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Currency Comments

Canadian Dollar : Sinking again

May 31th, 1978

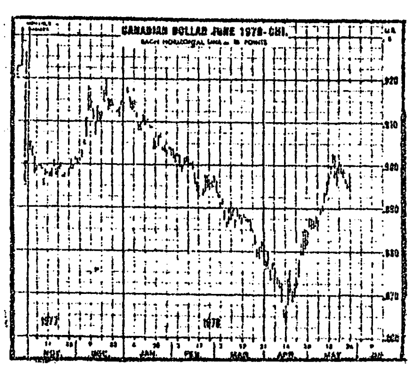
The short term respite won by the threat of massive intervention has been lost simply because monetary policy has not followed through. Interestingly, the Bank of Canada recognized the need for intervention as merely a signal - not a cure. Quoting from Governor Gerald Bouey statement to the Finance, Trade and Economic Affairs Committee of the Commons : " ... experience here and in other countries indicates that a substantial movement in an exchange rate over a relatively short period tends itself to produce excessive expectations about the future of the rate, and can give rise to an unusual amount of speculative activity as well. In such circumstances the exchange market looks increasingly to the authorities to give some indication of the limit to the movement. Indeed, the market appears to expect that at some point the authorities will take action of the kind traditionally used to defend a fixed rate, A rather curious situation can develop in which the authorities continue to look to the market to determine the rate while the market insists on probing further and further to find out how far the rate will be allowed to move before the authorities step in. A stage can thus be reached where the authorities have little choice but to become more heavily involved. "

Swap transactions with the Foreign Exchange Stabilization Fund have nullified any tightening maneuvers intended by selling securities. It is as if the Bank of Canada was interested in raising the general level of interest rates without altering the supply of funds. Shades of the American Operation Twist (early 60's)...

We continue to urge the Minister of Finance to adopt a non-inflationary method of deficit financing such as selling cost-of-living indexed bonds. These bonds should be exempt from taxes on the presumed " capital appreciation " resulting from the linkage and should provide a taxable but very nominal rate of interest, perhaps 1-2% per year. Since the bonds would be extremely appealing to individuals & institutions (private pension funds unable to 'keep up' with inflation), it is quite likely that no Bank of Canada support would be required thus avoiding monetization & its concomitant expansionist pressure on monetary aggregates.

Incidentally, the new Bank Act envisions lowering reserve requirements on demand & notice deposits. This move will prove to be highly inflationary. This is so since, faced with enormous Government borrowing requirements, the Bank will have little latitude in reducing the monetary base.

Remain short at 89.50 as per last month's Comments.



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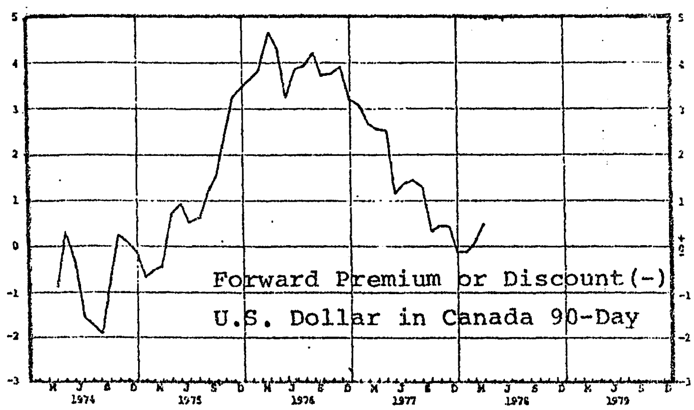


British Pound

May 31st., 1978

Balance of Trade (Mln Stg)	NOV. 77	DEC. 77	JAN 78	FEB. 78	MAR. 78	APR. 78
Jan-Apr. 1977: -1,089 Jan-Apr. 1978: + 272	+ 73	- .71	-324	+ 80	-264	+236
Balance of Payments (Mln Stg)						
Jan-Apr. 1977: ... Jan-Apr. 1978: + 177		+ 74	-179	+184	-164	+336
Reserves (Mln U.S.)	20,390	20,560	20,870	20,700	20,320	17,040
Retail Sales Index **	-2.93	+1.11	-1.12	+0.76	+2.80	+3.50
Retail Price Index **	13.03	12.14	9.92	9.47	9.10	7.93
W.P.I. **	16.03	15.22	13.0	12.74	n/a	n/a
Unemployment Rate	6.1	6.0	6.0	5.9	5.8	5.7

Euro Dollar Deposit %	APR 27	MAY 5	MAY 12	MAY 19	MAY 26
1 Mo.	10 3/8	10 3/8	10 3/4	10 1/8	10 1/8
3 Mo.	10 3/8	10 1/2	10 7/8	10 7/8	10 7/8
6 Mo.	10 1/2	10 7/8	11 1/4	11	11
12 Mo.	10 1/8	11 1/8	12 3/4	11 3/4	12

Open Interest (May 26, 1978) : 5,681 Volume (May 26,1978) : 938
Contract Size : BP 25,000.00 (Approx. U.S. $ 45,500.00)
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 (Chicago Time) Delivery Months: Mar.,June,Sep.,Dec.

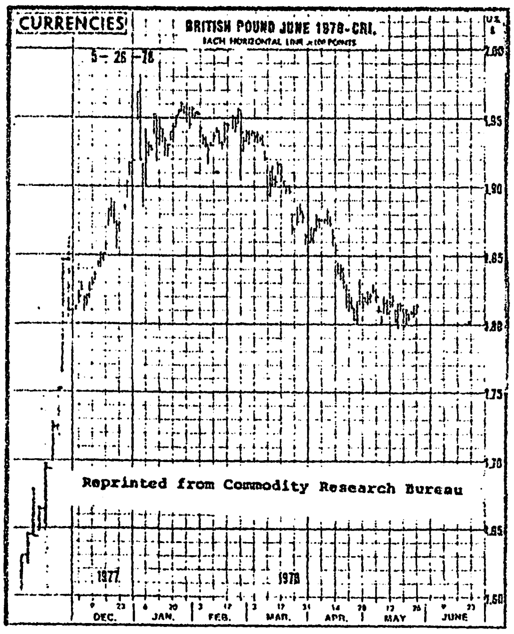
** Year-over-year % change.

The ever erratic trade figures were favorably helped by the closure of England's largest port of entry, Southampton, due to a strike of maintenance men. This may have easily accounted for the unusual 12% drop in import volume registered in April. Exports have been far less affected since exporters were able to use a greater number of alternative ports.

Long gilts continue to take a pounding as foreign money cashes on earlier (and vanished ?) profits putting additional strain on the exchange rate.

The recent weekening of the U.S. dollar may help Sterling fend off further downward readjustments, at least temporarily.

Cover outright short BP/long U.S. positions; retain short BP/long DM straddles.



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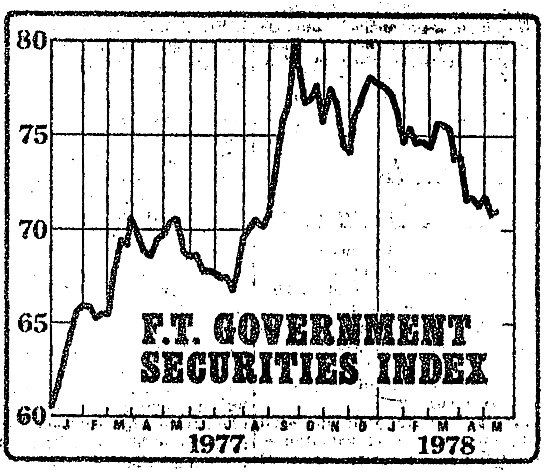

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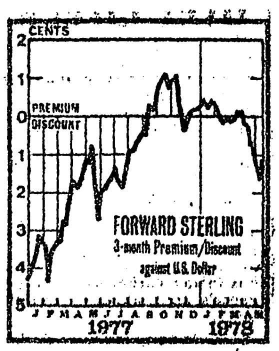


Deutsche Mark

	NOV. 77	DEC. 77	JAN.78	FEB.78	MAR.78	APR.78
Balance of Trade (Mln Marks) Jan-Apr. 1977: 11,850 Jan-Apr. 1978: 11,950	3,080	4,220	1,900	2,600	4,200	3,250
Balance of Payments (Mln Marks) Current Account Jan-Apr. 1977: 2,830 Jan-Apr. 1978: 3,214	1,400	2,600	-2,000	694	2,820	1,700
Overall Account Jan-Apr. 1977: - 253 Jan-Apr. 1978: ...	2,380	6,420	1,770	2,260	516	...
Money Supply ** M3	10.2	11.1	10.87	...	10.05	...
W.P.I. **	1.7	2.4	-0.1	-0.1	-0.7	-0.7
Cost of Living **	3.7	3.5	3.2	3.1	3.1	2.3
Unemployment Rate	4.4	4.8	5.4	5.4	4.9	4.4
Gov't Finance (Bln Marks)	-6.7	+0.28	-2.55	-1.58	---	---

	Apr. 27	May 5	May 12	May 19	May 26
Weekly Reserves Net Monetary (Mln Marks)	91,900	90,900	89,300	88,800	...
Euro Dollar Deposit %					
1 Mo.	3 1/2	3 3/8	3 7/16	3 3/8	3 9/16
3 Mo.	3 1/2	3 7/16	3 1/2	3 7/16	3 9/16
6 Mo.	3 9/16	3 1/2	3 9/16	3 9/16	3 3/4
12 Mo.	3 9/16	3 9/16	3 5/8	3 11/16	3 13/16

Open Interest (May 26,1978) : 3,253 — Volume (May 26th,1978): 585
Contract Size : DM 125,000.00 (Approx. U.S. $ 59,500.00)
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 a.m. - 1:10 p.m. (Chicago time) — Delivery Months: Mar.,June,Sept.,Dec.

French Franc

	NOV. 77	DEC. 77	JAN. 78	FEB.78	MAR. 78	APR. 78
Balance of Trade (Mln FFr) Jan-Apr. 1977: -5,523 Jan-Apr. 1978: + 96	+ 127	+1,310	-1,850	+ 64	+1,190	+ 692
Int'l Reserves (Mln U.S.)	10,020	10,194	10,211	9,992	10,231	...
Net Change of Foreign Exchange Assets **	18.02	17.51	16.91	14.04	15.11	16.52
Retail Price Index **	9.55	9.06	9.18	9.23	9.20	9.0
Gov't Bond Yield	9.60	9.65	9.61	9.55	...	...

	Apr 27	May 5	May 12	May 19	May 26
Weekly Reserves (Mln FFr) Gold & Conv. Currency	101,333	101,888	102,381	103,321	...
Euro Dollar Deposit %					
1 Mo.	8 7/8	9 3/4	8 7/8	9	8 3/8
3 Mo.	9 3/8	10.	9 1/2	9 5/8	9 1/4
6 Mo.	9 3/4	10 1/2	10.	10 3/8	9 7/8
12 Mo.	1- 7/16	10 7/8	10 3/8	11.	10 3/4

Open Interest (May 26, 1978) : 402 — Volume (May 26, 1978) : 12
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 (Chicago Time) — Delivery Months : Mar.,June,Sept.,Dec.

** Year-over-year % Change.

Japanese Yen

	NOV. 77	DEC. 77	JAN. 78	FEB. 78	MAR. 78	APR. 78
Balance of Trade (Mln US$) Jan-Apr. 1977: 4,513 Jan-Apr. 1978: 8,060	1,610	2,675	350	2,340	3,100	2,270
Balance of Payments (Mln U.S.$) Jan-Apr. 1977: 902 Jan-Apr. 1978: 5,179	1,830	1,860	- 200	2,0[illegible]	3,140	229
Money Supply M1 **	6.2	7.1	6.8	...	...	...
M2 **	10.8	10.7	10.6	...	...	...
Reserves (Mln U.S.)	22,150	22,850	23,37	24,190	29,210	27,530
C.P.I. **	6.23	4.8	4.27	4.16	4.48	3.90
W.P.I. **	-0.01	-0.02	-1.5	-1.8	-1.8	-2.24
Unemployment Rate	2.	2.08	2.05	2.08	2.12	2.2

Open Interest (May 26th,1978) : 3,569 — Volume (May 26th,1978): 1,588
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 (Chicago Time) — Delivery Months : Mar.,June,Sep.,Dec.

** Year-over-year % Change.

Balance of Trade (MLN SFr)	NOV. 77	DEC. 77	JAN. 78	FEB. 78	MAR. 78	APR. 78
Jan-Apr. 1977: - 665 Jan-Apr. 1978: - 605.5	+152	+ 491	-210	+ 48	-324.50	-119
Int'l Reserves (Mln U.S.)	10,623	13,830	12,900	13,579	13,599	...
Money Supply **		3.4	7.3	10.09		
W.P.I.**	-1.02	-1.62	-2.43	-2.83	-3.5	-3.75
Unemployment Rate	0.4	0.4	0.5	0.5	0.4	0.3

		Apr. 27	May 5	May 12	May 19	May 26
Weekly Reserves (Mln SFr)		19,650	19,660	19,410	18,860	...
Euro Deposit %	1 Mo.	3/4	7/8	1.	15/16	1 3/16
	3 Mo.	1 1/16	1 1/8	1 5/16	1 5/16	1 9/16
	6 Mo.	1 7/16	1 3/8	1 1/2	1 5/8	1 15/16
	12 Mo.	1 5/8	1 3/4	1 3/4	2.	2 5/16

Open Interest (May 26th,1978) : 4,095
Contract Size : SFR 125,000.00 (Approx. US$ 66,000.00)
Minimum Fluctuation : .0001 ($12.50)
Margin Required : US$ 5,000.00
Trading Hours : 8:45 am. - 1:10 pm. (Chicago time)

Volume (May 26th, 1978) : 1,525
Daily Limit (Normal) : .0060 ($750.00)
Commissions : US$ 60.00
Delivery Months: Mar.,June,Sep.,Dec.

** Year-over-year % change.

	Spot	Jun 78	Sep 78	Dec 78	Mar 79	Jun 79
British Pound	183.70	183.85	183.15	182.30	181.80	180.25
Canadian Dollar	89.05	89.01	88.87	88.85	88.80	
Deutsche Marks	48.02	48.13	48.78	49.41	49.90	50.40
French Franc	21.77	21.77	21.75	21.75		
Japanese Yen	45.35	45.60	46.24	46.80	40.65	
Swiss Franc	53.20	52.89	53.75	54.65	55.35	55.90

Too Little, Too Late

The relentless rise in short term U.S. interest rates that saw the widely-watched Fed Funds rate move to 7 1/2% and 3-month Eurodollar to 8 3/8% fooled most observers into thinking that monetary discipline had been regained. It is rather obvious that with consumer prices running at rates in excess of 10% per annum, U.S. dollar deposits provide negative rates of return. Since private capital movements are far more important than trade flows in determining exchange rates, we find ourselves facing a new dollar crisis.

So long as the Federal Reserve plays a 'catch up' game with interest rates, the dollar will remain fundamentally weak. The initiative will probably be taken late in the cycle, possibly at the end of this year. By then, the damaging effect of a desintegrating exchange rate on world trade, capital flows and domestic inflation will become irreversible. The ensuing boom-bust cycle will make 1973-1974 look like a picnic.

Re-enter long positions in Sept. '78 Swiss Francs, DM and Japanese Yen. Outright short positions on the BP should be closed out but the short BP/ long DM straddle may be kept. Also cover any short positions in European Currencies including the French Franc and the Dutch Guilder.

[1]Monetary aggregate targets in several major countries are:

Country	Targeted monetary aggregate	Target period	Annual growth rate target (percent)
Canada	M-1	June 1978/ June 1977	7-11
France	M-2	Dec. 1978/ Dec. 1977	12
Germany	Central bank money	Aug. 1978/ Aug. 1977	8
Switzerland	M-1	Aug. 1978/ Aug. 1977	5
United Kingdom	M-3	Apr. 1979 Apr. 1978	8-12
United States	M-1	QIV 1978/ QIV 1977	4-6½
	M-2	QIV 1978/ QIV 1977	6½-9
	M-3	QIV 1978 QIV 1977	7½-10

The target aggregate for **Canada** (M-1) includes currency and noninterest-bearing demand deposits, as does the M-1 aggregate for the **United States**. **Switzerland** includes currency and demand deposits on which a low rate of interest is paid in its M-1 aggregate. **France** sets a target for its M-2 aggregate, which includes: currency; noninterest-bearing demand deposits; savings and time deposits in banks; instalment savings; and bank bonds. The **United States** defines M-2 to include the components of M-1 plus savings and time deposits in banks except for the negotiable certificates of deposit of $100,000 or more of the large weekly reporting banks. The asset composition of Sterling M-3 in the **United Kingdom** includes: currency; demand deposits (including some that are interest-bearing); savings and time deposits at all banks and the discount houses; plus bank certificates of deposit. The **United States** defines M-3 to include M-2 plus the deposits at nonbank thrift institutions. **Germany** uses central bank money (CBM) as its aggregate target. CBM is defined as required reserves on domestic bank liabilities plus currency in circulation. It is generally believed that CBM correlates closely with M-3 in Germany, which includes: currency; demand deposits (both noninterest and interest-bearing); time deposits of less than four years maturity; and savings deposits.

Int'l Letter
Federal Reserve Bank of Chicago, May 12, 1978

Mexican Peso

Spot 43.90 June 78: 43.75 Sept.78: 42.93 Dec. 78: 42.20
Mar. 79: 41.35 June 79: 40.65 Sept.79: 40.06

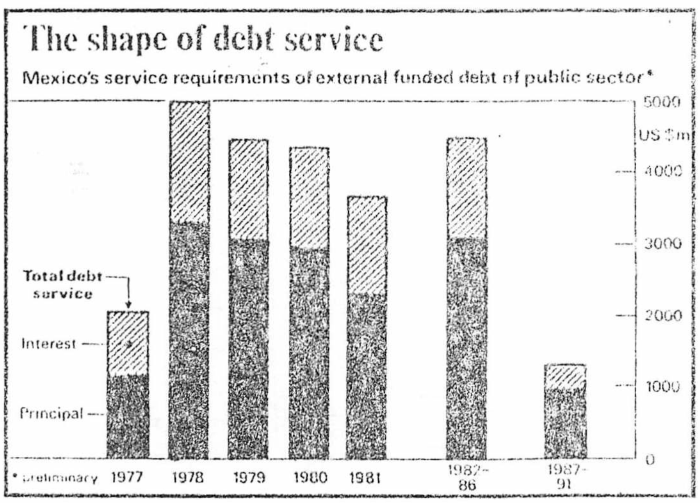
Forward Discount
Annual Basis

	June 78	Sept.78	Dec. 78	Mar. 79	June 79	Sept.79
Spot	4.10	8.84	7.74	5.80	5.92	5.83
June 78		7.50	7.09	7.31	7.09	6.75
Sept.78			6.80	7.36	7.08	6.69
Dec. 78				8.05	7.35	6.76
Mar. 79					6.77	6.24
June 79						5.72

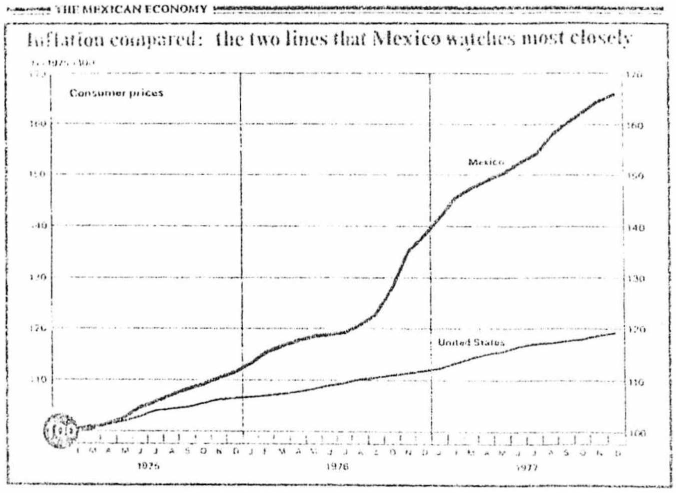
Open Interest (May 26) : 2,423 Volume (May 26) : 59
Contract Size : DM 1,000,000.00 (Approx. U.S. $ 42,000.00)
Minimum Fluctuation : .00001 ($10.00) Daily Limit (Normal) : .00150 ($1,500.00)
Margin Required : US$ 6,000.00 Commissions : US$ 60.00
Trading Hours : 8:45 am - 1:10 pm (Chicago Time) Delivery Months : Mar.,June,Sept.,Dec.

Recent figures provided by official sources indicate that fiscal expansionism in Mexico is alive & well. Public sector spending grew by 38.3% in the first quarter of 1978, from 120,614 million pesos in 1977 to 165,988 million in 1978 making hash earlier government vows of keeping the growth of Public Spending below 25%. Since revenues only grew 31.3% to 137,236 million Pesos, the apparent budgetary deficit widened to 28,752 million Pesos, 17.3% of expenditures and a horrifying $5 billion at an annual rate for an economy one quarter the size of Canada.

The moment of reckoning cannot be too far away. Remain firmly short deferred options.



THE MEXICAN ECONOMY



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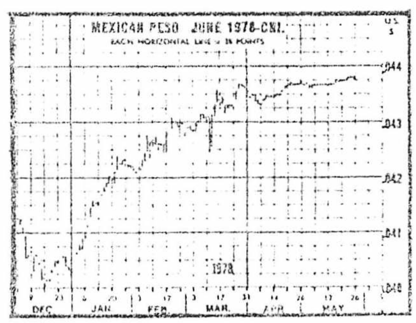

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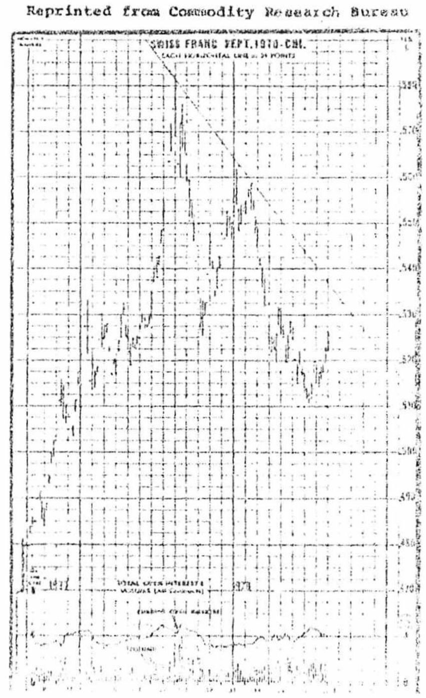


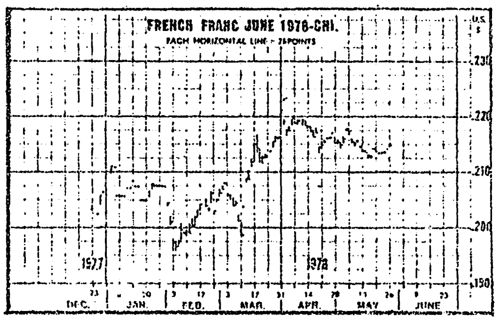
	NOV. 77	DEC. 77	JAN. 78	FEB. 78	MAR. 78	APR. 78
Balance of Trade (Mln $) Jan-Apr. 1977: 890 Jan-Apr. 1978: 1,562	180	920	340	272	771	179
General Bank Loans ** (% Growth)	14.48	12.79	12.33	11.47	10.58	11.16
Money Supply ** M1	10.27	11.91	11.42	11.48	8.85	9.08
M1B	9.40	10.57	10.34	10.53	8.70	8.57
M2	12.05	11.67	10.91	10.77	9.80	9.55
M3	14.50	13.19	13.01	12.74	12.23	13.12
International Reserves (Bln US)	4.2	4.6	4.4	3.7	4.0	4.6
% Growth **	-17.32	-21.23	-35.10	-29.79	-22.07	-11.58
C.P.I. **	9.23	9.5	9.0	8.69	8.79	8.42
Food Price Index **	13.90	15.36	14.88	13.36	13.94	14.71
Unemployment Rate Seasonnally Adjusted	8.4	8.5	8.3	8.3	8.6	8.6
N.S.A.	7.9	8.3	9.5	9.5	9.7	9.3

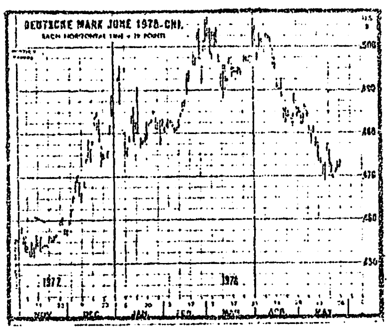
	1975				1976				1977			
Balance of Int'l Payments (Mln Dlrs)	1 Q.	2 Q.	3 Q.	4 Q.	1 Q.	2 Q.	3 Q.	4 Q.	1 Q.	2 Q.	3 Q.	4 Q.
Current Account	-1,844	-1,113	- 698	-1,324	-1,906	-1,077	- 104	-1,100	-1,583	-1,357	- 564	- 734
Net Capital Movements	1,807	628	717	1,222	2,409	1,249	- 69	1,120	817	1,345	212	443

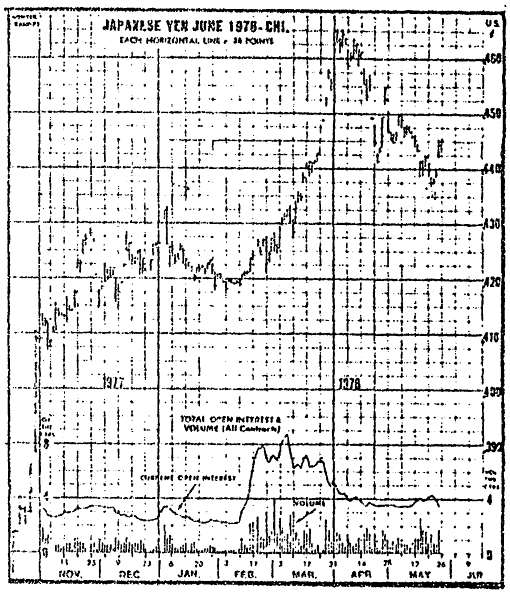
Euro Dollar Deposits %	Apr. 27	May 5	May 12	May 19	May 26
1 Mo.	7 15/16	7 11/16	7 5/8	7 7/8	7 3/4
3 Mo.	7 15/16	7 15/16	8.	8.	8 1/4
6 Mo.	8 5/16	n/a	8 7/8	8.	8 1/2
12 Mo.	8 13/16	8 7/16	8 9/16	8 5/8	8 5/8

Open Interest (May 26) : 2,204 Volume (May 26) : 986 Contract Size: CD$ 100,000.00
Minimum Fluctuation: .0001 ($10.00) Daily Limit (Normal) : .0075($750.00) Approx. U.S. $ 90,000.00
Margin Required : US$ 2,500.00 Commissions : US$ 60.00
Trading Hours : 8:45 a.m. - 1:10 p.m. (Chicago Time) Delivery Months : Mar.,June,Sep., Dec.

** Year-over-year % change







Sterling

Growth of the Monetary Aggregates (£ m)

	M1			M3 Stg.			Bank Lending*	
	N.A.	S.A.	%	N.A.	S.A.	%	N.A.	S.A.
1977								
Apr. 20	823	640	3.4	1,058	795	2.0	368	105
May 18	170	161	0.8	190	353	0.9	120	389
June 15	440	295	1.5	461	309	0.8	124	439
July 20	181	426	2.2	658	358	0.9	1,341	182
Aug. 17	276	59	0.3	-55	- 1	-	- 107	385
Sept.21	523	817	4.1	810	730	1.8	174	398
Oct. 19	748	594	2.8	669	595	1.4	580	469
Nov. 16	461	325	1.5	438	296	0.7	110	239
Dec. 14	663	233	1.1	799	413	1.0	28	292
1978								
Jan. 18	256	617	2.8	60	1,036	2.4	737	182
Feb. 15	113	484	2.1	378	1,050	2.4	328	284
Mar. 15	364	170	0.7	369	313	0.7	313	576
Apr. 19	795	354	1.5	1,735	1,137	2.5	387	261

* To private sector in Sterling.

COMMODITY COMMENTS

The following is an explanation of our ranking system:

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

COCOA

****	September '78	129.25
*****	December '78	125.60

The reinstatement of our long position was rather premature. We were misled by the length of time the market had taken to begin its logical descent.

At this stage, however, the descent has become all too logical and the consensus is unanimously bearish. We prefer the sidelines but would be prepared to go back on the long side on any moves above 140.00 basis July '78.

COFFEE

	May '78 (expired)	179.50
****	September '78	165.52
***	March '79	153.50

The mini-bull market has been largely confined to deferred terminal values where discounts have been much too wide.

We doubt the rally will carry further than another 200 - 500 points barring an unforseen weather accident.

Sell March '79 at 160.00 or better, covering only on confirmed reports of a frost that reportedly wiped out more than 25% of the Parana crop (a tall order?).

COPPER

*****	July '78	65.30
*****	December '78	68.10

All systems are "go". Warehouse movement is showing a sustained drop on a 3 months' and 1 year rate of change while the long term July '76 - July '77 downtrend has been penetrated on the upside. On a more negative note, the background news are a bit too bullish while there has been little trade hedge lifting ; if anything, the trade has been a prominent seller.

Remain long (after having bought at 64.00 basis July '78 as per last month's comments) placing protective stops at 63.50 basis July '78, close only.

COTTON

***	March	64.78
***	October	62.35

The bulls took the bait too soon. The high degree of bullishness prevailing against a poor fundamental background makes us quite reticent in following the advance. In fact, we think a sizeable drop is imminent.

Sell March '78 at market, placing protective stops at 66.60. Look for minimal 250 point correction and perhaps a new bear trend.

ORANGE JUICE

	May '78 (expired)	109.00-110.50
****	July '78	106.55
*****	November '78	99.00

The uninspiring expiration of the May contract triggered heavy liquidation bringing prices back below 100 for at least one 1978 contract month.

Prices for deferred deliveries are "cheap" enough to warrant a "shot" at the long side.

Buy at market, placing stops at 95.00 basis November '78, close only.

INTEREST RATE FUTURES

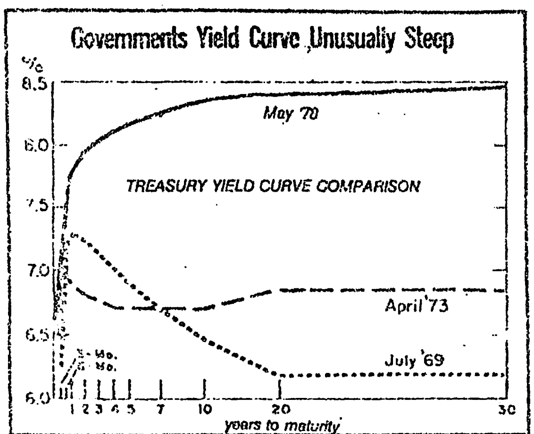
			Yield
****	June '78 TB	93.21	6.79 %
*****	September '78 TB	92.64	7.36 %
****	June '78 GMNA's	91.28	9.124 %
****	September'78 GMNA's	90.22	9.037 %

Monetary policy, although slightly higher, remains on the whole accomodative. The rate of growth of total bank reserves and non-borrowed reserves (see tables) has been trending downwards and connecting the explosion that took place in the early part of the year. We expect the traditional measures of money supply to show some pronounced deceleration in the near future but probably no earlier than early Fall. Total money supply growth, as roughly represented by a proxy denominated deposits subject to reserve requirements (see table) continues to grow at an alarmingly inflationary pace.

The implications of the unusually steep yield curve may be a bit too pessimistic. In the first place, the Fed, being a political entity, may not be able to raise Funds much further than what it has already done without first seeing the likely course of Federal spending and the budget making process over the next few months. The Senate Banking Committee called today for a less restrictive monetary policy to be accompanied by a smaller Federal Budget deficit. Although it may never happen, the Fed is duty-bound to observe developments that may take weeks and months. Secondly, the Fed will be eager to see what results the recent rapid run up in Funds has on monetary aggregates - again, it may want to wait 2 - 4 months. Finally, and this point is merely relevant to TB futures, a weak dollar paradoxically implies low Bill rates, as foreign Central Banks move dollars into Goverment Securities.

We reiterate: the Street has become too bearish on debt securities. Tightness and sharply escalating interest rates are further into the future than implied in our terminal values.

Buy September '78 TB at market; place stops at 92.55 close only. Stand aside on Ginnie Maes.



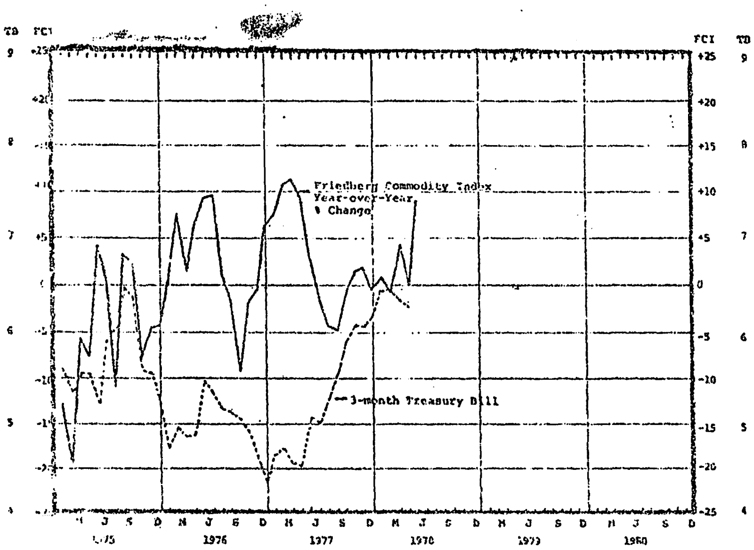
The Money Manager May 22,78

Member Bank Deposits- Subject to Reserve Requirements

Date	3 Mo.*	6 Mo.*	12 Mo.**
Mar. 77	5.0		
Apr.	4.5		
May	5.2		
Jun.	5.6	5.28	
Jul.	8.5	6.28	
Aug.	9.3	7.07	
Sep.	10.96	6.4	
Oct.	11.59	7.6	
Nov.	13.18	9.73	
Dec.	14.22	9.68	7.57
Jan. 78	17.46	10.69	8.11
Feb.	14.56	10.16	8.28
Mar.	13.15	10.80	8.50

* All percentage changes are at seasonally adjusted compounded annual rates.

** All percentage changes are at not seasonally adjusted annual rates.



PRECIOUS METALS

******	June '78 Comex Gold	184.3[illegible]
******	December"78 Comex Gold	192.30
******	July '78 Comex Silver	543.00
******	December'78 Comex Silver	562.10
******	July '78 Platinum	254.30

As proof to our restatement that offerings is the stuff that makes bull markets (obviously because it is able to accomodate sizeable bids), both the IMF and U.S. Treasury gold auctions went like "hot cakes". On May 3, the IMF sold 524,800 ounces at 170.40/oz. but it is noteworthy that over 3 million ounces were bid, the highest amount since the December 8, 1976 auction, when gold was awarded at $137/oz. Have 18 months made gold as attractive today at $170/oz. as it was then at $137/oz? The answer is probably yes, in view of the cheapness of gold when denominated in Yen or other strong European currencies. (See table) -

	Dec. 8, 1976	May 3, 1978	% Change
Dollar gold price (per ounce)	137	170.40	+ 24.4
Swiss Franc gold price (per ounce)	329	336	+ 2.0
Japanese Yen gold price (per ounce)	40,592	38,577	- 4.9

The U.S. Treasury gold auction conducted on May 23, was just as successful. Total bids of 1,360,000 ounces were entered for the 300,000 ounces on sale. The prices awarded ranged from $180.01 to $182.35/oz. averaging 180.38, above that day's London Fix.

"The International Monetary Fund said reduced public amount at gold auction to 470,000 from 525,000, but intends to continue full gold sale program. The IMF said that it intends to complete its sales of 25 million ounces of gold. The new amount on offer will be reviewed after the first six months, and that it is [illegible] all auctions under the bid price method. The IMF said that in reducing the amount of gold on offer at the next six auctions "developing member countries can opt for purchasing gold from the Fund by submitting noncompetitive bids for up that part of 25 million ounces of gold which corresponds to their share in fund quotas on August 31, 1975. "These members will have inform the fund by May 22, 1978 whether they wish to have this option, and they will be entitled to exercise the option or any part of it in any of the auctions held before May 31, 1979" the IMF said. The Fund continued that in view of the amendment to its articles, "monetary authorities of member countries are no longer prohibited from submitting bids, and the terms and conditions for the auctions to be held in the coming months do not restrict such participation. The IMF said that the amount of gold awarded to noncompetitive bidders will be sold in addition to the 470,000 ounces, and "subsequent auctions will be adjusted in a manner to assure that the entire 25 million ounces are sold within the agreed four year period. As the actual amount of noncompetitive bids that will be tendered is not known, adjustments to the amount auctioned each month to competitive bidders will be considered in the light of experience after the first six months," the Fund said. The IMF said as soon as possible after May 22, it will make public the total amount for which the non-competitive option has been retained. In addition, after each auction the IMF also intends to release the names of noncompetitive bidders and the total amount of non-competitive bids where gold has been awarded. The IMF said it will review experience with the auctions, including participation in the, and developments in gold markets, and will adjust the terms and conditions for the auctions as necessary. The IMF said the auctions will continue to be held on the first Wednesday of each month, the minimum competitive bid will remain 1,200 ounces, a deposit of the higher of $10 an ounce or $25,000 will continue to be required. Delivery will be at one of the IMF's maj[illegible] depositories and payment will have to be completed by about seven days after the auction. The next auction, on June 7 will require payment to be completed by June 16, with delivery of the gold taken by June 30 in New York." - Reuter May 19.

This market looks considerably higher and would not be surprised to see it go through the $200/ounce mark on its way to $210 - 220 by early August. Remain long and add on dips.

Both Silver and Platinum have turned extremely strong in recent weeks, with the latter moving sporadically into backwardation. We expect both metals to continue firm and set our sights at $6.50/ounce for September '78 Silver and $3?0/ounce for October '78 Platinum.

SUGAR **** July '78 7.51

Nervousness over the possibility that the U.S. will not ratify the ISA coupled with heavy producer selling depressed sugar values to the low 700's. In recent days the market has shrugged off increased hedge selling and has been able to firm up somewhat.

Having been stopped out at approximately 7.50 we prefer to remain on the sidelines.

WOOD COMPLEX

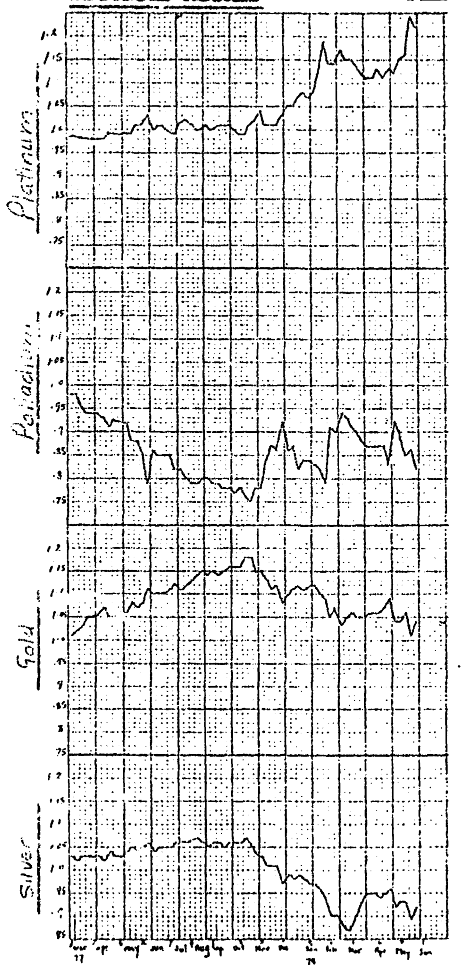
***** September Lumber 197.00
***** September Plywood 202.90

We remain friendly to this market and prefer to trade it from the long side. Place stops 300 points below present levels, on close only.

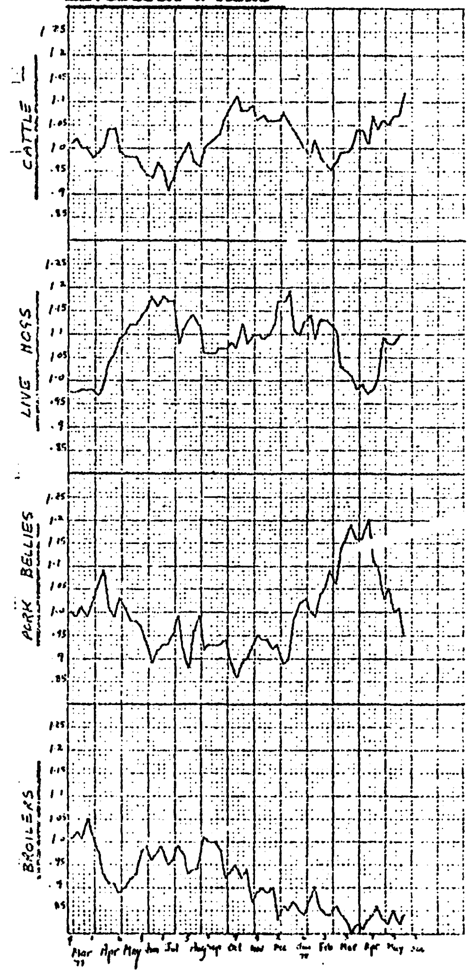
FCI	May '78	April '78	May '77
+ 5.2 % from month ago	242	230	222
+ 9.0 % from year ago			

RELATIVE STRENGTH

Precious Metals



Livestock & Meat



U.S.
Reserve Aggregates *

Date	TOTAL RESERVES 13 wks prev.	26 wks prev.	52 wks prev.	NONBORROWED RESERVES 13 wks prev.	26 wks prev.	52 wks prev.**
Jan. 18	10.3	8.3	5.9	17.7	7.1	4.6
25	13.0	10.2	6.4	22.2	8.7	5.0
Feb. 1	13.2	9.5	6.6	24.0	8.9	5.5
8	13.1	9.6	7.3	23.2	9.6	6.1
15	12.6	8.5	7.3	19.1	9.3	6.1
22	11.8	7.9	7.8	16.9	11.0	6.8
Mar. 1	11.2	8.0	7.6	16.5	12.4	6.7
8	8.0	6.4	7.1	12.6	10.9	6.1
15	5.2	4.8	6.5	9.8	8.6	5.5
22	6.2	6.1	6.4	10.3	8.8	5.8
29	6.0	6.6	6.2	8.9	8.3	5.6
Apr. 5	4.4	6.3	6.3	7.3	8.5	5.8
12	4.5	6.9	6.4	7.4	10.1	6.0
19	5.3	6.6	6.5	8.0	11.8	5.9
26	4.0	6.6	6.5	5.3	12.2	5.6
May 3	4.8	7.1	6.3	2.2	11.1	4.5
10	4.0	7.4	6.7	-2.6	9.0	3.9

* All percentage changes are at seasonally adjusted annual rates, not compounded.
** Average of 4 weeks ended from 4 weeks average ...

US. Cocoa-Chocolate Products Imports (Source:Census Bureau) in Lbs.

Date	Period	Cocoa Beans	(A)	Cocoa Butter	(A)	Unsweetened Chocolate	(A)	Unsweetened Cocoa	(A)	Total Bean Equivalent	(A)
May 26	Apr.78	45,920,969	+11.1%	4,250,835	+24.9%	8,289,469	+25%	17,256,402	-8%	110,790,305	+8.3%
May 26	Jan-Apr 78	197,318,255	+11.9%	13,586,767	-12.4%	36,604,985	+82.6%	68,314,608	+13%	459,339,341	+21.6%

A-Year over year change

U.S. Coffee Inventories (In thousands of bags)

Period	Source	Projection	Type	No. of Bags	Year over Year % Change
March 31/76	Census Bureau		Green	3,194	+19.5%
June 30/76	Census Bureau		Green	2,908	+ 1.3%
Sep. 30/76	Census Bureau		Green	2,961	-23.1%
Dec 31/76	Census Bureau		Green	2,768	-16.1%
Mar. 31/77	Census Bureau		Green	3,519	+10.2%
June 30/77	Census Bureau		Green	3,115	+ 7.1%
Sep.30 /77	Census Bureau		Green	2,617	-11.6%
Dec.31/77	Census Bureau		Green	1,684	-39.1%
Mar.31/78	Census Bureau		Green	2,247	-36.1%

Copper Statistics (in thousand shorttons)

Period Ending	Comex Open Interest	3 Months Rate of Change	1 Year Rate of Change
Dec. 77	598.8	+34.1	-3.12
Jan.78	572.8	+18.2	-13.78
Feb.78	620.6	+22.4	-7.7
Mar.78	611.9	+2.2	-8.69
Apr.78	578.5	+1.0	-14.3
May 78	686.4	+10.6	+18.9

Copper Stocks-Comex and LME in thousand short tons

Period ending :	Combined Comex & LME	3Month Rate of Chnge	1 Year Rate of Chng	Comex, LME & Refined	3 Month Rate of Chng	1 Year Rate of change
Dec. 77	891.2	+1.3	+2.9	1177.9	+12.2	+7.4
Jan. 78	891.0	N/A	+1.2	1197.8	N/A	+4.1
Feb. 78	869.5	-2.4	-3.1	1177.7	+5.9	+1.25
March 78	813.8	-8.7	-.8.5	1104.7	-6.2	-5.3
April 78	782.2	-12.2	-12.5	1086.9	-9.3	-5.7
May 78	764.	-12.1	-13.1	N/A	N/A	N/A

Cotton and manmade fibers: Daily rate of mill consumption on cotton-system spinning spindles, unadjusted

Period	1976/77	1977/78	% Change
	Bales[2]		
August	26,623	25,244	-5.1
September	25,496	24,774	-2.8
October	26,872	26,163	-2.6
November	25,465	25,835	+1.4
December	23,616	23,225	-1.6
January	25,904	25,362	-2.0
February	26,805	26,190	-2.2
March	26,654		
April	25,855		
May	25,919		
June	25,177		
July	20,158		

Source: U.S.D.A.

1 Preliminary. 2 480-pound net weight bales.

Citrus Statistics (in thousands of Boxes unless otherwise specif

Period to date	Inventory to date (gallons)	A %	Period to date	Consumer Purchases to date Frozen	A %	Chilled	%A	Average Price to date Frozen	A %	Chilled	A %
4.22.78	60,791	-36.17	4.15.78	43,335	-20.24	64,613	-16.10	35.4¢	+58.03	51.0¢	+28.78
4.29.78	63,774	-31.	4.22.78	45,366	-20.15	66,860	-16.17	35.2¢	+56.44	51.2¢	+28.96
May 6/78	66,610	-32.51	apr 29/78	47,455	-20.01	69,096	-13.36	35.3¢	+55.50	51.2¢	+28.96
May 13/78	70,109	-29.97	May 6/78	46,691	-24.44	71,774	-13.23	35.3¢	+54.13	51.3¢	+29.22

A – Year over year change

Citrus Statistics (figures in thousands of boxes unless otherwise specified)

Sources: Growers Administrative Committee, Lakeland; Division; Division of Fruit & Vegetables Inspection, Winter Haven; Florida Canners Association, Winter Haven; Florida Citrus Mutual Statistical Division, Lakeland

Period to Date	Gallon Packed to Date	A %	Retail Movement to date (gallons)	A%	Institutional Move. to date	A% (gallons)	Bulk Move. to date (gal)	A %	Total Movem. to Date (gal)	A %
4.22.78	98,379	-19.24	48,589	-20.34	6,659	-30.29	14,064	-.38	69.321	-18.14
4.29.78	104,202	-17.73	50,518	-19.91	7,006	-28.73	14,703	-.25	72,228	-17.59
May 6/78	109,736	-16.46	52,385	-19.95	7,313	-28.17	15,266	+1.46	74,984	-17.8
May 13/78	116,005	-14.44	54,476	-19.37	7,618	-26.87	16,008	-1.10	78,103	-17.05
May 20/78									81,277	-16.34

A-Year over year change

Albert D. Friedberg

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