a trading vehicle subject to wild swings to which we are bearishly inclined. We would be sellers on a breakdown below the present intermediate downtrend line, today at 117.00 basis May.



SUGAR

\*\* March: 8.53  
 \*\*\* May: 8.91

According to figures worked out by the group of Latin American and Caribbean sugar exporting countries (GEPLACEA) the world sugar surplus for the 1977/78 season will be some 5.28 mln. tonnes. Given that this data is issued by producing nations, the actual glut should prove much larger; perhaps as high as 7.0 mln. tonnes. Offtake in the U.S. continues soft as indicated by the figures below.

	<u>total distribution in thousands short tons, raw value</u>		
	<u>1978*</u>	<u>1977</u>	<u>1976</u>
January	775	828	760
February 1- 18	475	493	532

Disappointment with the market's inability to break the previous rally peak of 9.60 cents (basis March '78) and the subsequent decline is reflected in the decline in open interest; to 35,500 from 42,000 contracts as of last writing. Those longs left in the market may experience further disappointment yet as indications are March deliveries will total an estimated 50,000 to 100,000 long tons of mostly western hemisphere supplies. Initial sentiment was that the deliveries would be taken by operators who had sold Phillipine sugars to China. However authoritative sources now indicate China and the Soviet Union have been out of the market for several weeks in anticipation of still lower prices to come. March's expiration, due as these Comments go to press, may close out its life near its lows.

Once again we find little potential from either the long or the short side and thus recommend a spectator's view for now.

WOOD COMPLEX:

\*\*\*\*\* March Lumber: 214.10  
 \*\*\*\*\* March Plywood: 205.50  
 \*\*\*\*\* July Lumber: 209.70

January's housing data shows construction of new homes was started at a 1.5 mln. unit annual rate, down 17% from December. Of these 1.1 mln. were singles, down 25% from December, and .4 mln were multiples, down 34% from December. While such figures appear less than rosey they are largely attributable to the extreme weather conditions that prevailed during the month. Indeed permits, the indicators of future construction activity, ran almost equal to actual starts at 1.5 mln., down only 15% from the previous month. The outlook does not appear bleak. Latest data indicates the number of unsold homes in December totalled 482,000, or just 6.6 months supply when seasonally adjusted at an annual rate. The cost of money, more thoroughly discussed in the section pertaining to interest rate futures, seems unlikely to increase sharply in the near term as the Carter administration appears intent on promotion employment by monetizing the national debt thus maintaining interest rates at relatively low levels. The flow of funds to and from savings, and loans institutions has stabilized since last writing.

The technical action remains impressive as cash lumber, translated into a futures equivalent, is now at a 730 point premium above the March option and March is now at a 190 point premium over May etc.

Our target of last month was 225 (basis March lumber). The market achieved 224.50. We interpret the recent decline from that level as resulting from anticipation of credit tightness to defend the dollar, and a reaction only. Maintain long positions raising stops to 207.00 (basis May). Our bull May/July spread may be maintained as well.

<u>FCI</u>	<u>Feb. 78</u>	<u>Jan. 78</u>	<u>Feb. 77</u>
-0.5% from month ago			
-2.3% from year ago	212	213	217

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