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COMMODITY & CURRENCY COMMENTS

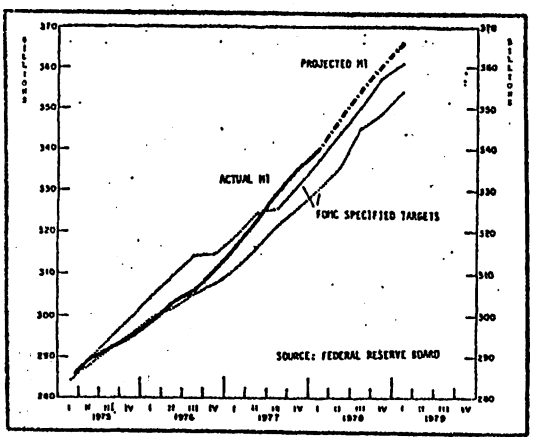
Fuelling a Speculative Boom

July 31st, 1978

In testimony before the House Banking Committee, Chairman G. William Miller of the Federal Reserve Board expressed hopes that " we would by next year see the chance for (credit) conditions which would be a little easier " and that " interest rates would be peaking in the next few months." He added that the Fed's goal is to " keep growth a lower rate " and reassured the nation that the Central Bank " hasn't any intention or desire" to push the economy into a recession next year. These parochial (and naive) comments were made in the midst of one of the greatest monetary debacles in the history of Mankind and with the industrialized world having entered a frantic and unsustainable credit boom. Is the Federal Reserve blind to the fact that Italy - ridden with bankrupt municiplities and an open civil war - saw its Lira rise over 4% against the Dollar over the past few weeks and even Argentina - plagued by an 8% per month inflation rate - saw it's sinking Peso hold its own during the month of July ? Or is the Federal Reserve afraid to put an end to the ongoing credit orgy lest we slide into a hair-raising contraction, the likes which our generation has not yet experienced? Is it oblivion or are we about to be treated to the medicine of hope recommended by the Federal Reserve Board in its famous schism with the N.Y. Federal Reserve in 1928.

The risks are mounting rapidly. In January of this year we stated that there was a chance for de-synchronizing economic cycles in the Western World, " if the Fed tightens now rapidly (over 8-12 weeks) ", we said, "short term capital inflows will stabilize the Dollar, inflationary expectations will subside and the trade deficit will narrow sharply, thus restoring badly needed canfidence. If it demurs ", we warned, " the Dollar will fall to pieces, domestic inflation will accelarate seriously, interest rates will skyrocket and the inevitable depression will ensue. " That was January 1977.

Since then, it is true , short term interest rates have risen 90 basis points (Fed Funds & 6-months Prime Commercial Paper) but the rise, as we have been pointing out for months, was never more than a catch up to the tightening vise of loanable funds and never represented a true policy of tight money. Just the opposite. Under the cover of escalating administrative costs, credit was being accomodated at an ever accelerating pace by both the Federal Reserve and the Commercial Banking System. Since January, Adjusted Federal Reserve Credit grew at an 11.4% annual rate while total loans grew at a phenomenal 15.6% annual rate. Such has been the ease with which Commercial banks have been able to accomodate mushrooming credit demands that their security portfolios increased at an annual rate of 5.6%.



Month	Total Reserve Growth*	Federal Funds Rate**
Jan. 77	1.1	4.61
Feb.	0.9	4.68
Mar.	1.0	4.69
Apr.	1.8	4.73
May	1.6	5.35
Jun..	1.8	5.39
Jul.	2.8	5.42
Aug.	3.3	5.90
Sep.	3.8	6.14
Oct.	3.9	6.47
Nov.	3.5	6.51
Dec.	3.5	6.56
Jan. 78	5.9	6.70
Feb.	6.9	6.78
Mar.	6.2	6.79
Apr.	6.3	6.89
May	7.1	7.36
Jun.	8.3(e)	7.52(e)

* Over 12 month intervals, seasonally adj.
** Effective average rates.

Other and less painful methods were devised for funding soaring loan demand. Chief among them has been the spectacular increase in the issuance of Certificates of Deposit (CD's in denominations of $100,000 or more) which increased by no less than $11 billion over the past 6 months ! Widely watched monetary aggregates such as M1 & M2 conveniently sidestep this highly important source of money creation. Not so figures showing member banks deposits subject to reserve requirements (DSRR) which have been growing at double digit numbers for well over eight months.

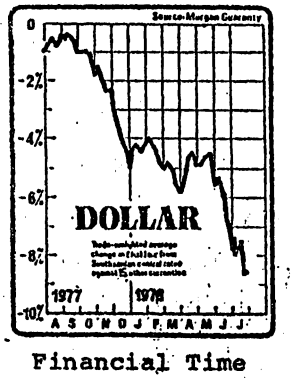
In ritualistic fashion, Miller said that the Fed's Open Market Committee left the long range targets for money supply growth unchanged at its July meeting. Not only has the Fed failed miserably to live up to its monetary targets (see accompanying chart) but, worse yet, it does not admit that its present management tool - a controlled & mild escalation of Fed Funds - is totally ineffective in reducing member bank reserves (see accompanying tables) Once again, is it oblivion or fear ?

In a sordid way, speculation and not solid industrial progress is the main recipient of this monetary super-inflation, and so it is possible for gold prices to advance pro-cyclically with the stock market, a once-in-a-generation phenomena. 'Junk' bonds, collectibles of all sorts (witness the $32 million Van Hirsh auction) and precious stones are not far behind. And first and foremost the premier vehicle for leverage seekers : real estate. Farmland has been bid up to clearly unsustainable levels in view of present grain quotes. Residential property, in some sectors of the U.S., bears little relationship to underlying fundamentals such as disposable incomes. Non-saleable properties, a legacy of the ill-fated REIT boom of the early 70's, is being buried unceremoniously in banking portfolios, further buoying the saleable balance. Some day, in the not-far-distant future, the Fed will wake up to the long forgotten concept of credit- rationing - long forgotten because it was last tried in 1928 in a vain attempt to re-direct credit to the more productive sectors of the economy and away from the 'evils' of stock speculation. And just as it did not work then, it will not work now. By that time the entire U.S. will be engaged in a gigantic craps game. Atlantic City, anyone ... ?

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.
June 7/78	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
22	11.4	9.0	8.3	4.0	7.3	6.2
28	11.4	8.9	8.3	3.1	6.2	6.0
July 6	16.1	10.7	9.1	6.1	7.2	6.4
12	12.8	9.3	8.2	2.3	5.5	5.4

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



Financial Time

SELECTED SHORT-TERM INTEREST RATES

Period		Federal Funds	3-Month Treasury Bill	90-Day CDs	Prime Commercial Paper 4-6 Month
Average for Month of:					
1978	January	6.70 %	6.44 %	6.93 %	6.79 %
	February	6.78	6.45	6.89	6.80
	March	6.79	6.29	6.85	6.80
	April	6.89	6.29	7.03	6.86
	May	7.36	6.41	7.42	7.11
	June	7.60	6.73	7.82	7.63
Average of Rates Available in Week Ending July 21		7.94 %	7.05 %	8.16 %	7.94 %

	Spot	Sep. 78	Dec. 78	Mar. 79	Jun. 79
British Pounds	193.20	192.70	191.65	190.95	189.75
Canadian Dollars	88.33	88.19	88.14	88.05	
Deutsche Marks	49.21	49.61	50.25	50.87	51.40
French Francs	22.91	22.92	22.62		
Japanese Yen	52.97	53.16	53.87	54.65	
Swiss Francs	58.05	57.90	58.89	59.88	60.90

British Pound

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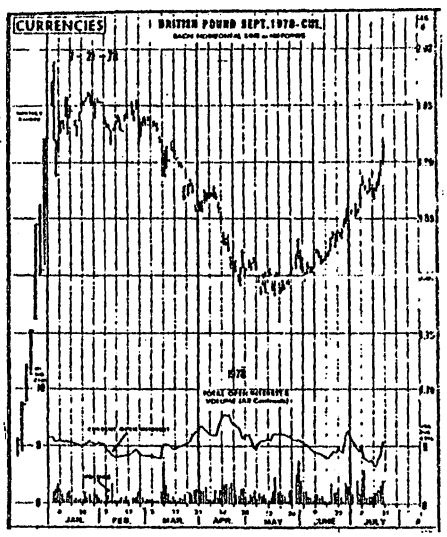
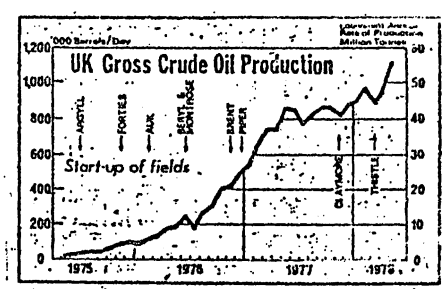


	Mar. 78	Apr. 78	May 78	June 78
Balance of Trade (Mln Stg) Jan-Jun. 1977:-1,741 Jan-Jun. 1978:- 710	-279r	+188r	-218 r	-106
Balance of Payments (Mln Stg) Jan-Jun. 1977:- 858 Jan-Jun. 1978:- 81	-189 r	+308 r	- 98 r	+ 14
Reserves (Mln U.S.$)	20,320	17,040	16,660	16,540
Retail Price Index **	9.10	7.93	7.65	7.41
Retail Sales Index **	2.80	3.50	3.03r	5.01
W.P.I. **	12.09	10.90	9.55	9.07
Unemployment Rate	5.8	5.7	5.7	5.7

1977	Output: Consumer Goods	Output: Invst. Goods	(Lm) Oil Balance	(Lm) DCE	M3 % *
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.	117.2	97.5	- 657	+ 698	12.6
Dec.	118.0	98.0			
1978					
1st Qtr.	116.9	99.2	- 646	+1,818	24.0
Jan.	116.0	99.0	- 234	+ 258	17.3
Feb.	117.0	99.0	- 203	+ 963	25.5
Mar.	118.0	100.0	- 209	+ 597	24.0
Apr.	119.0	100.0	- 151	+1,432	24.7
May	117.0	99.0	- 156	+1,124	17.4
Jun.			- 117	+ 337	15.9

** Year-over-year % change

* 3 months' growth at annual rate



Financial Time

Euro Deposit %

	June 30/78	July 7/78	July 14/78	July 21/78	July 28/78
1 Mo.	10 3/4	10 1/2	10 5/16	11 1/4	11 1/4
3 Mo.	11 1/2	11	10 3/16	11	11 1/4
6 Mo.	12 1/4	11 3/4	10 5/16	11 1/2	11 5/8
12 Mo.	12 1/4	12 1/4	10 7/16	12	11 1/2

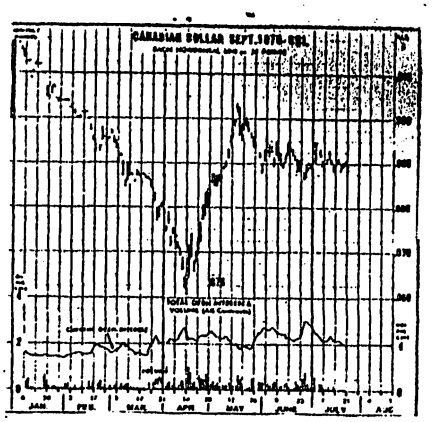
Open Interest (July 28/78): 3,889 Volume (July 28/78): 1,678
Contract Size : BP 25,000.00 (Approx U.S.$ 48,000.00)
Minimum Fluctuation : .00050($12.50) Daily Limit (Normal) : .0500($1,250.00)
Margin REquired : US$ 2,500.00 Commissions : US$ 60.00
Trading Hours : 8:45 am - 1:10pm (Chicago Time) Delivery Months : Mar.,Jun.,Sep.,Dec.

On a trade-weighted basis, the BP has in fact gained vis a vis its combined trade partners : not the least is attributable to renewed confidence in the government's ability to regain control of its monetary aggregates. Responsible for this turn of events is the imposition of the 'corset' and the successful completion of a massive Gilts offering to the non-bank sector. As pointed out last month, long term Gilts yielding upwards of 13% p.a. have once again become an attractive proposition considering that the year-on-year rate of inflation has been running at a 'modest' 9% p.a.

If any proof is needed that Socialism dies hard is the recent report making the round in London financial circles that the U.K. gov't was about to propose a new and higher tax bite on North Sea Oil production. With current profitability running at just over $2.30 per barrel and a bear market in Oil prices (in real terms) one wonders, how long will the handsome uptrend portrayed in the accompanying chart last?

As per last month's advise, commercial hedgers are urged to retain short term long BP positions.

Canadian Dollar



Balance of Trade (Mln $)	Mar. 78	Apr. 78	May 78	Jun. 78
Jan-Jun. 1977: +1,079				
Jan-Jun. 1978: +1,634	771	127r	309r	- 93
General Bank Loans**	10.58	11.16	11.32r	10.72
Money Supply** M1	8.85	9.08	10.21r	8.48
M1B	8.70	8.57	9.48r	7.85
M2	9.80	9.55	9.95r	9.40
M3	12.23	13.12	11.88r	12.43
Currency plus All Deposit Liabilities**	11.66	12.34	12.05	n/a
Int'l Reserves (Bln U.S.)	4.0	4.6	4.7	4.7
C.P.I. **	8.79	8.42	9.04	9.23
Food Price Index **	13.94	14.71	16.87	17.92
Unemployment Rate S.A.	8.6	8.6	8.6	8.6
N.S.A.	9.7	9.3	8.4	8.0

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Euro Deposit %	June 30	July 7	July 14	July 21	July 28
1 Mo.	8	8 3/16	8 3/16	8 1/8	8 5/8
3 Mo.	8 3/8	8 3/8	8 3/8	8 1/2	8 3/4
6 Mo.	8 7/8	8 15/16	9.	9.	9 1/4
12 Mo.	9 1/8	9 3/16	9 3/16	9 3/16	9 3/8

Open Interest (July 28th/78): 3,160 Volume (July 28/78): 1,153
Contract Size : CD$ 100,000.00 (Approx. U.S.$ 98,000.00)
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 (Chicago Time) Delivery Months: Mar.,Jun.,Sep.,Dec.

** Year-over-year % change

Balance of Payments (Mln CD$)

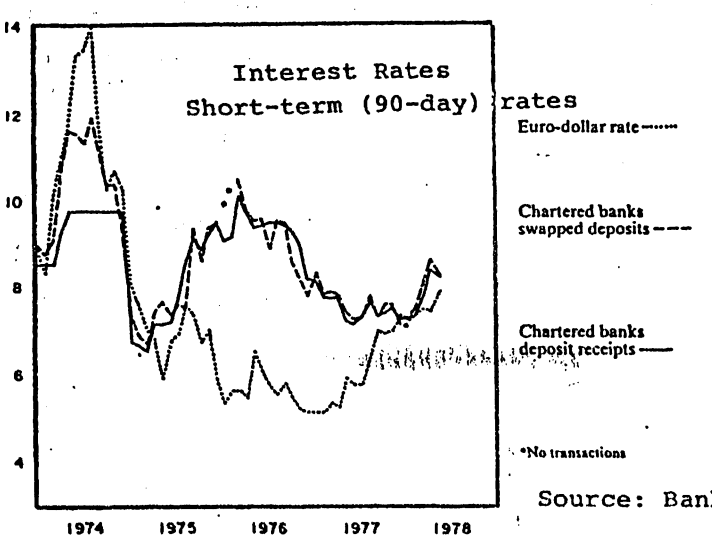
		Current Account	Capital Acct. (Long-term Forms)	Capital Acct. (Short-term Forms)	Net Official Monetary Movements
1976	1st Qtr	-1,801 r	2,778	- 261 r	503
	2nd Qtr	-1,044 r	1,991	- 95 r	172
	3rd Qtr	- 15 r	1,791	-1,499 r	-173
	4th Qtr	- 941 r	1,314	1,901 r	20
1977	1st Qtr	-1,529 r	927	- 474 r	-766
	2nd Qtr	-1,235 r	1,264	1,338 r	-12
	3rd Qtr	- 547 r	1,714	-1,143 r	-352
	4th Qtr	- 839 r	441	1,103 r	-291
1978	1st Qtr	-1,417	673	- 457	-1,594

The half-percentage rise in the Bank Rate coupled with the serious deterioration in the Chartered Banks' liquid ratio have done little to rein in inflationary forces.

Similarly, the 89¢ dollar has done little to improve our trade balance, which is running 60% ahead of last year but just 35% ahead of 1973 when the CD$ averaged exactly par. Worse yet, the $380 million differance in favor of 1978 (vis a vis 1973) is dwarfed by the nearly $3 billion deterioration in service transactions.

Continuous Central Bank support during July (the figures are due out in the next few days) was finally overcome when the market interpreted the Bank Rate hike as a sign of weakness and desperation. Prospects for a lengthy electioneering period (May 1980?) are sending jitters through the canyons of Canadian Conservatism.

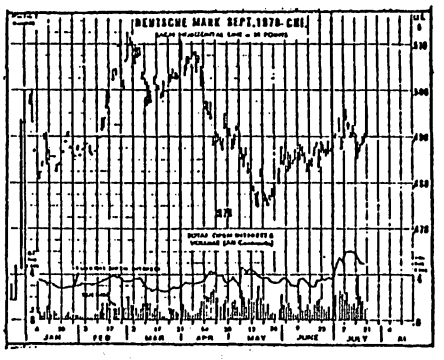
Remain short; lower stops at 88.75 basis Spot.



Source: Bank of Canada Review

Deutsche Mark

	Mar. 78	Apr. 78	May 78	Jun. 78
Balance of Trade (Mln Marks) Jan-Jun. 1977: + 18,360 Jan-Jun. 1978: + 18,950	4,200	3,250	3,040	3,960
Balance of Payments (Mln Marks)				
Current Account Jan-Jun. 1977: +5,350 Jan-Jun. 1978: +7,856	2,820	1,700	800r	2,200
Overall Account Jan-May 1977: - 636 Jan-May 1978: - 194	516	-1.660	-3.080	...
Money Supply ** M3	10.43	9.78	10 %	...
W.P.I. **	-0.7	-0.7	-0.7	-1.1
Cost of Living Index **	3.1	2.3	2.66	2.45
Unemployment Rate	4.9	4.4	4.0	3.9



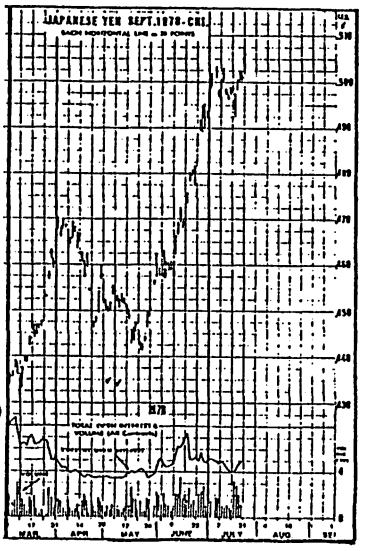
	June 30	July 7	July 14	July 21	July 28
Weekly Reserves Net Monetary (Mln Marks)	88,700	88,700	89,500	89,100	...
Euro Deposit %					
1 Mo.	3 7/16	3 1/2	3 9/16	3 5/8	3 1/2
3 Mo.	3 1/2	3 1/2	3 5/8	3 3/4	3 5/8
6 Mo.	3 5/8	3 11/16	3 13/16	4.	3 15/16
12 Mo.	3 13/16	3 13/16	4.	4 3/16	4 3/16

Open Interest (July28th/78): 5,170 Volume(July 28): 1,880
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 Commission :US$ 60.00
Trading HOurs: 8:45am - 1:10 pm(Chicago Time) Delivery Months: Mar.,Jun.,Sep.,Dec.

** Year-over-year % change

Japanese Yen

	Mar. 78	Apr. 78	May 78	Jun. 78
Balance of Trade(Mln U.S.$) Jan-Jun. 1977: + 6,633 Jan-Jun. 1978: +12,380	3,100	2,270	1,370	2,950
Balance of Payments(Mln U.S.) Jan-Jun. 1977: + 1,991 Jan-Jun. 1978: + 5,642	3,140	229	- 113	+ 576
Money Supply ** M1	7.22	7.8	...	...
Reserves (Mln U.S.$)	29,210	27,530	27,710	27,330
C.P.I. **	4.48	3.9	3.5	3.5
W.P.I. **	-1.8	-2.24	-2.09	-2.23
Unemployment Rate	2.12	2.2	2.3	2.39



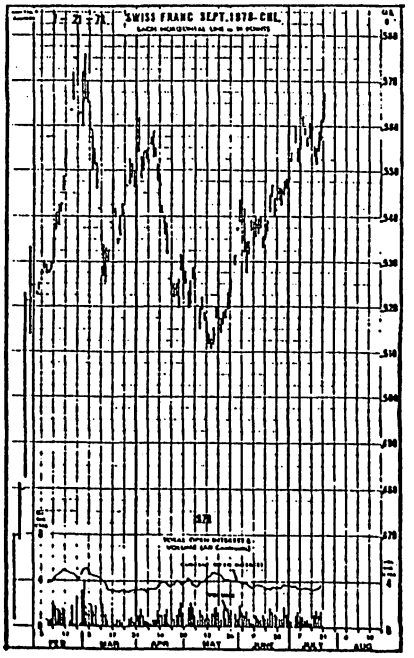
Open Interest (July 28/78): 6,959 Volume(July 28/78): 4,508
Contract Size : Yen 12,500,000.00 (Approx. U.S.$ 66,000.00)
Minimum Fluctuation : .000001($12.50) Daily Limit (Normal): .000060($750.00)
Margin Required : US$ 4,000.00 Commissions : US$ 60.00
Trading Hours : 8:45 am - 1:10 pm Delivery Months :Mar.,Jun.,Sep.,Dec.
(Chicago Time)

** Year-over-year % change

Swiss Franc

	Mar. 78	Apr. 78	May 78	June 78
Balance of Trade (Mln SFr) Jan-Jun. 1977: - 906.5 Jan-Jun. 1978: - 816.5	-324.5	- 119	- 101	- 110
Int'l Reserves (Mln US$)	13,599	13,276	12,906	...
Money Supply **	10.09	16.7	17.57	...
W.P.I. **	-3.5	-3.75	-3.68	-3.56
Unemployment Rate	0.4	0.3	0.3	0.4

	June 30	July 7	July 14	July 21	July 28
Weekly Reserves (Mln SFr)	21,200	19,340	18,950	18,410	...
Euro Deposit %					
1 Mo.	1 7/16	1 7/8	1 3/4	2 3/8	1 11/16
3 Mo.	1 5/8	1 13/16	1 7/8	2 3/8	1 15/16
6 Mo.	2 1/16	2 1/8	2 3/16	2 1/2	2 1/8
12 Mo.	2 5/16	2 3/8	2 3/8	2 1/2	2 3/8



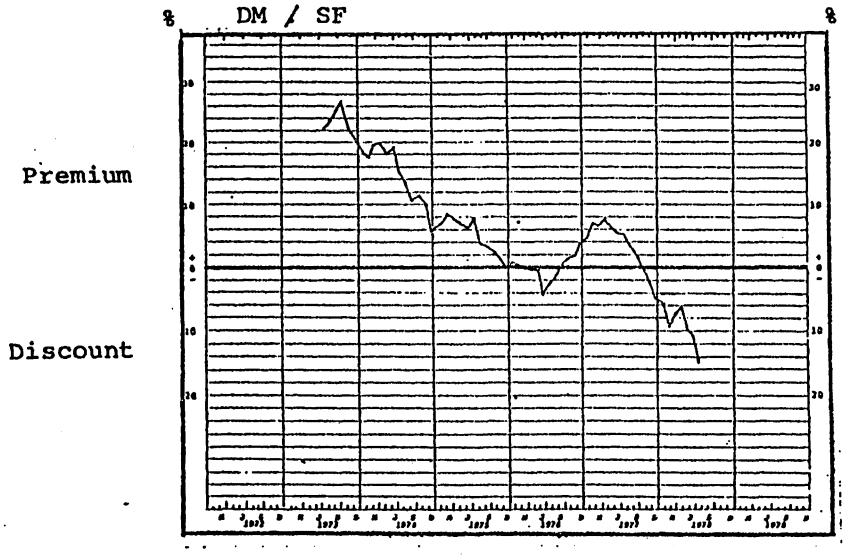
Open Interest (July 28/78): 3,918 Volume (July 28/78): 1,006
Contract Size : SFr 125,000.00 (Approx. U.S.$ 73,000.00)
Minimum Fluctuation : .0001 ($12.50) Daily Limit (Normal): .0060($750.0
Margin Required : US$ 5,000.00 Commissions : US$ 60.00
Trading Hours : 8:45 am - 1:10 pm (Chicago Time) Delivery Months : Mar.,Jun.,Sep.,I

** Year-over-year % change

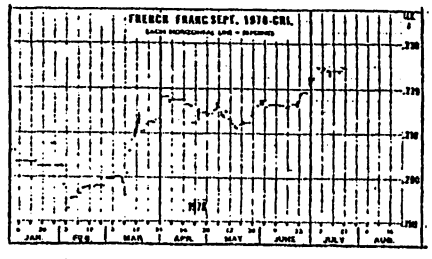
Diking the Deutsche Mark

Working under the (misguided) concept that all that matters in currency relationships is the DM/US parity, the Fed, through the use of massive swap lines, and the Bundesbank have been entervening so as to keep the rate at approximately 2.05/1, the idea being that the entire constellation of subsidiary European currencies could be thus kept at bay. In the process, currencies such as the BP, French Franc, Japanese Yen and the Swiss Franc, not tied to the DM by virtue of the EEC snake, have outrun the latter and their cross rates have become totally unrealistic. This is so principally regarding the DM/SF parity which now stands at an all-time low of .848. The cross rate arbitrage is beginning to put (unsustainable)pressure on the DM/US parity with the consequent result that: a) the Fed has built up a huge (& potentially very costly) DM short position and b) speculators can now enjoy a risk-free ride on the DM, fully aware that the Fed must buy DM (to cover shorts) on any dips. It is like trying to plug a holed dike with one finger!

Buy December '78 DM aggressively placing stops at 49.35. Retain long Japanese Yen and Swiss Francs positions although serious thought should be given to switching to the DM.



French Franc



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	Mar. 78	Apr. 78	May 78	Jun.78
ance of Trade (Mln FFr)				
'an-Jun. 1977: - 8,284				
'an-Jun. 1978: + 710	+1,190	+ 692	+ 155	+ 459
'1 Reserves (Mln US$)	10,231	10,601	11,215	...
change of Foreign hange Assets **	15.11	16.52	19.34	12.62
ail Price Index **	9.20	9.0	9.0	8.99

		June 30	July 7	July 14	July 21	July 28
kly Reserves (Mln FFr) ld & Conv. Currency		106,222	111,864	112,115	...	...
o Deposit %	1 Mo.	10.	10.	9 1/2	9 1/8	8 3/4
	3 Mo.	10 1/4	9 7/8	9 7/8	9 3/4	9 3/8
	6 Mo.	10 3/4	10 3/8	10 1/2	10 3/8	10 1/8
	12 Mo.	11 1/4	11.	11 1/8	11 1/8	10 3/4

Interest (July 28/78): 123 Volume (July 28/78) : Nil
tract Size : FFr 250,000.00 (Approx. U.S. $ 57,000.00)
imum Fluctuation : .00005 ($12.50) Daily Limits (Normal) : .0050 ($1,250.00)
in Required : US$ 5,000.00 Commissions : US$ 60.00
ling Hours : 8:45 am - 1:10 pm (Chicago Time) Delivery Months: Mar.,Jun.,Sep.,Dec.

Year-over-year % change

Retain long positions; raise stops to 22.00 basis Sept. '78.

Mexican Peso

Int'l Liquidity (Mln U.S.$)	Aug.77	Sep.77	Oct.77	Nov.77	Dec.77	Jan.78	Feb.78	Mar.78	Apr.78	May 78
Int'l Reserves	1,596	1,654	1,720	1,695	1,723	1,909	1,742	...	...	...
Gold	69	69	70	70	74	74	75	...	...	...
SDRs	60	60	61	55	57	56	50	51	53	48
Foreign Exchange	1,467	1,525	1,589	1,570	1,592	1,779	1,617	...	...	...
Fund Position										
Net Draw/Fund Sales(-) to date	594	595	604	605	621	622	514	518	514	511
of which:										
Compensatory Draw	215	215	218	219	225	225	227	229	227	226
Extended Facility	116	116	118	118	121	122	9	9	9	9
Quota	430	431	437	438	449	450	454	458	454	653
U.S.Liabilities to Mexico	2,904	2,920	2,837	2,951	2,899	3,012	3,110	2,819	...	...
Short-Term	2,806	2,823	2,741	2,850	2,804	2,906	3,002	2,706	2,901	...
To Gov't and Banks	576	563	505	613	652	640	849	532	614	...
Long-Term	99	97	96	100	95	106	108	113	...	...
U.S. Claims on Mexico	4,964	5,201	5,121	5,064	4,932	4,907	4,730	4,846	4,664	...
Int'l Transactions (Mln Pesos)										
Exports	6,698	7,286	7,060	7,595	8,907	10,422	8,410	...	...	...
Petroleum	1,746	2,237	2,268	1,954	1,789	3,393	2,235	...	...	...
Curde Petroleum	1,739	2,194	2,146	1,942	1,777	3,252	2,228	...	...	...
Cotton	422	337	506	563	592	438	444	...	...	...
Sugar	30	21	43	8	36	3	9	...	...	...
Coffee	429	593	116	151	1,050	1,337	900	...	...	...
Shrimp	140	136	319	580	425	357	232	...	...	...
Imports, cif	12,103	10,263	11,696	12,455	13,169	11,314	9,272	...	...	...
Imports, fob	11,637	9,868	11,246	11,976	12,662	10,879	8,915	...	...	...
Volume of Exports (1975=100)										
Crude Petroleum	176	218	217	196	180	331	226	...	...	...
Cotton	112	92	145	154	158	107	86	...	...	...
Coffee	37	67	13	17	126	144	94	...	...	...
Shrimp	34	40	121	220	155	130	84	...	...	...
Unit Value of Exports (1975=100)										
Crude Petroleum	218	223	219	218	218	217	218	...	...	...
Coffee	598	459	451	456	433	483	495	...	...	...
Shrimp	330	276	213	213	222	223	223	...	...	...

Courtesy of International Financial Statistics

Spot: 43.70 Sep. 78: 43.22 Dec.78: 42.25 Mar. 79: 41.02
Jun.79: 40.00 Sep. 79: 39.30 Dec.79: 38.45

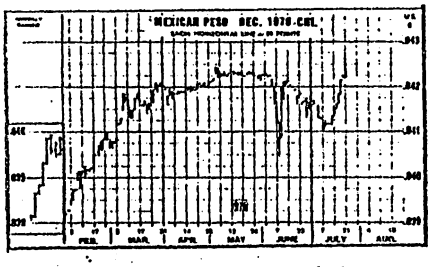
Forward Discount - Compounded Annual Rates	Sep.78	Dec. 78	Mar. 79	Jun. 79	Sep.79	Dec.79
Spot	12.41	9.63	10.28	10.07	9.33	9.15
Sept. 78		8.68	9.92	9.81	9.07	8.93
Dec. 78			11.15	10.37	9.20	8.99
Mar. 79				9.58	8.21	8.25
June 79					6.82	7.60
Sep. 79						8.38

Open Interest (July 28/78): 2,294
Contract size : Mp 1,000,000.00 (Approx. U.S. $ 43,000.00)
Minimum Fluctuation : .00001 ($10.00)
Margin Required : US $ 6,000.00
Trading Hours : 8:45 am - 1:10 pm (Chicago Time)

Volume (July 28th,1978) : 22
Daily Limit (Normal) : .00150 ($1,500.00)
Commissions L US$ 60.00
Delivery Months : Mar.,Jun.,Sep.,Dec.

After receding to 0.04345, the Spot rate has recovered to 0.04370 but a general feeling of nervousness lingers on. Massive doses of fiscal monetization are working their way down to household and business balances with ill effects on domestic inflation and balance of payments.

Remain short deferred positions.



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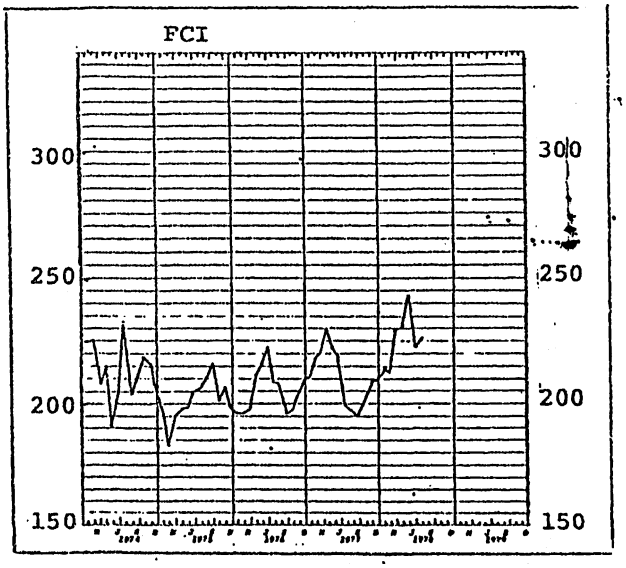


Interest Rates Futures

TB	Sep. '78 :	92.92	(neutral)
	Jun. '79 :	91.75	(bearish)
GNMA	Sep. '78 :	91 19/32	(neutral)
	Jun. '79 :	89 31/32	(bearish)

We'll content ourselves with reiterating last month's concluding comments " 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 ... look to sell TB's on 20-30 point rallies and GNMA's on 1-1 1/2 point rallies."

Exactly as anticipated, Sept. '78 TB then trading at 92.64 reached yesterday 93.02, a formidable 38 point rally (equal to $950 per contract) while Sept.'78 GNMA then 90.07 traded up to 91.28, a 1 21/32 rise (equal to $1,656.25 per contract).

In keeping with last month's advice, short positions are now recommended, becoming more aggressive on a scale-up.

ember Bank Deposits - Subject to Reserve Requirements

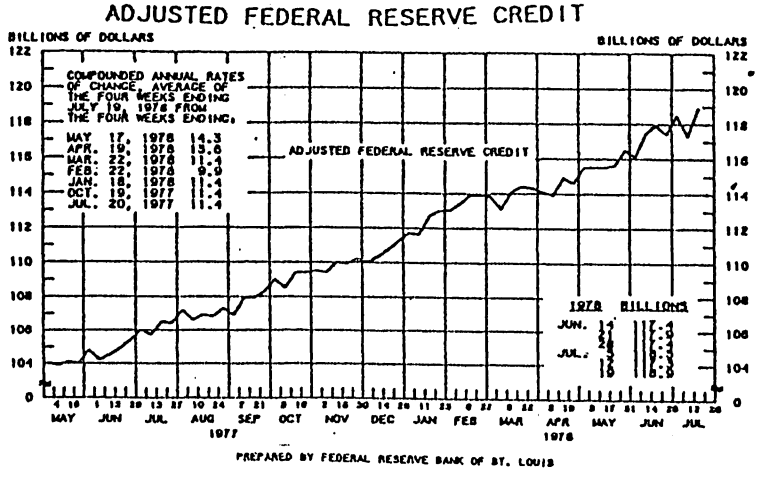
ate	3 Mo. *	6 Mo. *	12 Mo. **
an. 78	12.90	10.69	8.11
eb. 78	9.84	10.16	8.28
ar. 78	9.45	10.80	8.50
pr. 78	7.42	10.13	8.74
ay 78	10.27	10.06	9.80

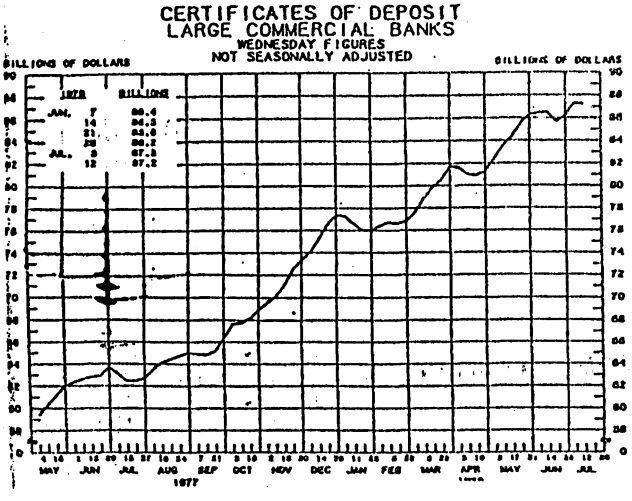
All percentage changes are at seasonally adjusted compounded annual rates.

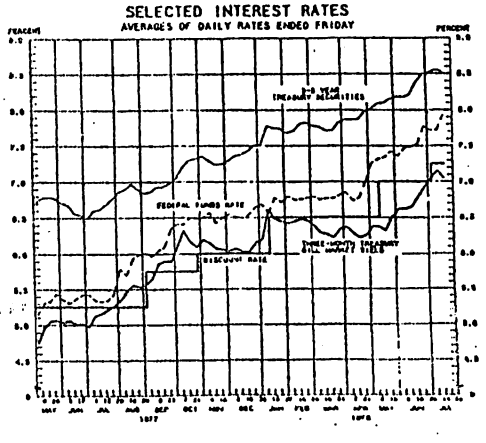
* All percentage changes are at not seasonally adjusted annual rates.

As of July 28/78

	TB	Yield	GNMA	Yield
Sept. 78	93.02	6.98	91 28/32	9.124
Dec. 78	92.49	7.51	91 03/32	9.244
Mar. 79	92.10	7.90	90 18/32	9.326
June 79	91.80	8.20	90 07/32	9.380
Sept. 79	91.54	8.46	89 30/32	9.424
Dec. 79	91.32	8.68	89 26/32	9.444
Mar. 80	91.10	8.90	89 19/32	9.478
June. 80	90.90	9.10	89 13/32	9.500
Sept. 80			89 10/32	9.523
Dec. 80			89 05/32	9.547
Mar. 81			89 03/32	9.557



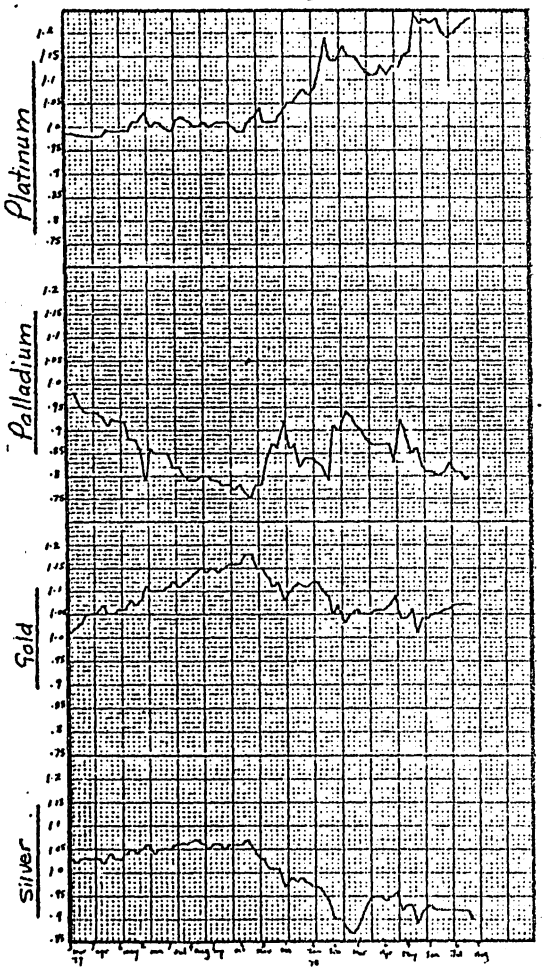


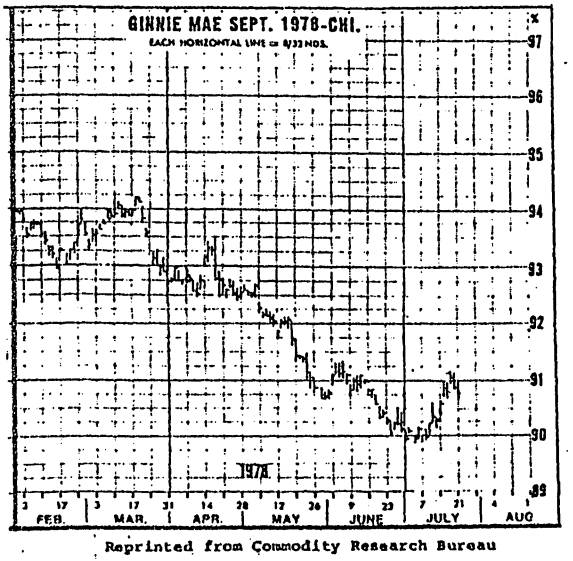


Potpourri ...

Gold should reach $250 /oz before Dec. 31, 1978, possibly higher... Silver may see $7/oz and Platinum $300/oz next few months... Sept. '78 lumber looks like $230 per 1000 board feet... Nov. '78 OJ is a cinch for $1.50. , good luck !

Relative Strength -Precious Metals





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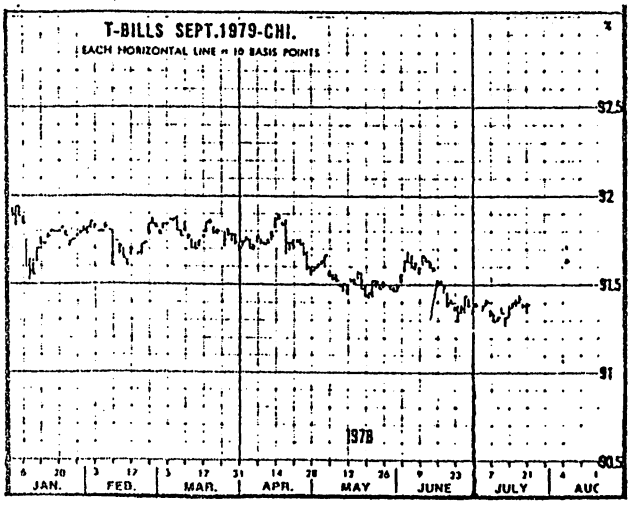

F.C.I.

	July 78	June 78	July 77
+2.03% from month ago	226	221.5	199
+13.57% from year ago			

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

Albert D. Friedberg