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Currency Comments

Musings on Money Supply Forecasting

March 28th, 1978

The U.S. dollar continues weak and the U.S. economy fairly robust yet interest rates remain parsimoniously perched at the same levels prevailing almost six months ago. Monetarists puzzle at the slow rate of growth evidenced by the widely followed monetary aggregates in spite of unusual bulges in the Monetary Base and Adjusted Federal Reserve Credit. Fed watchers receive a lethal blow when the Fed admits to having understated M1 and M2 growth for 1977 and January 1978. The Fed's revised numbers, after taking into consideration deposits of smaller banks that do not normally report on a weekly basis and new seasonal adjustments, showed M1 growing by 7.8% last year from 7.4% originally reported and M2 at 9.8% instead of 9.6%. More significantly, M1 grew by 9.6% annualized in January '78 up from an originally reported 7.2% while M2 was revised to 8.9% from 8.2%.

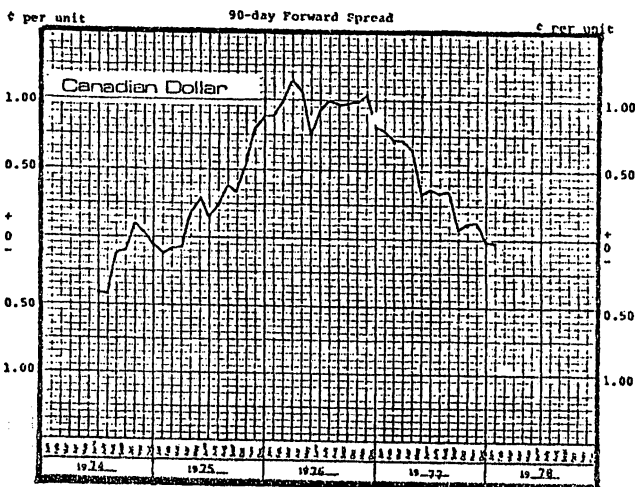
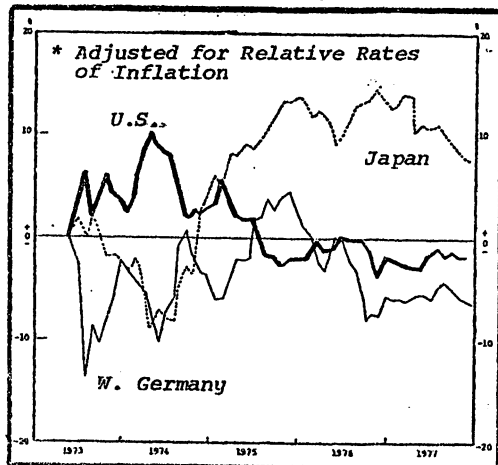
The above revisions come as no surprise to us. For a variety of reasons, discussed in earlier issues, we prefer Deposits Subject to Reserve Requirements (DSRR) to either M1 or M2 as a proxy for monetary expansion. For 1977, DSRR grew by a relatively moderate 7.61%. On close inspection, however, we notice that in October 1977, DSRR grew over 6 months earlier by 7.8% annualized, in November '77 by 10.04%, in December '77, 9.36%, and in January '78 by 10.22%! Yes Virginia, money is being printed at a fast clip.

What of the future? Growth of Federal Reserve Bank Credit (unadjusted) and Total Member Bank Reserves have slowed down significantly in recent weeks from the torrid pace of early January. The commercial banking system still remains well supplied with funds as evidenced by the shift towards an increase in the holdings of securities at an annualized rate of 9.9% registered in January 1978, the first such accumulation in 5 months. Despite official pronouncements to the contrary, the Fed is not about to step on the brakes.

The popularly watched monetary aggregates will reflect in due time the pick-up in monetary expansion already evidenced by the DSRR. The Fed will continue to confound 'Fed Watchers' as to its real intentions: an easy money policy.

Remain sidelined in GNMA's & TB's.

Trade-Weighted Exchange Rates *



British Pound

Spot : 188.40 June '78 : 188.25
 Sept. '78 : 188.15 Dec. '78 : 187.90
 Mar. '79 : 187.70 June '79 : 186.80

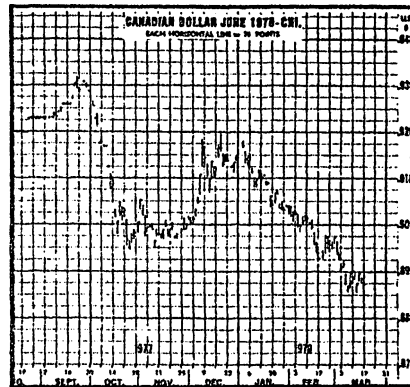
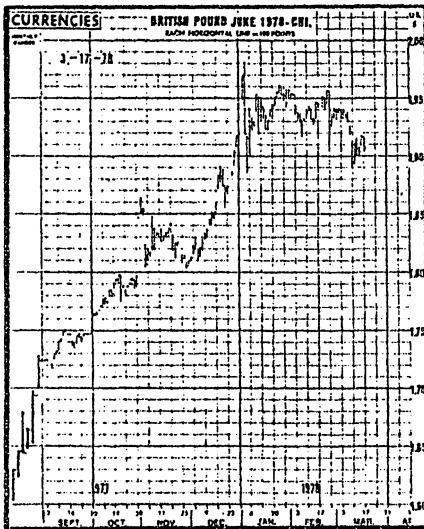
	Sep.77	Oct.77	Nov.77	Dec.77	Jan.78	Feb.78
Balance of Trade(mln Stg)						
Jan-Feb. 1977 : -721						
Jan-Feb. 1978 : -244	+80	+31	+73	-71	-324	+80
Balance of Payments(mln Stg)						
Jan-Feb. 1977 : -301						
Jan-Feb. 1978 : + 5	+255	+206		+74	-179	+184
Money Supply						
Sterling M1	36.7	35.6	41.5	21.3	24.4	21.8
Sterling M3	14.9	17.0	19.5	14.1	16.5	18.5
MLR %	6	5	7	7	6 1/2	6 1/2
Reserves (mln U.S.\$)	17,170	20,210	20,390	20,560	20,870	20,700
Retail Sales Index **	-2.11	-1.21	-2.93	+1.11	-1.12	+0.76
Retail Price Index **	15.63	14.07	13.03	12.14	9.92	9.47
W.P.I. **	19.0	17.89	16.03	15.22	13.0	12.74
Unemployment Rate	6.1	6.1	6.1	6.0	6.0	5.9
Trade Weighted Value of Stg(Dec 1971=100)	62.4	62.5	63.6	63.8	66.0	65.2
Euro Deposit	Feb. 27	Mar. 3	Mar.13	Mar.21	Mar.28	
1 Mo.	6 3/4	7 5/8	7 1/2	7 1/2	6 7/8	
3 Mo.	7 1/2	8 1/16	8 1/8	7 7/8	7 3/8	
6 Mo.	7 3/4	8 5/8	8 1/2	8 3/8	7 7/8	
12 Mo.	8 7/16	8 1/2	8 1/2	7 5/8	8 1/8	

Open Interest (Mar.27) : 5,332 Volume (Mar.27) : 944
 Contract Size : BP 25,000.00 (approx. U.S. \$47,000.00)
 Minimum Fluctuation: .00050(\$12.50) Daily Limit (Normal): .0500(\$1,250.00)
 Margin Required : US\$2,500.00 Commissions : US\$ 60.00
 Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar.,June,Sept.,Dec.

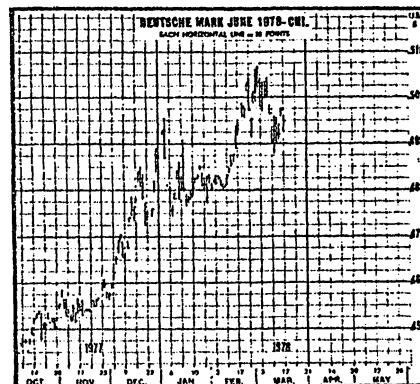
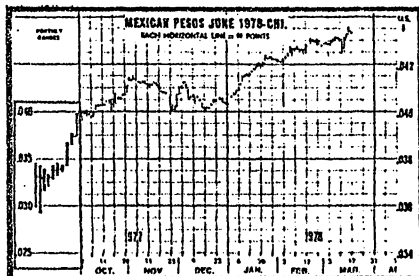
We are growing increasingly bearish on the BP. The North Sea Oil and Gas is proving to be too little to bail out the U.K. from its horrendous lack of competitiveness in the manufacturing sector. Should a significant surplus in current account become suspect (as we believe will happen over the next few weeks) capital flows will reverse and a new run on Sterling will have begun.

Last month we suggested selling Dec. '78 BP (then at 193.25) against buying Dec. '78 DM (then at 50.55) so as to neutralize the potential weakness of the U.S. dollar, (the most correct ratio should be 5 BP versus 4 DM so as to equalize contract values). At this writing, both positions are showing a profit, particularly the BP short.

Add to straddle at present levels and lift long DM should Dec. '78 close below 49.75.



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Canadian Dollar

Spot : 88.14 June '78 : 87.98 Sept '78: 87.86
Dec. '78 : 87.70 Mar. '79: 88.87

Balance of Trade (mln Dirs)	Sep. 77	Oct. 77	Nov. 77	Dec. 77	Jan. 78	Feb. 78
Jan-Feb. 1977: +239						
Jan-Feb. 1978: ...	+ 50	+524	+180	+420	+306	...
General Bank Loans (% Growth)	15.89	15.66	14.48	12.79	12.33	11.47
Money Supply**						
M1	8.34	9.49	10.27	11.91	11.42	11.48
M1B	7.37	8.35	9.40	10.57	10.34	10.53
M2	13.00	12.86	12.05	11.67	10.91	10.77
M3	15.42	14.94	14.50	13.19	13.01	12.74
C.P.I. **	8.40	8.77	9.13	9.50	9.0	8.69
Food Price Index **	11.16	12.73	13.90	15.36	14.88	13.36
Unemployment Rate	8.3	8.3	7.9	8.3	8.3	8.3
Reserves (Bln. U.S.) (% Growth)		4.17	4.2	4.6	4.4	3.7
		-28.59%	-17.32%	-21.23%	-35.10%	-29.79

Balance of Payments	1st Q.	2nd Q.	3rd Q.	4th Q.	1st Q.	2nd Q.	3rd Q.	4th Q.
Current Account	-1,906	-1,077	-104	-1,100	-1,583	-1,370	-575	
Capital Account								
Long-term	2,778	1,991	1,791	1,314	866	1,352	1,624	
Short-term	-369	-742	-1,860	-194	-49	5	-1,401	

Euro Deposit	Feb. 27	Mar. 3	Mar. 13	Mar. 21	Mar. 28
1 Mo.	7 3/8	7 1/4	7 3/8	7 3/8	7 1/2
3 Mo.	7 3/8	7 3/8	7 5/8	7 5/8	7 3/4
6 Mo.	7 7/8	7 7/8	8	8	8 1/8
12 Mo.	8 1/8	8 1/8	8 1/8	8 1/8	8 1/4

Open Interest (Mar.27) : 2,148 Volume (Mar.27) : 726
Contract Size : CD\$ 100,000.00 (approx. U.S.\$ 88,000.00)
Minimum Fluctuation: .0001 (\$10.00) Daily Limit (Normal): .0075 (\$750.00)
Margin Required : US\$ 2,500.00 Commissions : US\$ 60.00
Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar.,June,Sept.,Dec.

Our special study " Inflation in Canada; a monetarist interpretation and forecast " (available upon request) spells out in detail the sad story of the ongoing troubles.

Short of another increase in the administered Bank of Canada Discount Rate, the CD\$ will continue to slide.

Remain short, lowering stops to 88.5 basis Spot.

Deutsche Mark

Spot : 49.17 June '78 : 49.67 Sep. '78: 50.26
Dec. 78 : 50.90 Mar. '79 : 51.35 June '79: 51.75

Balance of Trade (mln Marks)	Sep. 77	Oct. 77	Nov. 77	Dec. 77	Jan. 78	Feb. 78
Jan-Feb. 1977 : +4,710						
Jan-Feb. 1978 : +3,960	3,600	4,810	3,080	4,220	1,900	2,060
Balance of Payments (mln Marks)						
Current Account						
Jan-Feb.1977: -479						
Jan-Feb.1978: -1,500	-1,200	3,400	1,400	2,600	-2,000	500
Overall Payments						
Jan-Feb.1977: -123						
Jan-Feb.1978: ...	-1,550	2,530	2,380	6,420	+1,770	...
Money Supply M3	9.4%	8.8%	10.2%	11.1%	10.87%	...
W.P.I. **	1.7	1.5	1.7	2.4	-0.1	-0.1
Cost of Living **	3.96	3.8	3.7	3.5	3.2	3.1
Unemployment Rate	4.0	4.2	4.4	4.8	5.4	5.4

Euro Deposit	Feb. 27	Mar. 3	Mar. 13	Mar. 21	Mar. 28
1 Mo.	3 1/4	3 1/4	3 5/16	3 1/2	3 1/2
3 Mo.	3 1/4	3 1/4	3 1/4	3 7/16	3 1/2
6 Mo.	3 1/4	3 1/4	3 1/4	3 7/16	3 7/16
12 Mo.	3 5/16	3 1/4	3 1/4	3 3/8	3 7/16

Open Interest (Mar.27) : 2,738 Volume (Mar.27) : 1,009
Contract Size : DM 125,000.00 (approx. U.S.\$ 62,000.00)
Minimum Fluctuation: .0001 (\$12.50) Daily Limit (Normal): .0060 (\$750.00)
Margin Required : US\$ 4,000.00 Commissions : US\$ 60.00
Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar.,June,Sept.,Dec.

DM ...

Since our last writing, additional measures of support for the U.S. dollar have been taken by the U.S. and German Governments. According to the announcement made March 13th:

- a) Existing swap arrangements between the Federal Reserve and the Bundesbank were increased to \$4 billion from \$2 billion.
- b) The U.S. Treasury arranged to sell SDR 600 million to obtain DM.
- c) The U.S. pledged to use its IMF reserve position as needed to acquire foreign currencies.

Foreign exchange intervention increases U.S. indebtedness and tends to increase, when not offset, the money supply of the foreign country involved in the swap, in this case, W. Germany. Accompanying figures bear testimony to the last point and augur for a re-acceleration of inflation in Germany. In all, however, prices are likely to rise faster in the U.S. than in Germany.

Remain long the June '78 DM raising stops to 48.75, close only.

French Franc

Spot : 21.55 June '78: 21.55 Sep. '78: 21.25
Dec. 78 : 21.05 Mar. '79: 21.13

	SEP. 77	OCT. 77	NOV. 77	DEC. 77	JAN. 78	FEB. 78
Balance of Trade (mln FFr)						
Jan-Feb. 1977: -3,900						
Jan-Feb. 1978: -1,786	-1,890	+420	+127	+1,310	-1,850	+64
Net Change of Foreign Exchange Assets **	19.59	19.52	18.02	17.51	16.91	14.04
Retail Price Index **	9.91	9.69	9.55	9.06	9.18	...
Unemployment Rate	5.5	5.3	5.0	4.8
Money Supply M1 **	10.24	8.6	8.0	11.4

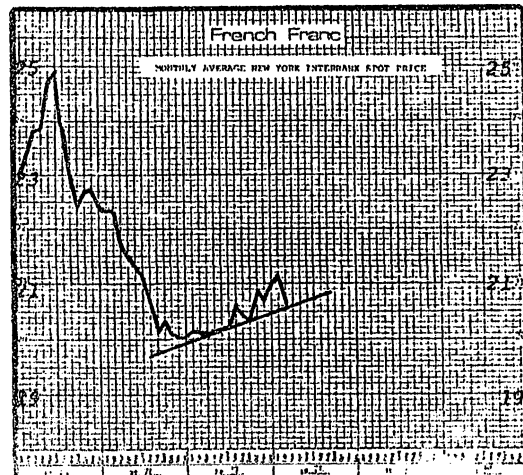
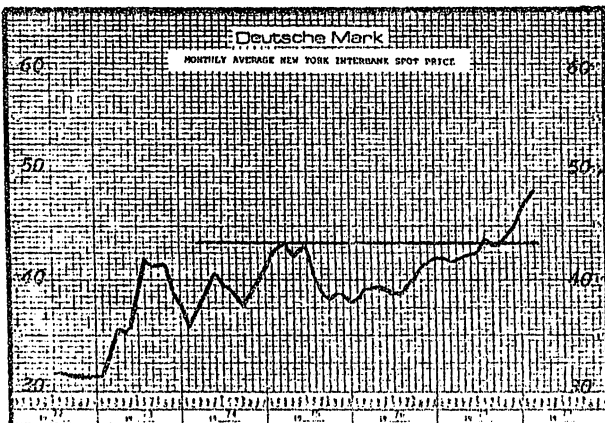
	4th Qtr 77	3rd Qtr 77	4th Qtr 76	Total 1977	Total 1976
Balance of Payments					
Current Acct. (Bln FFr)	-1.25	-4.10	-10.1	-15.7	-29.1

	Feb. 27	Mar. 3	Mar. 13	Mar. 21	Mar. 28
Euro Deposit					
1 Mo.	13 1/8	15 1/4	10 1/2	9 1/4	9 5/8
3 Mo.	13 1/2	14/	11 1/2	9 3/4	10
6 Mo.	12 7/8	13/	11 5/8	10 1/8	10 7/8
12 Mo.	12 3/4	12 5/8	11 7/8	10 1/2	11
Weekly Reserves (Mln FFr)	98,299	98,326	98,338	98,443

Open Interest (Mar. 27) : 469 Volume (Mar. 27) : 3
 Contract Size : FFr 250,000.00 (approx. U.S.\$ 54,000.00)
 Minimum Fluctuation: .00005 (\$12.50) Daily Limit (Normal): .0050 (\$1,250.00)
 Margin Required : US\$ 5,000.00 Commissions : US\$ 60.00
 Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar., June, Sept., Dec.

Last month's advice to cover all short positions at market was well-timed. Already prior to Sunday's decisive run-off, smart money had bid up the Franc to 21.70¢ basis Spot. Subsequent to the Centrist victory and contrary to popular opinion, we believe that sophisticated holders of French Francs' assets (stocks, bonds and currencies) have been liquidating, already anticipating economic trouble.

Sell June '78 French Francs at market.



Japanese Yen

Spot : 44.43 June '78: 45.22 Sep. '78: 45.75
 Dec. '78 : 45.95 Mar. '79: 42.64

Balance of Trade (mln U.S.)	Jan-Feb.1977	Jan-Feb.1978	Jan.78	Feb.78	Oct.77	Nov.77	Dec.77	Jan.78	Feb.78
Jan-Feb.1977: +1,173									
Jan-Feb.1978: +2,680	+1,690	+1,860	+1,610	+2,675	+ 350	+2,330			
Balance of Payments (Overall Payments Balance)									
Jan-Feb.1977: - 392									
Jan-Feb.1978: +1,810	+ 511	+ 324	+1,810	+1,860	- 200	+2,010			
Money Supply**									
M1	6.3	5.4	6.2	7.1	6.8	...			
M2	11.3	10.6	10.8	10.7	10.6	...			
Reserves (Mln U.S.)	17,870	19,580	22,150	22,850	23,370	24,190			
C.P.I.**	7.61	7.47	6.23	4.80	4.27	...			
W.P.I.**	0.5	0.05	-0.01	-0.02	-1.5	-1.8			
Unemployment Rate	2.05	2.02	2	2.08	2.05	...			

Open Interest (Mar.27) : 6,727 Volume (Mar.27) : 227
 Contract Size : Yen 12,500,000.00 (approx. U.S.\$ 57,000.00)
 Minimum Fluctuation : .000001(\$12.50) Daily Limit (Normal) : .000060(\$750.00)
 Margin Required : US\$ 4,000.00 Commissions : US\$ 60.00
 Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar., June, Sept., Dec.

The Japanese Central Bank has done a superb job in neutralizing dollar inflows with the consequent result that M1 figures have remained relatively static while M2 figures have trended downwards.

The run on the Yen has become frenetic. Having nearly attained our 45.50 target for the June '78 position, we prefer to nail down profits at these levels. Sell long positions and stand aside.

Mexican Peso

Spot: 43.90 Jun.78: 43.69 Sept.78: 42.80
 Dec. '78 : 42.07 Mar.79: 41.25 June 79: 40.67
 Sep. '79 : 40.00

Forward Disc. Annual Basis	Jun. 78	Sep. 78	Dec. 78	Mar. 79	Jun.79	Sep.79
Spot	1.91	5.01	5.56	6.04	5.89	5.92
Jun. 78		8.15	7.42	7.45	6.91	6.76
Sep. 78			6.82	7.24	6.64	6.54
Dec. 78				7.80	6.66	6.56
Mar. 79					5.62	6.06
June 79						6.59

	1975				1976				1977			
	1st Q.	2nd Q.	3rd Q.	4th Q.	1st Q.	2nd Q.	3rd Q.	4th Q.	1st Q.	2nd Q.	3rd Q.	4th Q.
Reserve Money**	41.27	40.30	37.10	33.73	25.77	16.23	12.32	-7.02	-10.25	12.26	20.51	...
Currency Outside Banks **	24.87	25.76	24.30	22.40	17.64	19.79	38.49	52.79	49.02	53.45	40.95	...
Money Supply**	22.26	22.12	20.46	21.43	17.45	16.70	25.83	29.10	30.40	27.84	23.36	...
Money Supply** (Seasonally Adjusted)	22.26	21.99	20.45	21.32	17.46	16.59	25.84	29.10	30.40	27.71
Gov't Finance (bIn Pesos)	-8.5	-6.9	-9.6	-16.8	-10.3	-6.8	-13.0	-27	-5.3	-9.1	-10.7	...
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
W.P.I. **	45.04	45.68	46.30	49.81	50.74	50.94	48.27	52.85	44.67	33.20	23.07	...
C.P.I. **	25.21	27.64	26.09	26.66	26.81	28.29	29.13	30.59	30.29	26.34	21.74	...
Open Interest (Mar. 27) : 2,338					Volume (Mar. 27) : 126				Daily Limit (Normal) : .00150 (\$1,500.00)			
Contract Size : MP 1,000,000.00 (approx. US\$ 42,000.00)									Minimum Fluctuation: .00001 (\$10.00)			
Margin Required : US\$ 6,000.00									Commissions : US\$ 60.00			
Trading Hours : 8:45 am - 1:10 pm									Delivery Months: Mar., June, Sept., Dec.			

Forward discounts have contracted to absurd levels. As an example, June '79 is selling at a discount of just 5.89% annualized, which can barely be said to cover the inflation differential of at least 18% vis a vis the U.S. yield. Conscious investors may profit from the covered arbitrage by using the IMM as a hedge for Peso deposits.

Add to previously established short positions; patience will be handsomely rewarded.

Swiss Franc

Spot : 52.90 June '78 : 53.90 Sep. '78 : 54.89
 Dec. 78 : 55.70 Mar. '79 : 56.60

	Sep.77	Oct.77	Nov.77	Dec.77	Jan.78	Feb.78
Balance of Trade (mln SFr)						
Jan-Feb.1977: -117						
Jan-Feb.1978: -162	-30	+7.5	+152	+491	-210	+48
Money Supply**		+6.08		+3.48		
W.P.I. **	-18		-1.02	-1.62	-2.43	-2.83
Unemployment Rate	0.3	0.3	0.4	0.4	0.5	0.5
	1972	1973	1974	1975	1976	1977
Balance of Payments						
Current Account (mln U.S. Dirs)	+220	+280	+171	+6,500	+8,000	...
	Feb. 27	Mar. 3	Mar. 13	Mar. 21	Mar. 28	
Euro Deposit						
1 Mo.	1/8	3/8	5/8	7/16	1/2	
3 Mo.	3/8	1/2	7/8	5/8	11/16	
6 Mo.	5/8	11/16	1 1/16	15/16	15/16	
12 Mo.	1 1/8	1 1/16	1 1/2	1 5/16	1 3/8	
Weekly Reserves (mln SFr)	19,820	19,950	20,200	20,150		

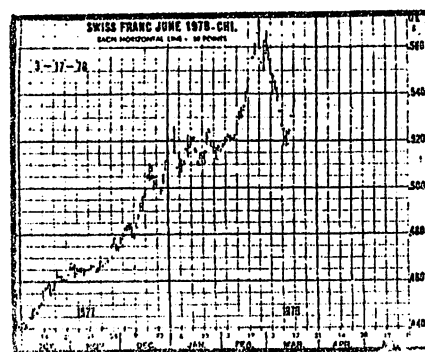
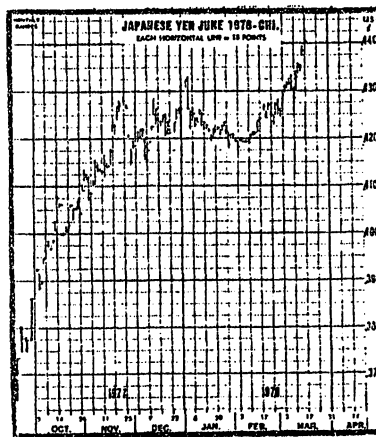
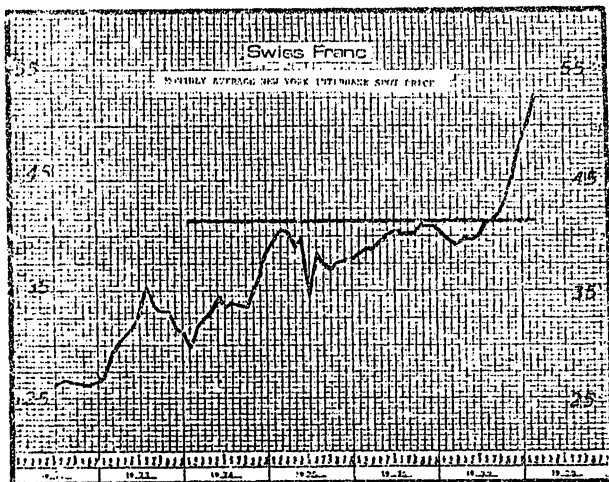
Open Interest (Mar.27) : 3,067 Volume (Mar.,27) : 129
 Contract Size : SFr 125,000.00 (approx. U.S. \$ 58,000.00)
 Minimum Fluctuation : .0001 (\$12.50) Daily Limit (Normal) : .0060 (\$750.00)
 Margin Required : US\$ 5,000.00 Commissions : US\$ 60.00
 Trading Hours : 8:45 am - 1:10 pm Delivery Months : Mar., June, Sept., Dec.

Swiss Negative Interest - Swiss National Bank President Fritz Leutwiler said the bank is writing to Swiss banks with a new ruling that Franc balances of foreign central banks are subject to the same negative interest rules as other non-resident deposits. In addition, effective Mar. 1st, exceptions, whereby interest was paid on a portion of these balances are no longer applicable, he said. Last Friday (Feb. 24), the bank said that 20% of Franc non-resident deposits, previously free of negative interest because they were placed before Oct. 31, 1974, would be subject to the charge from Apr. 1st. Leutwiler said this has now been extended to balances of foreign central banks which were previously exempt. Commenting on the latest fall of the dollar he said there is no question whatsoever of introducing a two tier market in Switzerland. The bank has studied this and it would not work, he said. A two tier market is also opposed by the Swiss Government and by the Swiss Chamber of Commerce and Industry.

Stiff foreign exchange controls imposed by the Swiss National Bank had a sobering impact on the SFr which reacted nearly 10% off its February highs.

The sudden move triggered our sell stop at 53.00 basis June '78 thus closing out long positions first taken at 42.50 - 43.00 in Sep. '77.

Remain sidelined.



COMMODITY COMMENTS

The following is an explanation of our ranking system:

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

(expired)March	'78	159.45
**** May	'78	171.60
**** September	'78	160.50

COCOA

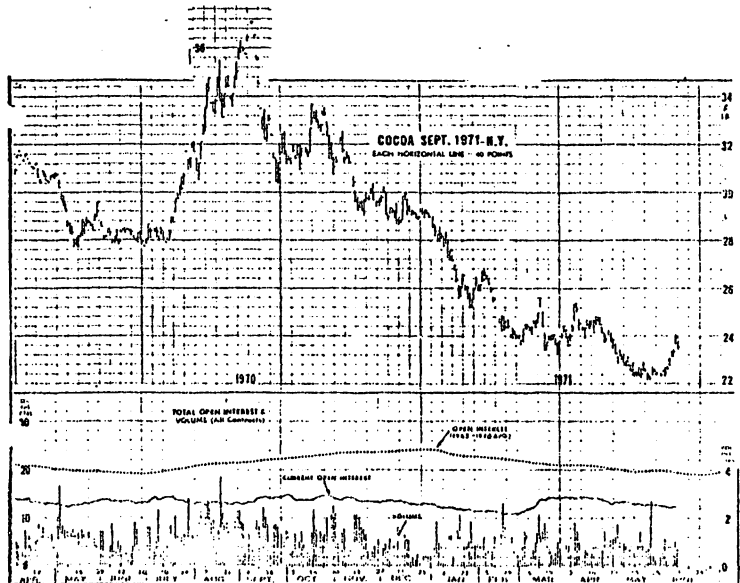
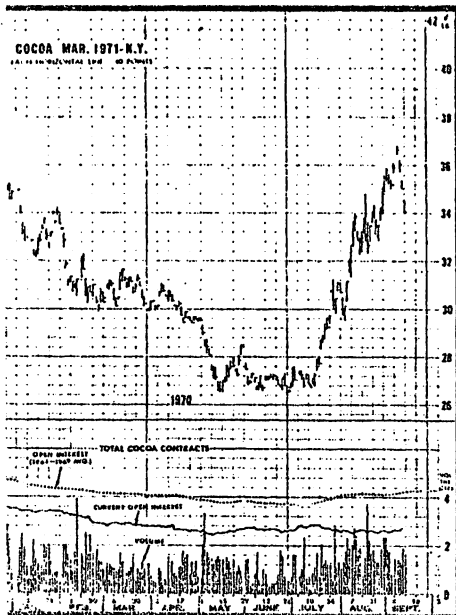
We congratulate ourselves for the unabashed bullish position we adopted last month. Cocoa prices have advanced in almost straight-line fashion by a spectacular 33¢/lb. and have attained our minimum upside expectation of 160 basis September 1978.

Ghana Main Crop purchases as of March 16 were unofficially indicated at 260,856 tonnes compared to 304,569 long tons on the similar date last year. These figures would support our view that total out-turn may not go over 270,000 tons, the lowest figure in 19 years. Smuggling out of Ghana (and thus unreported) and a good Ivory Coast crop will no doubt offset some of this loss. The full impact of the West Africa harvest should not be felt for yet another few weeks.

Technically, the market's underpinnings have been weakened considerably in recent weeks as most of the advance has been fuelled by frantic shortcovering. A look at the collapse in open interest in both London and New York since late February corroborates the extent of this massive squeeze: London dropped from 17,115 to 12,735 contracts (the equivalent of approximately 44,000 tons) and New York dropped from 9,829 to 7,858 contracts (the equivalent of 27,000 tons). Aside from trade and speculative shortcovering, some quarters have speculated that the Ghana Marketing Board itself has lifted hedges on the London May position.

Be that as it may, the market cannot continue rising indefinitely with this kind of 'poor buying'. Present conditions resemble the famous bear market rally and ill-fated corner attempt of July-September '70 when prices rebounded from 27¢ to 37¢ causing Hershey losses of upwards of \$30 million (see accompanying charts).

We have downgraded our position in this market from six stars (as in last month) to just four stars (bullish-neutral) and prefer to nail down profits at these levels. Alternatively, stops should be placed at 1.42 basis July '78.



*** May '78:172.98
*** Sept. '78:140.40

COFFEE

The USDA's fourth estimate calls for production of 68.5 mln. bags, down 3% from the department's third estimate made in December but still up 4% on total production for the '76/'77 crop year which ended last July.

With roastings in the U.S. trailing last year's pace - which was already reduced from '75/'76 - by roughly 17% and consumption in Europe off by about 10%, we doubt total world demand this year will exceed 60 mln. bags.

The fundamentals then remain bearish. This will be a year in which producing nations begin rebuilding depleted inventories and consuming nations attempt to restore some of the demand which was decimated by last year's stratospheric prices. Earlier this month, Folger and Hills Bros., for example, lowered their prices, once again, so that one pound packages now sell for \$3.03. And Stock rebuilding is taking place in Brazil where ample coffee is available in the interior in the hands of traders. The IBC, the government marketing arm, however claims that, due to the government anti-inflation policy, it can only offer 1,250 cruzeiros or roughly 45¢ per pound for this coffee. The coffee left unsold may be thought of as inventory which can be drawn upon should it be needed.

In response to the bearish fundamentals forward options continue to trade at ever widening discounts to nearbys. Where the July/September spread, for example, was 5¢ as of last writing, it is now 9¢. The reason nearest contracts remain so stubborn is, as we have stated in these Comments again and again for a year now, that producer nations continue, by various means, to ration out their supplies in order to maintain cash prices at profitable levels. Only when the thin trade buying dries up entirely do spot prices take a significant step in the (fundamentally) right direction down. As the trade returns to the market prices rally as producers, knowing domestic stocks are virtually non-existent, have consumers by the throat.

Obviously the market is a traders' affair, biased toward the down-side. Our last month's recommendation to trade from the shortside proved profitable. We view the current rally as another opportunity. Sell May, placing stops around current cash quotations of 185.00

***** May :61.50
***** December:62.50

COPPER

Following is our updated model:

	End March 78	End Feb. 78	End March 77
Three-month change combined Comex plus LME stocks.	- 8.7 %	- 2.4 %	2.6 %
Year-over-year change combined Comex plus LME stocks.	- 8.9	- 2.2	30.1
Three-month change Comex stocks	- 2.5	- 3.2	12.2
Year-over-year change LME stocks.	-15.7	-12.3	107.3
Three-month change Comex open interest.	2.1	14.1	8.4
Year-over-year change Comex open interest.	-9.3	- 7.4	24.5

We attribute the recent (sort of) rally of cotton to the surge in bean prices--beans being cotton's traditional rival for acreage come planting time--and to the depreciated U.S. dollar which makes American exports more attractive.

All told we see little potential here and, thus, still recommend staying out.

ORANGE JUICE

*** May '78:115.40
*** November '78:108.00

Last weeks' movement of 3.3 mln. gals. may be the beginning of the seasonal tendency toward reduced demand as winter ends. At present, total movement so far this year trails last year's pace by 20%. On the supply side, the USDA's March estimate of production remained virtually unchanged from February. A review of the frost season indicates little damage was done. Yield estimates have been revised downward to 1.24 gals. per box, still considerably higher than most bulls had anticipated. We still view this market as having a downward bias. Having assumed short positions upon violation of the uptrend line as per last month's Comments, we recommend remaining short risking now the downtrend line, today at 118.00 basis May.

PRECIOUS METALS

***** June '78 Comex gold: 185.1
**** July '78 silver: 547.9
*** April '78 platinum:223.00
*** June '78 palladium: 62.70

Disappointment over the recent Middle East conflict's inability to spur gold prices higher, coupled with the defeat of the left in the French elections, instigated a vicious turnaround in precious metals early last week. Gold futures fell \$15.00, silver futures 40¢ and platinum \$35.00, all from their highs, before recovering. The action is especially disappointing in silver which had broken out of a four year triangle and appeared headed for a test of its all-time highs.

What remains for us is to ask whether last week's fever left the patient permanently impaired or, like the common cold, did it serve only to rid him of useless dross thus leaving him even better able to scale to new heights. With regards to the platinum group this doctor offers the former prognosis. With regards to gold and silver he advises we wait and see for a little while longer but confesses that, intuitively, he believes everything will turn out alright.

The platinum group enjoyed the most spectacular runup of all the precious metals since early December and fell the farthest last week. The recovery since then looks weak with, what looks like, a massive head-and-shoulders top in the makings. Having been stopped out at 220 basis April, as recommended last month, we look to be sellers on a breakdown below 212.00. Until then, stay out. Similarly in Palladium, having been stopped out at 60.00, stay sidelined.

Silver may also be forming a head-and-shoulders although the charts appear less defined than do the platinum charts. Still we respect the area between the neckline, 540.00 and the forehead, 560.00 basis July as a no-man's land. Place stop buys at 560.00. Should you get filled \$6.00 is a virtual certainty.

The Gold market, the steadiest and least spectacular of this shimmering group is still intact. Last month's objective of \$220.00, now basis June rather than April, remains unchanged. Raise stops to 188.00.

SUGAR

***** July '78:8.48
***** October '78:8.86

A dramatic turnaround.

Albert: We gotta be buyers of sugar.

David: How can that be? You've been a bear for years. The fundamentals are terrible. Licht's third estimate for '77/'78 called for production of 92.5 mln. tonnes. Consumption's estimated at 85.3 mln. tonnes. The surplus means stocks will rise to the equivalent of four months' usage, the highest in twenty-five years.

Albert: Yeah, yeah, but listen. I'll give you seven arguments to support a long position. First, the price is cheap. We risk only the lows. Second, the recent washout has occurred because producing nations, who have to obey export quotas according to the ISA agreement, dumped their sugar prior to the quotas coming into effect. Third, China and Russia are rumoured to be interested buyers who, so far, have refrained from purchasing until the bear market finally struck bottom. After all, we know China has yet to cover its needs for the second half of the year. Fourth, the technical action is impressive. The charts tell me we've seen the bottom and the huge drop in open interest suggests that long speculative liquidation has taken place and considerable trade short hedges have been lifted; a very bullish sign. Fifth, although the fundamentals are bearish, they're too well known and probably discounted. Sixth, Colombia, just today, sold raws for prompt shipment at 7.70 cents whereas, just last week it sold a cargo .65 cents cheaper. Seventh, one never knows, my boy, when a bull market begins.

David: Didn't you make a lot of money in sugar a few years ago?

Albert: I have a sweet tooth.

Buy July sugar at present levels and risk recent lows. Add on move about 8.60, the present downtrend line. Add once again on move about 9.50. Should the market clear 10.35 we may be truly at the start of a new bull market.

**** May '78 Lumber:209.50
**** July '78 Lumber:202.70
**** May '78 Plywood:198.10

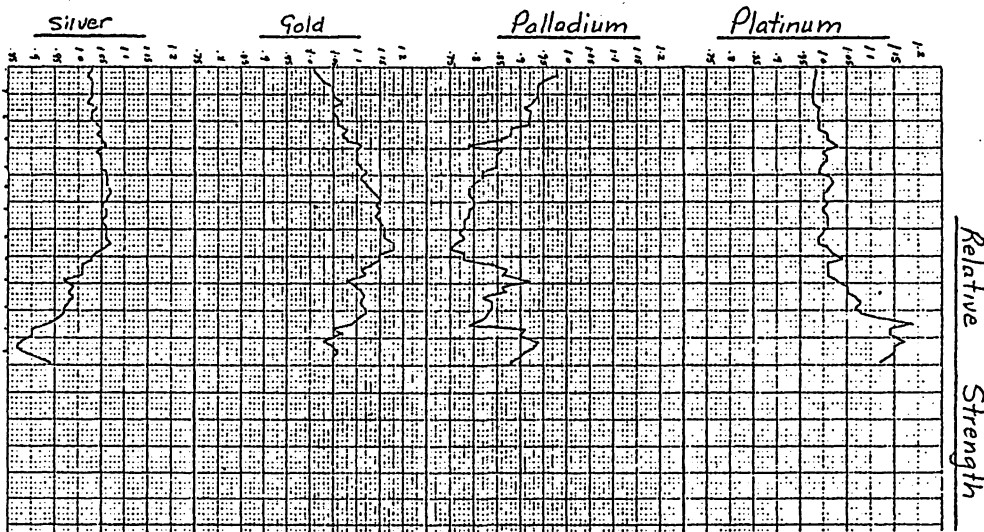
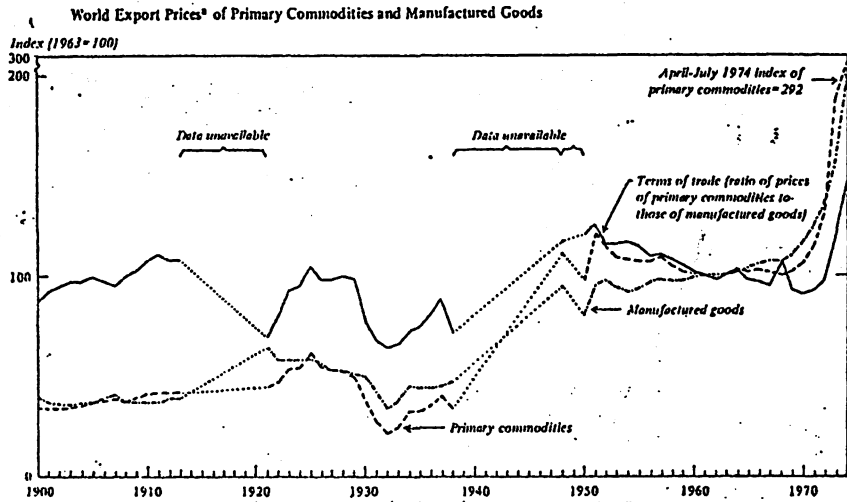
WOOD COMPLEX

Demand from the construction industry showed only a modest improvement in February over January's soft performance. Total starts rose 2.1%. But starts of single family homes, the largest users of wood products, fell to 1,091,000 units on a seasonally adjusted basis from 1,555,000 units in January. This is the poorest showing since January 1977. Sales of existing one-family homes fell 6.2% in January. The one bright light was in the issuance of permits. They were up 8% in February.

Much, but not all, of the sluggish activity in the housing industry can be attributed to the extremely adverse weather. A lot of the blame falls squarely on the shoulders of relatively high interest rates and the anticipation that interest rates are headed higher still. Latest available data indicates savings inflows at a low ebb. Still, we expect the next two to three months to show an improvement in housing. The relatively strong demand for permits suggests permits have been hoarded to a degree and that they will be used now the weather is improved.

In view of the above we anticipate, at least, a rally in woods. Assuming you enjoyed a healthy profit in the expired March lumber and are now rolled into May, maintain long positions risking 207.00 on close. Our target remains 225.00. On a risk-to-reward ratio basis, it's an excellent trade.

<u>FCI</u>	<u>Mar. 78</u>	<u>Feb. 78</u>	<u>Mar. 77</u>
-up 8% from month ago			
-up 4.1% from year ago	229	212	220



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.