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## COMMODITY & CURRENCY COMMENTS

38,000 Yen / Ounce

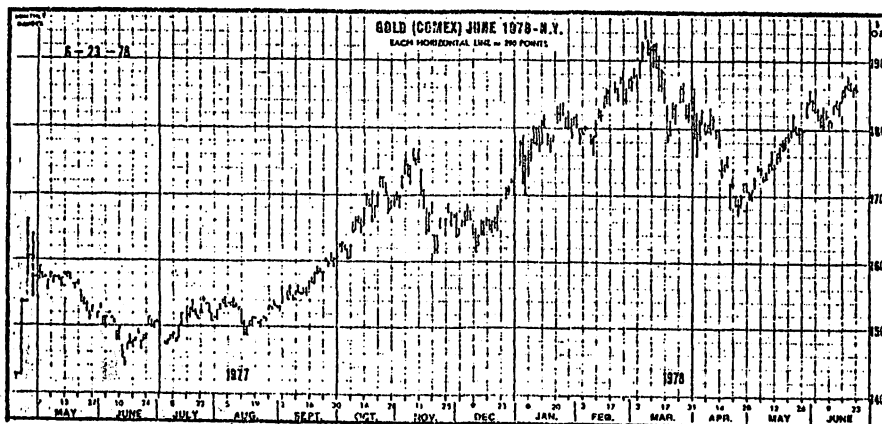
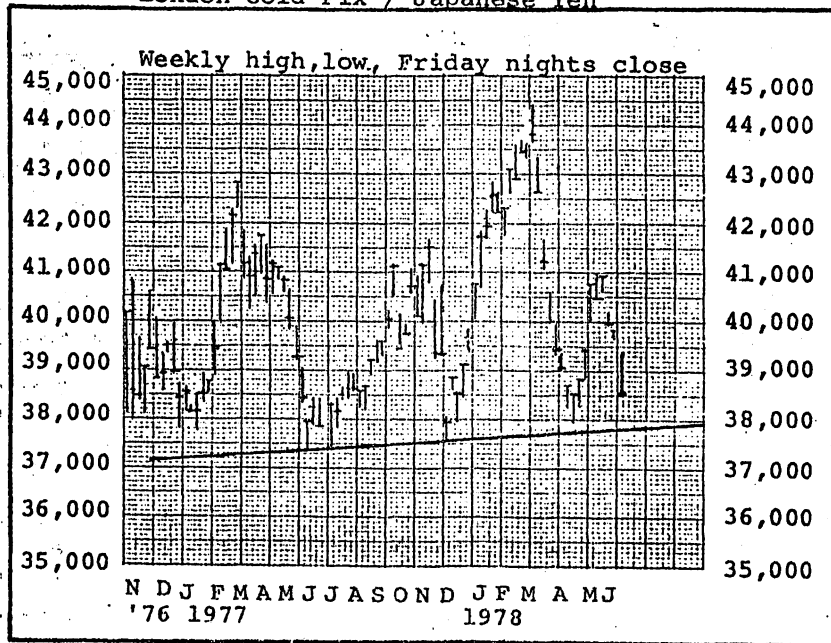
June 28th, 1978

As the accompanying chart shows, 38,000 Yen/oz has proven a remarkable level for gold prices. It represented the approximate 1976 lows and has acted as a consistent support area for the past 18 months. At today's lofty \$185/oz, gold is once again sitting at approximately the 38,000 Yen mark.

Coincidence? Could it not indicate that gold has still not entered its most dynamic upside phase? Or is it a sign of an anemic market?

We have given this fact a favorable interpretation and advise retaining all long positions in precious metals.

London Gold Fix / Japanese Yen



	Spot	Sep. 78	Dec. 78	Mar. 79	Jun 79
BP	185.75	184.65	183.45	181.75	180.00
CD	88.83	88.93	88.97		
DM	48.14	48.67	49.40	50.05	50.80
FR	22.06	21.925	21.995	21.13	
JY	48.60	49.16	49.82	50.56	
SF	53.78	54.55	55.56	56.45	57.45

## British Pound

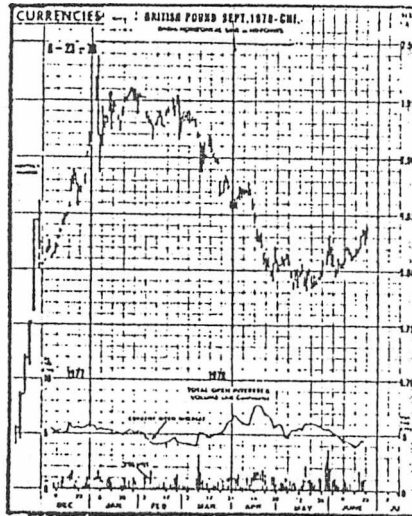
	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Mln Stg)				
Jan-May 1977: -1,333	+ 80	- 264	+ 236	- 169
Jan-May 1978: - 441				
Balance of Payments (Mln Stg)				
Jan-May 1977: - 267	+184	- 164	+ 336	- 49
Jan-May 1978: + 128				
Reserves (Mln U.S.)	20,700	20,320	17,040	16,660
Retail Price Index **	9.47	9.10	7.93	7.65
Retail Sales Index **	+0.76	+2.80	+3.50	+4.41
W.P.I. **	12.74	12.09	10.90	9.55
Unemployment Rate	5.9	5.8	5.7	5.7

1977	Output (£M)		O11 (£M)		M3 %
	Consumer Goods	Invst. Goods	Balance	DCE	
1st Qtr	115.9	99.4	- 800	- 74	- 8.8
2nd Qtr	113.4	97.5	- 745	+ 769	14.9
3rd Qtr	115.1	98.0	- 602	+ 365	10.4
4th Qtr	117.0	97.5	- 276	+ 698	12.6
1978					
1st Qtr	117.1	98.6	- 646	+1,819	24.2
Jan.	117.0	99.0	- 236	+ 258	17.3
Feb.	117.0	98.0	- 202	+ 963	25.5
Mar.	118.0	99.0	- 208	+ 598	24.2
Apr.	119.0	99.0	- 115	+1,437	24.7
May			- 109	+1,096	15.6

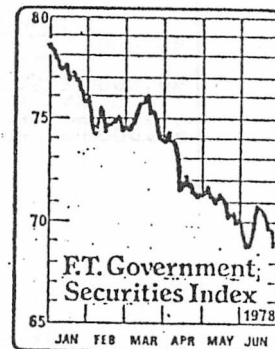
\*\* Year-over-year % change

Euro Deposit %	Jun. 9/78	Jun. 16/78	Jun. 23/78
1 Mo.	11 1/2	12.	10 1/8
3 Mo.	11 5/8	12.	11 5/8
6 Mo.	12.	12 1/8	12 1/8
12 Mo.	12 1/2	12 1/2	12 1/2

Open Interest (Jun. 23/78) : 4,852 Volume (June 23/78) : 1,353  
 Contract Size : BP 25,000.00 (Approx. U.S. \$ 46,000.00)  
 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 - 1:10 Delivery Months : Mar., Jun., Sep., Dec.  
 (Chicago Time)



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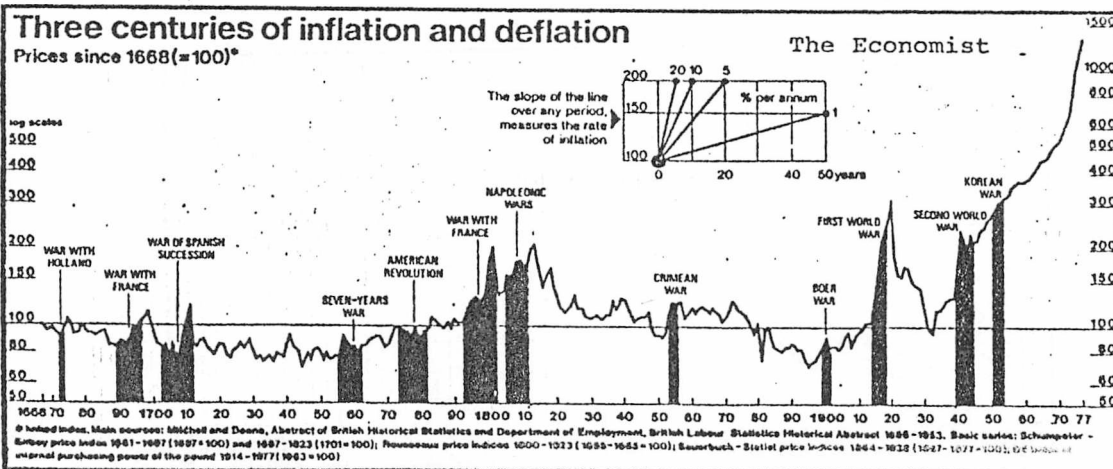


Financial Times

Our advice to cover short BP positions vis à vis the U.S. dollar proved timely and allowed us to take substantial profits.

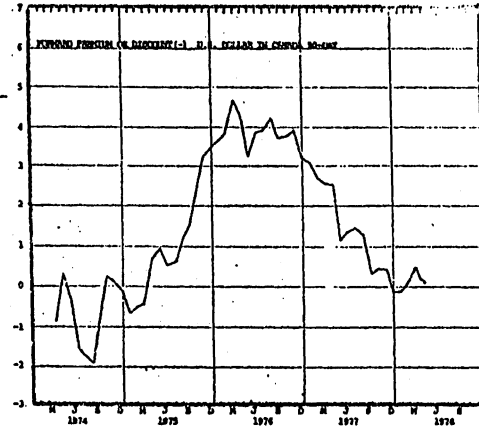
Sterling funds placed on short deposits or even invested in Gilts are showing a positive rate of return and that is sufficient inducement to capital flows to offset the erratic pattern of trade figures.

Speculators should remain sidelined; commercial hedgers should cover forward for up to 3 months.



# Canadian Dollar

	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Bln \$)				
Jan-May 1977: +947	272	771	179	...
Jan-May 1978: ...				
General Bank Loans **	11.47	10.58	11.16	11.27
Money Supply**				
M1	11.48	8.85	9.08	10.45
M1B	10.53	8.70	8.57	10.96
M2	10.77	9.80	9.55	10.00
M3	12.74	12.23	13.12	11.91
Currency plus				
All Deposit Liabilities**	11.93	11.66	12.34	12.05
Int'l Reserves (Bln US)	3.7	4.0	4.6	4.7
C.P.I. **	8.69	8.79	8.42	9.04
Food Price Index **	13.36	13.94	14.71	16.87
Unemployment Rate				
S.A.	8.3	8.6	8.6	8.6
N.S.A.	9.5	9.7	9.3	8.4



## Seasonal Adjustment Factors - Monetary aggregates

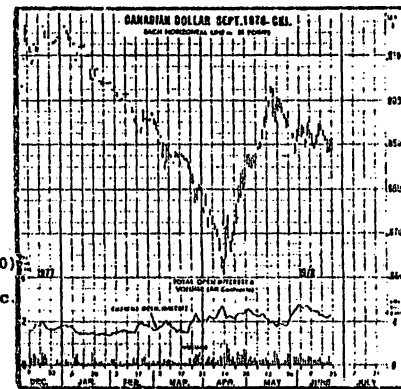
1978	(a)	(b)	(c)	(d)	(e)
Jan.	99.4	100.1	99.4	99.0	98.1
Feb.	97.5	97.3	97.7	98.4	97.8
Mar.	97.4	97.1	97.7	98.7	99.1
Apr.	98.1	99.3	99.0	99.5	99.9
May	98.8	97.2	98.6	99.5	100.4
June	100.0	100.5	100.4	100.1	100.7
July	102.1	101.5	101.6	101.0	101.1
Aug.	101.2	101.5	101.2	101.1	101.1
Sep.	100.8	101.3	101.1	101.2	101.3
Oct.	100.5	100.6	100.7	100.9	101.0
Nov.	100.6	100.1	100.3	100.1	99.9
Dec.	103.3	100.3	102.0	100.3	99.3

- (a) :Currency outside banks
- (b) :Privately-held demand deposits less private sector float
- (c) :Currency and all chequable deposits (M1B)
- (d) :Currency and all chequable, notice and personal term deposits (M2)
- (e) :Currency plus total privately-held deposits (M3)

Euro Deposit %	June 2	June 9	June 16	June 23
1 Mo.	8 7/8	8 1/16	8 3/8	U.
3 Mo.	8 7/16	8 7/16	8 9/16	8 1/2
6 Mo.	8 3/4	8 3/4	8 7/8	8 7/8
12 Mo.	8 7/8	8 15/16	9 1/8	9 1/8

Open Interest (June 23/78): 2,371 Volume (June 23/78): 644  
 Contract Size: CD\$ 100,000.00 (Approx. U.S. \$ 89,000.00)  
 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., Jun., Sep., Dec.  
 (Chicago Time)

\*\* Year-over-year % change



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The gargantuan amounts needed to cover the Federal Government financing requirements and its inflationary consequences can easily be perceived by looking at recent statistics. Out of a total financing requirement of \$1,955 billion (first quarter of 1978), foreign exchange liquidation - an attempt to stave off the CD\$ drop - contributed \$679 million or roughly 37.4% and the Bank of Canada increased its holdings of Federal securities by \$618 million or 31.6%. The first method entails greater foreign indebtedness while the second method can be benignly described as a sophisticated banana - republic type of printing press. By a mechanism already described in previous issues, the accelerating trend of monetization will reflect itself in an accelerating trend of growth in monetary aggregates. The deceiving attraction of high nominal interest rates is masking an otherwise alarming growth of money supply; M1, currency & privately held demand deposits, has managed to (barely) stay below the upper Bank of Canada target but excessive growth is clearly taking place in the broader aggregates (see accompanying figures). Given the absurdity of the present interest rate structure (negative rates of return), we predict that M1 will soon 'break loose' and attain yearly rates of growth in excess of 12-13% p.a.

The foregoing clearly demonstrates that the Federal Gov't is placing excessive credit demands on the economy for, in order to obtain non-inflationary financing, it would have to resort to much higher levels of interest rates. The choice is either a dramatic cutback in Spending or an attractive investment paper that would channel genuine private savings to the fulfillment of 'presumably' worthwhile causes. An election year precludes the former alternative. If we do not adopt the latter course, the balance of 1978 will plant the seeds of a scandalous 20%+ inflation in the 1979/80 period.

Remain short CD\$ forward positions, placing stops at 89¢ basis nearb

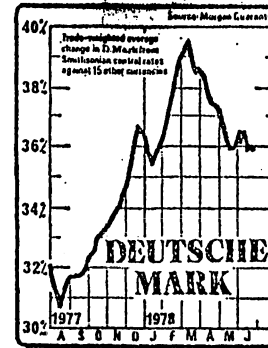
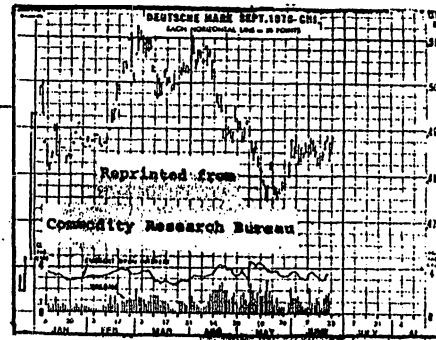
# Deutsche Mark

	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Mln Marks)				
Jan-May 1977: +15,470	2,600	4,200	3,250	3,040
Jan-May 1978: +14,990				
Balance of Payments (Mln Marks)				
Current Account:				
Jan-May 1977: +4,030	694	2,820	1,700	600
Jan-May 1978: +5,456				
Overall Account:				
Jan-May 1977: - 636	2,260	516	-1,660	...
Jan-May 1978: ...				
Money Supply ** M3	10.43	9.78	...	...
W.P.I. **	-0.1	-0.7	-0.7	-0.7
Cost of Living **	3.1	3.1	2.3	2.66
Unemployment Rate	5.4	4.9	4.4	4.0
	June 2	June 9	June 16	June 23
Weekly Reserves				
Net Monetary (Mln Marks)	88,000	89,000	88,500	...
Euro Deposit %				
1 Mo.	3 7/16	3 1/2	3 7/16	3 1/2
3 Mo.	3 9/16	3 1/2	3 1/2	3 1/2
6 Mo.	3 5/8	3 5/8	3 5/8	3 5/8
12 Mo.	3 13/16	3 13/16	3 13/16	3 13/16

Open Interest (June 23/78): 3,667  
 Contract Size: DM 125,000.00 (Approx. U.S. \$ 61,000.00)  
 Minimum Fluctuation: .0001 (\$12.50)  
 Margin Required: US\$ 4,000.00  
 Trading Hours: 8:45 am - 1:10 pm (Chicago Time)

Volume (June 23/78): 1,276  
 U.S. \$ 61,000.00  
 Daily Limit (Normal): .0060 (\$750.00)  
 Commissions: US\$ 60.00  
 Delivery Months: Mar., Jun., Sep., Dec.

\*\* Year-over-year % change



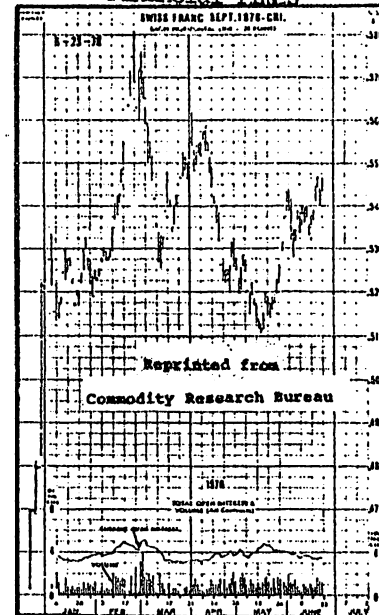
# Swiss Franc

	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Mln SFr)				
Jan-May 1977: -640	+ 48	-324.5	-119	-101
Jan-May 1978: -706.5				
Int'l Reserves (Mln US\$)	13,579	13,599	13,276	...
Money Supply **	10.09	16.7	...	...
W.P.I. **	-2.83	-3.5	-3.75	-3.68
Unemployment Rate	0.5	0.4	0.3	0.3
	June 2	June 9	June 16	June 23
Weekly Reserves (Mln SFr)	19,050	19,010	19,700	19,950
Euro Deposit %				
1 Mo.	1 1/8	1 3/16	1 1/4	1 5/16
3 Mo.	1 5/16	1 7/16	1 5/8	1 5/8
6 Mo.	1 5/8	1 11/16	2.	2.
12 Mo.	1 15/16	2.	2 1/8	2 1/8

Open Interest (June 23/78): 3,564  
 Contract Size: SFr 125,000.00 (Approx. US\$ 68,000.00)  
 Minimum Fluctuation: .0001 (\$12.50)  
 Margin Required: US\$ 5,000.00  
 Trading Hours: 8:45 am - 1:10 pm (Chicago Time)

Volume (June 23/78): 920  
 US\$ 68,000.00  
 Daily Limit (Normal): .0060 (\$750.00)  
 Commissions: US\$ 60.00  
 Delivery Months: Mar., Jun., Sep., Dec.

\*\* Year-over-year % change

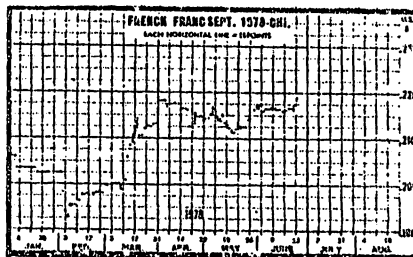


The interest rate 'push' taking place in the U.S. dollar sector has widened spreads vis a vis the DM and the SFr substantially enough to have shifted the burden of proof to the buyers of Deutsche Marks and Swiss Francs. It has, in fact, become extremely expensive to borrow dollars in order to buy European Currencies (except for BP and FFr) and at some point a reflow will begin. This is perhaps why the yen has managed to move up rather sharply in recent weeks leaving well behind the two other 'strong currencies'.

Furthermore, recent intervention has begun to prove exceedingly disruptive to the control of monetary aggregates in both Germany & Switzerland. In the former case, M3 has run consistently above the upper Bundesbank target of 8% p.a., reaching 10% or more when measured on a year over year basis. In Switzerland, M1 showed an astronomical rate of growth of 16.7% (March 78 over March 77), the fastest annual increase since the Franc was floated. The implications of such a development are bullish near term and bearish longer term. In the short run, the Swiss National Bank and the Bundesbank will have to stop intervening in the foreign exchange market so as to regain control of money supply. In the long run, the higher rate of inflation implied by the present extraordinary increases in money supply plus the pull of U.S. interest rates, will force a powerful reversal, which will represent, in all likelihood, no more than a correction in a long bull market.

Long positions in SF and DM should be watched carefully and close stops should be placed. We are suggesting sell stops at 53.90 basis Sep. 78 SF and 48.10 basis Sep. 78 DM.

	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Mln FFr)				
Jan-May 1977: -5,964				
Jan-May 1978: + 244	+ 64	+ 1,190	+ 692	+ 155
Int'l Reserves (Mln U.S.)	9,992	10,231	10,601	...
Net Change of Foreign Exchange Assets **	14.04	15.11	16.52	19.34
Retail Price Index **	9.23	9.20	9.0	9.0
	June 2	June 9	June 16	June 23
Weekly Reserves (Mln FFr)				
Gold & Conv. Currency	104,993	105,165	105,297	...
Euro Deposit %				
1 Mo.	9 5/8	10 1/4	10 5/8	9 7/8
3 Mo.	9 3/4	10 1/2	10 3/4	10 3/8
6 Mo.	10 3/8	10 7/8	11.	10 3/4
12 Mo.	10 7/8	11 1/4	11 1/2	11 1/2



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Open Interest (June 23/78): 101  
 Contract Size : FFr 250,000.00 (Approx. US\$ 55,000.00 )  
 Minimum fluctuation : .00005 ( \$12.50)  
 Margin Required : US\$ 5,000.00  
 Trading Hours : 8:45 am - 1:10 pm (Chicago Time)

Volume (Jun. 23/78) : 32  
 Daily Limit (Normal) : .0050 ( \$1,250.00)  
 Commission : US\$ 60.00  
 Delivery Months : Mar., Jun., Sep., Dec.

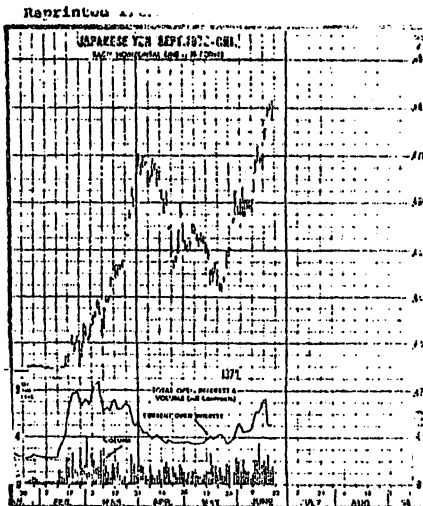
\*\* Year-over-year % change

The sensible lifting of price controls, a dramatic shift to economic conservatism and continued monetary restraint have turned the FFr into one of the world's strongest currencies.

Forward buying for commercial hedgers is recommended.

# Japanese Yen

	Feb. 78	Mar. 78	Apr. 78	May 78
Balance of Trade (Mln US\$)				
Jan-May 1977: + 5,153				
Jan-May 1978: + 9,410	2,340	3,100	2,270	1,350
Balance of Payments (Mln U.S.\$)				
Jan-May 1977: + 1,222				
Jan-May 1978: + 5,069	2,010	3,140	229	- 110
M1	7.75	7.22	...	...
Reserves (Mln U.S.)	24,190	29,210	27,530	27,710
C.F.I. **	4.16	4.48	3.9	...
W.I.T. **	-1.8	-1.8	-2.24	-2.09
Unemployment Rate	2.08	2.12	2.2	...



Open Interest (June 23/78): 5,371  
 Contract Size : Yen 12,500,000.00 (Approx. U.S. \$ 61,000.00 )  
 Minimum Fluctuation : .000001(\$12.50)  
 Margin Required : US\$ 4,000.00  
 Trading Hours : 8:45 am - 1:10 pm (Chicago Time)

Volume (Jun. 23/78): 627  
 Daily Limit (Normal) : .000060 (\$750.00)  
 Commissions : US\$ 60.00  
 Delivery Months: Mar., June, Sep., Dec.

\*\* Year-over-year % change

Excellent control of monetary aggregates and a low level of domestic economic activity are responsible for much of the recent extraordinary surge in the Japanese Yen.

The ongoing revaluation has had little or no effect on the country's trade or payments balance, another proof that exchange rate manipulation cannot solve international imbalances. Either the Japanese inflate their way out of their ever rising currency or the U.S. forces a short term capital reflow by way of sharply escalating interest rates. The former is unlikely to happen; the latter is slowly becoming a real possibility. Perhaps short term U.S. dollar rates of 11-12% p.a. will accomplish what trade negotiators and public opinion have not been able to do.

Misconceptions die hard. On the way to solving Japan's chronic surplus, it will be forced to absorb increasing quantities of needed and unneeded commodities. Some, like citrus and meat, will raise the country's standard of living but will force sharp upwards adjustments on world price levels accelerating eventual overproduction. Others, such as metals, will inflate unnecessarily their prices, further adding to producers' long term woes. Others, yet, will postpone the day of reckoning of the OPEC Cartel (see comments attributed to banking sources, P.6).

Finally, Japan may be forced to purchase, import and 'stockpile' the one and only commodity that is liquid and that preserves purchasing power : gold.

Remain long, placing stops at 47.00 basis Sept.'78.

Japan's customs clearance trade surplus fell to 631.8s million in May from a downward revised \$1.60 billion in April, compared with a deficit of \$80 million in May last year, the Finance Ministry said in a preliminary report.

May FOB exports rose 26.7% from a year before to \$7.77 billion, while CIF imports rose 14.9% to \$7.14 billion, it said.

Banking sources said the sharp fall was due mainly to a last-minute rush of crude oil imports ahead of the imposition of a new consumption tax on crude oil and oil products in Japan from June 1.

Ministry figures showed crude oil imports in May rose to 29.40 million tons worth 571.00 billion yen from 22.39 million tons worth 433.74 billion yen in April.

The Ministry does not release itemized export and import figures in dollars.

In yen terms, the May surplus fell to 142.62 billion yen from a downward revised 356.83 billion in March, but rose sharply from a deficit of 22.21 billion in May last year, the Ministry said.

May yen exports rose 2.9% from a year ago to 1.75 trillion yen, while imports fell 6.7% to 1.61 trillion yen.

On a seasonally adjusted basis in dollar terms, the May surplus fell to \$1.24 billion from \$1.30 billion in April with exports up 5.4% from April to 8.06 billion, and imports up 7.4% to \$6.82 billion.

The seasonally adjusted yen surplus in May rose slightly to 286.62 billion yen from 281.43 billion in April, with exports up 6.8% to 1.83 trillion and imports up 7.7% at 1.54 trillion.

Conversion rates used for May exports and imports respectively were 225.39 yen and 225.36 yen per dollar, compared with 277.66 yen and 277.66 yen respectively in May last year.

By area (available in yen only), May exports to the U.S. rose 10.4% from a year before to 482.93 billion yen, while imports from the U.S. fell 9.7% to 277.05 billion.

Exports to the E.E.C. were up 5.7% at 195.37 billion yen against a 0.5% rise in imports from the E.E.C. to 101.64 billion yen.

Reuters

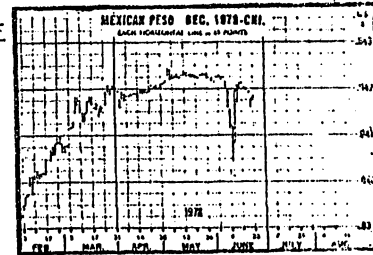
## Mexican Peso

Spot : 43.85 Sep. 78: 42.70 Dec. 78: 41.35 Mar. 79: 40.40  
 June 79 : 39.75 Sep. 79: 39.05 Dec. 79: 38.50

Forward Discounts Annual Basis	Sep. 78	Dec. 78	Mar. 79	June 79	Sep. 79	Dec. 79
Spot	15.73	13.68	11.80	10.2	9.38	8.61
Sep. 78		12.65	10.77	9.21	8.55	7.87
Dec. 78			9.19	7.74	7.42	6.89
Mar. 79				6.44	6.68	6.27
Jun. 79					7.04	6.29
Sep. 79						5.63

Balance of Trade (Mln \$)	Jan. 78	Feb. 78	Mar. 78	Apr. 78
Jan-Mar. 1977: - 73.6				
Jan-Mar. 1978: -184.8				
C.P.I. **	19.92	18.11	17.54	17
W.P.I. **	17.11	17.64	18.19	...

	1977				1978	
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
Reserve Money ** (Bank of Mexico)	-10.25	12.26	20.51	57.13	...	...
Currency outside Banks**	49.02	39.86 r	23.83 r	11.47 r	...	...
Money Supply **	30.40	26.16 r	23.36	...	...	...
Demand Deposits **	16.68	18.02	...	...	...	...
Money Supply S.A. **	30.40	26.17 r	23.48	...	...	...
Int'l Reserves (Mln U.S.\$)	1,422	1,439	1,654	1,723	...	...
Fund Position (Mln U.S.\$)						
Net Draw/Fund Sales (-)	593	597	595	621	518	...
Gov't Finance (Mln Pesos)						
Deficit (-) or Surplus	-5,387	-9,123	-10,780	-29,971	...	...



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\*\* Year-over-year % change

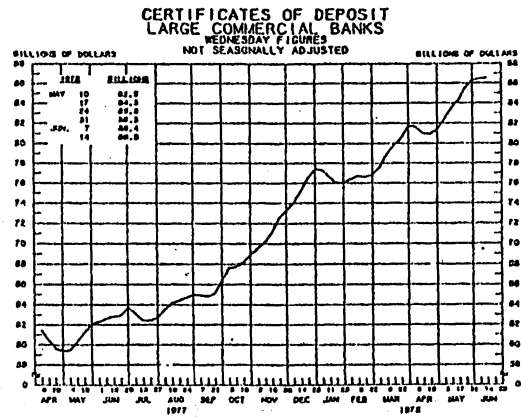
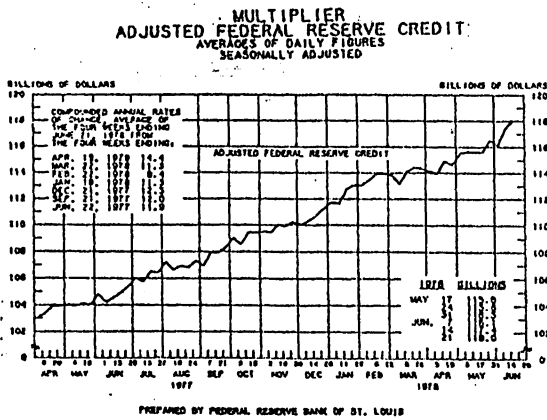
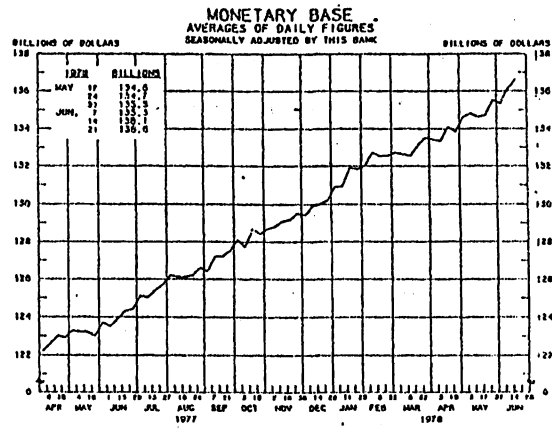
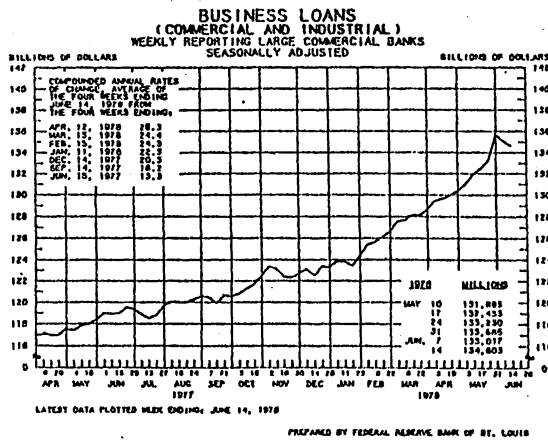
Mexico showed a first quarter current account deficit of \$33.1 million, according to figure figures released by the Bank of Mexico. This compares with a deficit of \$125.4 million in the first quarter of 1977 and \$712.9 million in the final quarter. Reuters

Open Interest (June 23/78): 2,271 Volume (June 23/78): 45  
 Contract Size : MPL,000,000.00 (approx. U.S. \$ 42,000.00)  
 Minimum Fluctuation : .00001 (\$10.00) Daily Limit (Normal) : .00150 (\$1,500.00)  
 Margin Required : US\$ 5,000.00 Commissions : US\$ 60.00  
 Trading Hours: 8:45 am - 1:10 pm Delivery Months: Mar., June, Sep., Dec.  
 (Chicago Time)

Pressure has begun to be felt on the Mexican Peso. Perhaps the uninspiring trade figures are partly responsible for this happening. Most probably is the impact of the colossal budget deficit (see Currency Comments May 31st, 1978) on domestic credit expansion. As shown above, reserve money and money supply figures speak of a huge monetary inflation.

Move deferred short positions to Sept. and Dec. 79, where annual discounts (in percentage terms) are the lowest.

Interest Rate Futures



RESERVE AGGREGATES \*

Date	Total Reserves			Nonborrowed Reserves		
	13 wks prev.**	26 wks prev.	52 wks prev.	13 wks prev.	26 wks prev.	52 wks prev.
Apr. 5/78	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
17	3.8	7.2	6.5	-4.9	5.9	3.4
24	3.8	7.3	7.1	-5.0	5.3	4.2
31						
Jun. 7	5.5	7.4	7.4	-0.2	6.8	5.5
14	8.7	8.2	8.0	3.1	7.7	6.2

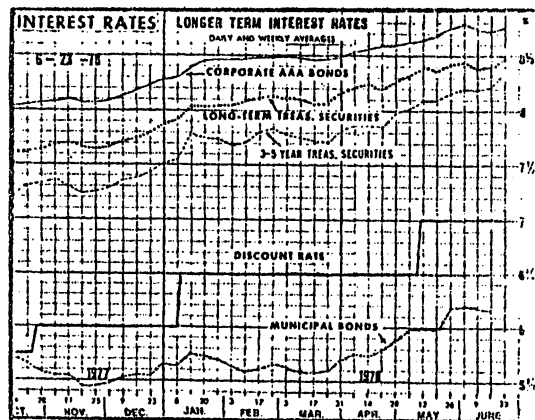
\* All percentage changes are at seasonally adjusted annual rates, not compounded  
 \*\* Average of 4 weeks ended from 4 weeks average...

Member Bank Deposits - Subject to Reserve Requirements

Date	3 Mo. *	6 Mo. *	12 Mo. **
Apr. 77	4.5		
May	5.2		
Jun.	5.6	5.28	
Jul.	6.7 r	6.28	
Aug.	8.97 r	7.07	
Sep.	7.26 r	6.4	
Oct.	8.52 r	7.6	
Nov.	10.49 r	9.73	
Dec.	12.16 r	9.68	7.57
Jan. 78	12.90 r	10.69	8.11
Feb.	9.84 r	10.16	8.28
Mar.	9.45 r	10.8	8.50
Apr.	7.42	10.13	8.74
May (p)	10.27	10.06	9.80

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

(p) Preliminary



TB Sep. 78 : 92.64 ( Bullish Neutral) GNMA Sep. 78: 90.07 (Neutral/Bearish)

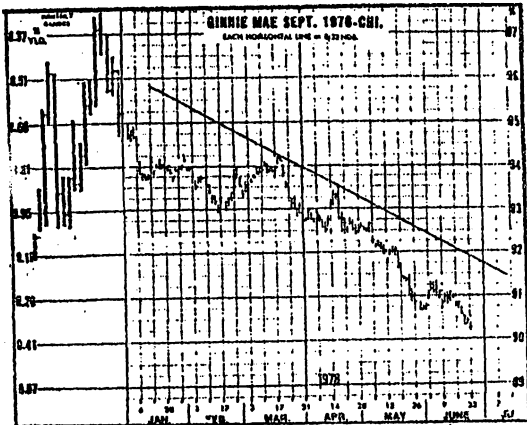
Despite recent tightening moves, total reserves in the commercial banking system have not slowed down significantly nor, for that matter has there been an appreciable impact on Monetary Base or Federal Reserve Credit (see table and charts). As a result, money supply, as measured by all member bank deposits subject to reserve requirements, has continued to grow at a worrisome pace.

Last month we argued in favor of purchasing TB futures on the basis that : 1) the Fed would not raise Funds much further without first seeing the likely course of Federal Spending and the budget making process over the next few months; 2) the Fed will want to see results of its previous tightening moves and 3) a weak dollar meant strong foreign Central Bank buying of U.S. gov't obligations. We further argued that the unusually steep yield curve was much too bearish a scenario for the next few months. Ironically, Sept.'78 TB, recommended last month at 92.64 closed today at the same price, despite a general rise in short term interest rates. So far the futures market has been successfully defensive in its pricing.

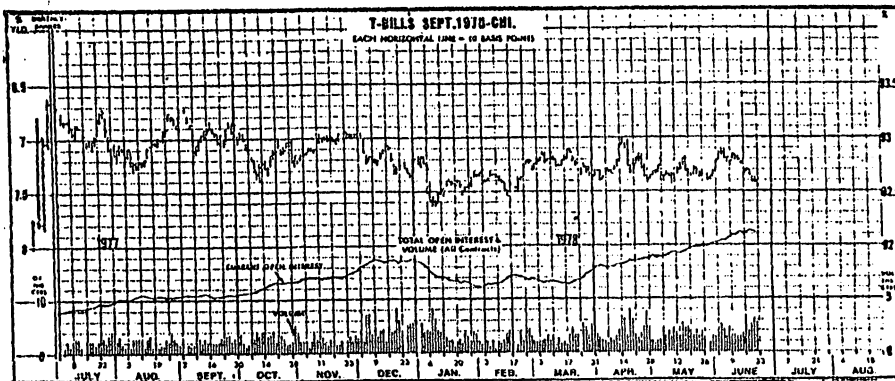
We continue to believe that a let-up of some sort is in the making - not the top of the cycle by any means but a pause.

It should be quite clear that interest rates will ration credit in this particular cycle at rates well in excess of anything seen in modern times. In a deeply discounted market, however, we would like to position ourselves at the most favorable time.

Look to sell TB's on 20-30 point rallies and GNMA's on 1-1 1/2 point rallies.



	TB	Yield	GNMA	Yield
Sep.78	92.64	7.36	90 07/32	9.513
Dec.78	92.16	7.84	89 12/32	9.513
Mar.79	91.86	8.14	88 28/32	9.292
Jun.79	91.62	8.38	88 17/32	9.647
Sep.79	91.43	8.57	88 10/32	9.682
Dec.79	91.24	8.76	88 05/32	9.708
Mar.80	91.04	8.96	88.	9.733
Jun.80	90.86	9.14	87 24/32	9.773



F.C.I.	June 78	May 78	June 77
-8.5% from Month ago			
+1.1% from Year ago	221.5	242	219

Albert D. Friedberg

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