FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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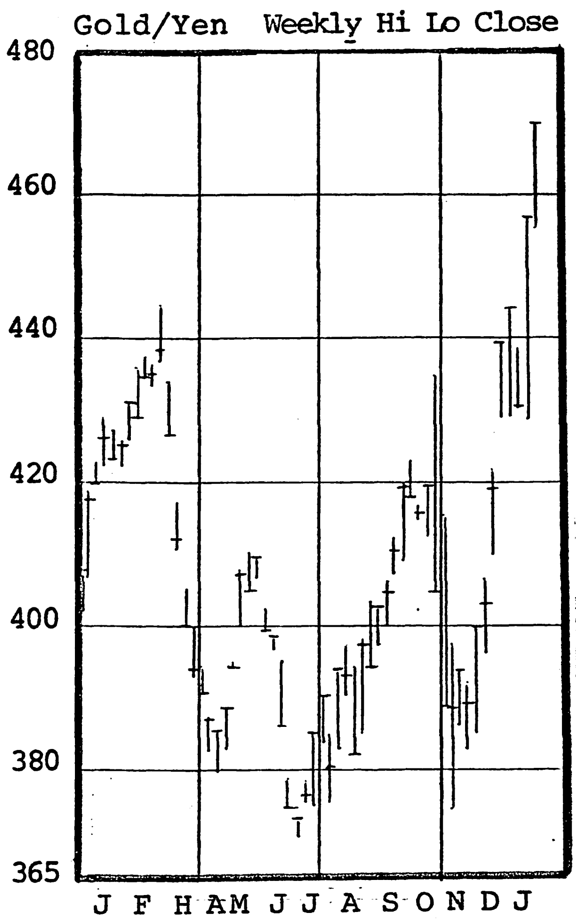
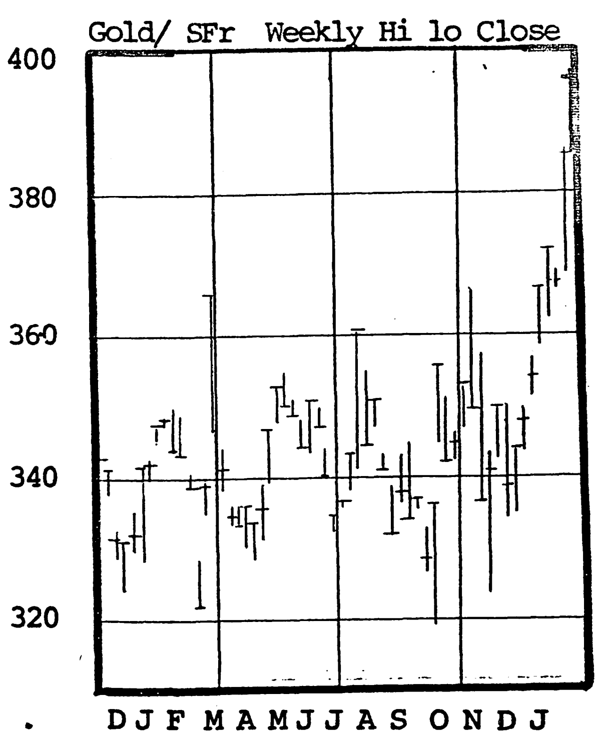
More on the Subject of Metals ... Jan.30th,1979

A significant breakthrough occurred on the week ended January 26th: Gold confirmed its bull market by registering a new 20-month high against the mighty Swiss Franc. Just one week earlier, a similar wondrous feat was achieved against the Japanese Yen. The accompanying charts speaks of a dramatic change of heart : paper money, regardless of who issues it, is no longer to be trusted.





We believe that gold will move up, in short order, to the $265-268/oz. level before any significant correction. Our longer range objective remains at $300-310/oz.

In the rest of the metal sector, platinum and palladium have scored new closing highs with the latter moving quite clearly into backwardation. We continue to project an eventual rise to $470-490/oz for the former and possible a test of the $150/oz highs for the latter.

Our near term objective of 80-82 ¢/lb for spot Copper is coming into full view. It should be noted that at present levels, Copper prices, in real terms (i.e. deflated by the U.S. Wholesale Price Index) remains below the average registered during 1976 & well below the average price recorded in the 1970-1974 period. Long term positions should remain undisturbed regardless of 200-400 points corrections that are likely to occur.

A note of caution. At different stages throughout a bull market, particularly in a popular commodity such as Silver or Copper, market psychology becomes exuberantly one-sided; a sizeable contingent of small, uninformed & undercapitalized traders jump aboard the bandwagon creating a technically overbought and vulnerable situation causing, in turn, shakeouts that tend to dislodge all but strongest of traders. This may be happening in Silver, where prices have advanced well over 10% in the short period of four weeks attracting wide attention and uninformed market participation. Sense, however, is on the side of the bulls. In the first place, Silver has just recorded a new all-time high surpassing the 1974 peak of $6.40/oz. A new high is not a random event - odds are that it will continue in the direction of the breakthrough for some time yet. Secondly, a bull market undergoes a number of sizeable shakeouts before it dies, each one of them at least equal to two limit moves (so as to cause substantial liquidation). After breaking out of a long 4 year triangle, silver has only experienced one worthwhile reaction - in November '78, approx. two-and-one-half limit moves. The next reaction, perhaps quite soon, may be a bit more severe but odds are that it will not be the last. Finally, fundamental factors propelling silver prices higher - and all other metals for that matter - concontinue to be present and promise to become even more intense. These are : a relatively accomodative monetary policy financing surging economic activity and a high rate of inflation in the OECD countries.

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At the back of our Comments, we reproduce an excellent article authored by Irving Kristol which appeared in the Wall Street Journal on January 18th, 1979. Manifestations of national decadence are many-faceted; in our comments we have dealt mainly with economic issues. Mr. Kristol's views serve to broaden our perspective. Unfortunately, the American bankruptcy is total...

U.S. Interest Rates Futures

As of January 29th, 1979

	GNMA		U.S. T.Bonds		U.S. T. Bills	
	Settlement Price	Yield	Settlement Price	Yield	Settlement Price	Yield
Mar. 79	88 25/32	9.607	91 11/32	8.937	90.71	9.29
June 79	88 26/32	9.602	91 17/32	8.915	90.60	9.40
Sept.79	89 00	9.572	91 24/32	8.890	90.58	9.42
Dec. 79	89 05/32	9.547	91 26/32	8.882	90.67	9.33
Mar. 80	89 01/32	9.567	91 28/32	8.875	90.75	9.25
June 80	88 28/32	9.592	91 28/32	8.875	90.84	9.16
Sept.80	88 27/32	9.597	91 29/32	8.872	90.90	9.10
Dec. 80	88 27/32	9.597	91 29/32	8.872	90.94	9.06
Mar. 81	88 24/32	9.612	91 29/32	8.793		
June 81	88 22/32	9.622	91 30/32	8.868		
Sept.81	88 20/32	9.632	91 30/32	8.868		

A persistent and puzzling flattening of the growth rate of M1 and M2 have led many observers to believe that the Federal Reserve has finally succeeded in throttling back credit expansion to a more sustainable path.

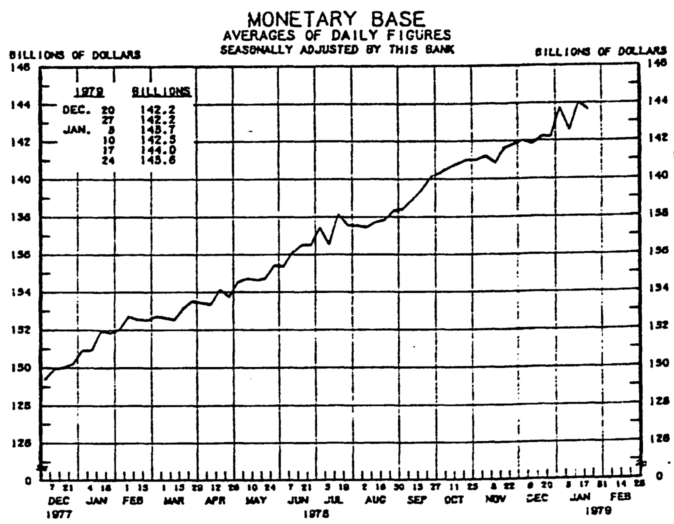
A variety of explanations, however, can be advanced to negate this argument. In the first place, interest rates on savings deposits and time deposits other than CD's and money market time deposits are subject to Regulation Q ceilings (from 5 % to as much as 8% depending on the type of deposit) and these ceilings are now substantially below open market interest rates. Funds are therefore being withdrawn from M1 & M2 - type deposits in search of alternatively higher-yielding paper and deposits. Secondly, given the prevailing high interest rates, demand deposits are being economized, thus increasing velocity and offsetting quantity in the purely monetary equation. Thirdly, float problems may be an important factor in the money supply slowdown as they are not counted in calculating the aggregates. In recent weeks, and due to bad weather, the amount of checks in the process of collection have surpassed $10 billion on a daily average basis, well above the normal $2-4 billion float experienced in the early winter. Finally, the continuing increase in CD's outstanding and the ongoing and accelerating liquidation of securities in commercial banks' portfolios speak of unabated credit demands despite a perceived tightening of supplies - an unfavorable omen if we are to avoid a severe credit crunch.

Our money supply proxy, Deposits Subject to Reserve Requirements, continues to grow at a fairly standard annualized rate of 8-9 % for the year-over-year measure. The slight slowdown in the annualized rate of growth for the past six month seems due almost entirely to the sharp slowdown experienced in October, well before any apparent tightening moves were undertaken. A resumption of more rapid rates can clearly be detected over the past three months.

Finally, the Monetary Base continues to grow at a rapid pace due mostly to the large increase of currency in circulation.

In all, even though monetary aggregates have been perceived to have slowed somewhat, our opinion remains that there has been little change in the accomodative posture of the Fed. A combination of factors have enabled the latter to 'luck out' in managem't but these factors are fortuitous and temporary. The banking system is able,with present resources, to finance accelerating credit requests; should they be unable to continue to do so, the Fed will come to its rescue.

Remain firmly short GNMA's & Treasury Bonds regardless of near term strength.



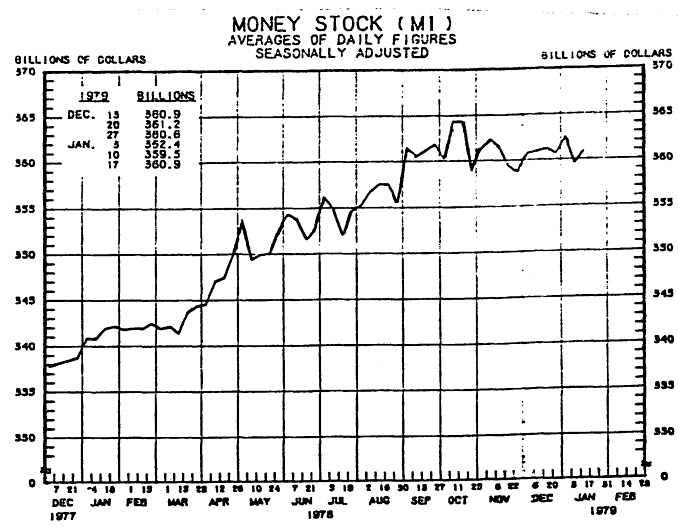
LATEST DATA PLOTTED WEEK ENDING: JANUARY 24, 1979

THE MONETARY BASE CONSISTS OF MEMBER BANK RESERVES AT THE FEDERAL RESERVE BANKS AND CURRENCY IN CIRCULATION (CURRENCY HELD BY THE PUBLIC AND IN THE VAULTS OF COMMERCIAL BANKS). ADJUSTED FOR RESERVE REQUIREMENT RATIO CHANGES AND SHIFTS IN THE SAME TYPE OF DEPOSITS BETWEEN BANKS WHERE DIFFERENT RESERVE REQUIREMENT RATIOS APPLY. THE MAJOR SOURCES OF THE MONETARY BASE ARE FEDERAL RESERVE CREDIT AND THE GOLD STOCK. DATA ARE COMPUTED BY THIS BANK. A DETAILED DESCRIPTION OF THE MONETARY BASE IS AVAILABLE FROM THE FEDERAL RESERVE BANK OF ST. LOUIS.

MONETARY BASE

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

TO THE AVERAGE OF FOUR WEEKS ENDING:	1/25/78	4/26/78	6/21/78	7/26/78	8/23/78	9/27/78	10/25/78	11/22/78
6/21/78	8.5							
7/26/78	9.5	11.9						
8/23/78	8.3	9.4	7.9					
9/27/78	8.9	10.2	9.6	7.8				
10/25/78	9.5	10.9	10.8	10.0	13.7			
11/22/78	9.1	10.1	9.7	8.7	10.9	9.7		
12/27/78	8.9	9.8	9.1	8.3	9.7	8.6	5.9	
1/24/79	9.2	10.0	9.7	9.1	10.4	9.8	8.2	9.8



LATEST DATA PLOTTED WEEK ENDING: JANUARY 17, 1979

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

THE MONEY STOCK CONSISTS OF DEMAND DEPOSITS PLUS CURRENCY AND COIN HELD BY THE NONBANK PUBLIC.

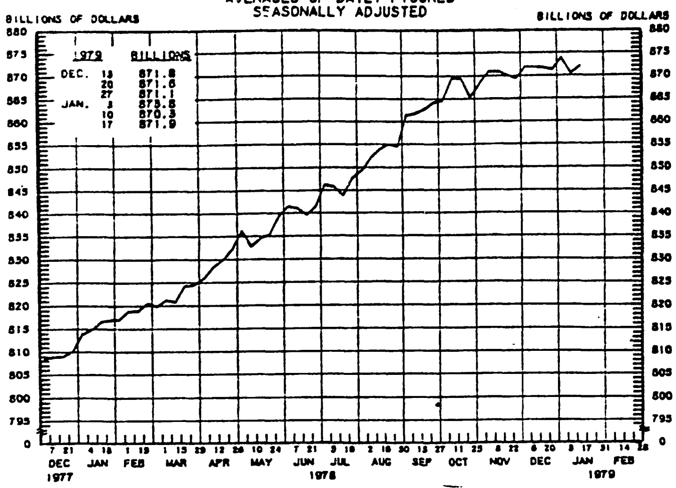
MONEY STOCK (M1)

COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

TO THE AVERAGE OF FOUR WEEKS ENDING:	1/18/78	4/19/78	6/14/78	7/19/78	8/16/78	9/20/78	10/18/78	11/15/78
6/14/78	9.0							
7/19/78	7.9	9.6						
8/16/78	8.0	9.3	5.7					
9/20/78	8.4	8.7	7.6	9.9				
10/18/78	8.7	10.0	8.5	10.4	11.4			
11/15/78	7.3	7.7	5.7	6.3	5.6	2.4		
12/20/78	6.3	6.3	4.3	4.5	3.6	0.9	-3.6	
1/17/79	6.0	5.9	4.0	4.1	3.3	1.1	-2.0	0.0

Prepared by Federal Reserve Bank of St. Louis

MONEY STOCK PLUS NET TIME DEPOSITS (M2)
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

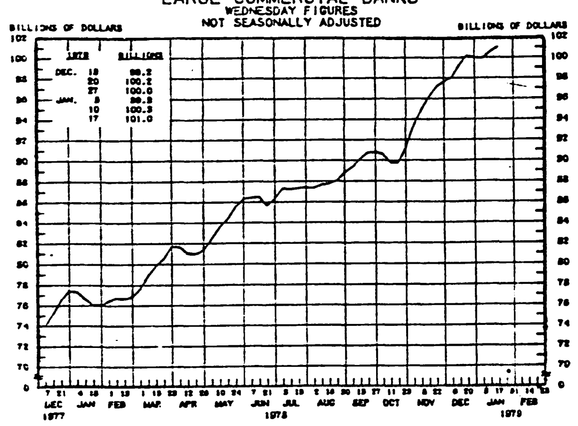


MONEY STOCK PLUS NET TIME DEPOSITS (M2)

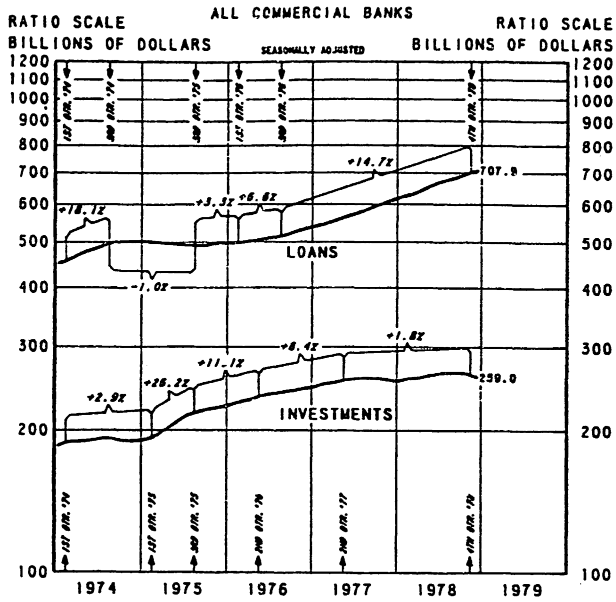
COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

TO THE AVERAGE OF FOUR WEEKS ENDING:	1/18/78	4/19/78	6/14/78	7/19/78	8/16/78	9/20/78	10/18/78	11/15/78
6/14/78	7.9							
7/19/78	7.6	8.5						
8/16/78	8.0	9.0	8.2					
9/20/78	8.6	9.7	9.5	11.5				
10/18/78	8.8	9.8	9.8	11.1	11.4			
11/15/78	8.2	8.9	8.5	9.2	8.8	6.8		
12/20/78	7.7	8.0	7.4	7.7	7.1	5.3	2.9	
1/17/79	7.1	7.3	6.6	6.6	0.0	4.5	2.3	2.0

CERTIFICATES OF DEPOSIT
LARGE COMMERCIAL BANKS
WEDNESDAY FIGURES
NOT SEASONALLY ADJUSTED



BANK LOANS AND INVESTMENTS [1]
ALL COMMERCIAL BANKS

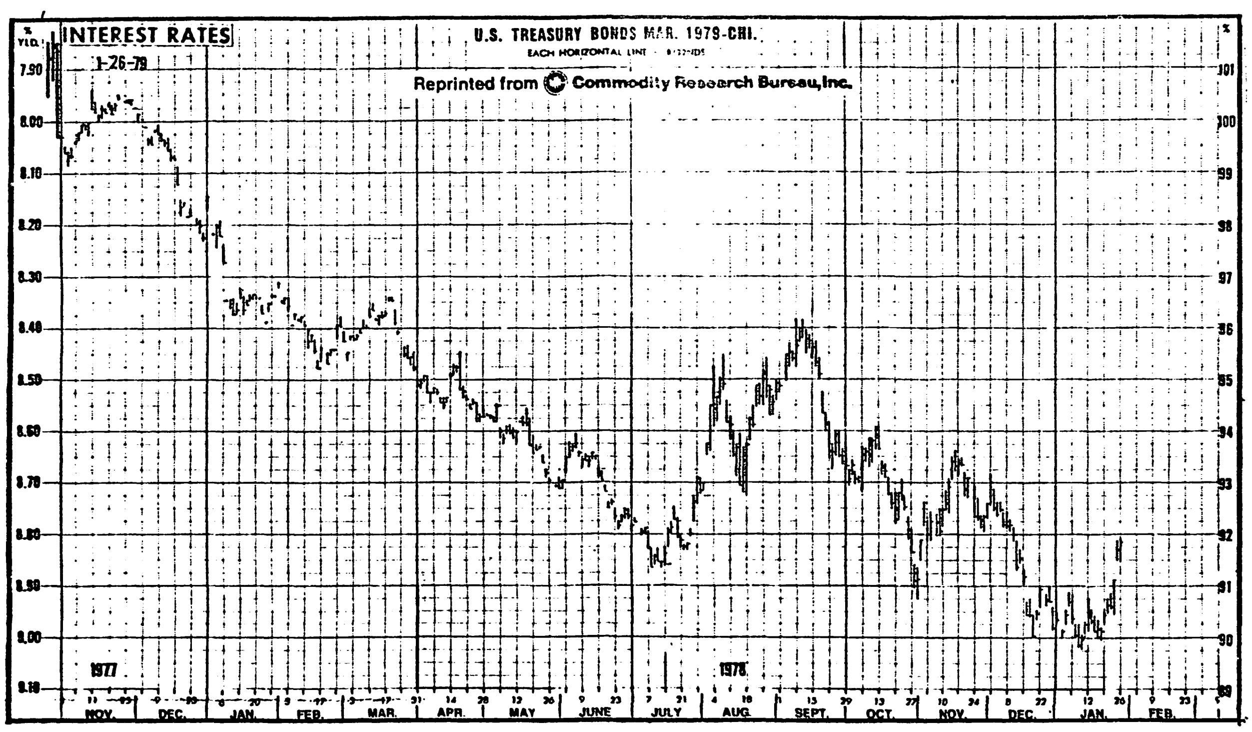


[1] AVERAGES OF SEASONALLY ADJUSTED DATA FOR CURRENT AND PRECEDING LAST WEDNESDAY OF EACH MONTH.
PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.
LATEST DATA PLOTTED: DECEMBER

MEMBER BANK DEPOSITS - SUBJECT TO RESERVE REQUIREMENTS

DATE	3 MO. *	6 MO. *	12 MO.**
JAN. 78	12.90	10.69	8.11
FEB. 78	9.84	10.16	8.28
MAR. 78	9.45	10.80	8.50
APR. 78	7.42	10.13	8.74
MAY 78	10.27	10.06	9.8
JUN. 78	9.6	9.53	9.61
JUL. 78	10.05	8.73	9.68
AUG. 78	6.22	8.23	9.28
SEP. 78	7.45R	8.52R	9.74
OCT. 78	5.3	7.65	8.99
NOV. 78	11.2	8.73	9.43
DEC. 78(P)	7.39	7.42	8.48
JAN.03(P)	7.74	6.04	7.93
JAN.10(P)	9.57	6.89	8.49

* ALL PERCENTAGE CHANGES ARE AT SEASONALLY ADJUSTED COMPOUNDED ANNUAL RATES.
** ALL PERCENTAGE CHANGES ARE AT NOT SEASONALLY ADJUSTED ANNUAL RATES.



BRITISH POUND

Spot : 199.65
Mar. 79 : 199.00
June 79 : 197.85
Sep. 79 : 196.70

Industrial semi-paralyzation coming as a result of severe labor problems have hardly shaken Sterling. With good reason.

As pointed out last month, short term capital flows have continued to take advantage of high real yields in gilts and money market rates. Forward rates have reflected this phenomena with 6 months & 12 months discounts widening to 230 & 410 points respectively.

Monetary aggregates as represented by M1, M3 & DCE all seem under good control and are likely to remain so given the Bank of England's strong monetarist bent. Labor strife has had a positive side effect in terms of political expectations: a refurbished conservative party may return to power bringing the promise of a fresh whiff of old-fashioned capitalism.

Recent National Institute of Economic and Social Research estimates of North Sea Oil and Gas revenues, albeit somewhat revised, hold out hope that the U.K., under new management, may make less painful the transition to be a revitalized private sector (see table). Given the U.K.'s high import elasticity (see table), the feat will be no mean task.

Remain long; add on move above 3.95 DM/ Sterling.

	OCT.78	NOV.78	DEC.78	DEC.77
RESERVES (BLN U.S.$)	15.97	15.67	15.69	20.56
RETAIL PRICE INDEX **	7.83	8.06	8.39	12.14
RETAIL SALES INDEX **	3.89	2.82	5.71	1.11
W.P.I. **	7.72	8.0	8.3.	15.22
UNEMPLOYMENT RATE (JAN.79: 5.6)	5.7	5.6	5.5	6.0

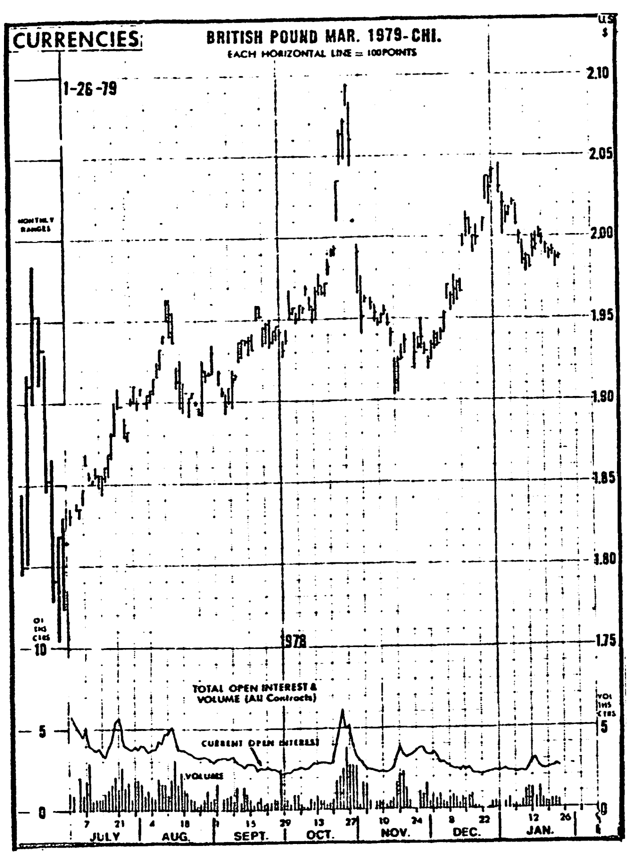
EURO DEPOSIT %	1979 JAN. 8	JAN.16	JAN.22	JAN.29	1978 JAN 27
1 MO.	11 7/8	12 1/2	12 1/2	12 5/8	6 3/4
3 MO.	12 3/8	13.	13 1/8	13 1/4	6 7/8
6 MO.	12 3/8	13 1/4	13 1/2	13 1/2	7 1/4
12 MO.	12 1/16	13 3/4	13 5/8	13 1/4	7 3/8

OPEN INTEREST(JAN.29/79):2478 DAILY VOLUME(JAN.29/79): 291
CONTRACT SIZE : BP 25,000.00 (APPROX. U.S. 49,500.00)
MINIMUM FLUCTUATION : .00050 ($12.50)
DAILY LIMIT (NORMAL) : .05000 ($1,250.00)
MARGIN REQUIRED : US $2,500.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

	Visible Balance	Current Balance	Oil Balance	M1 **	M3 **	DCE (£m)
1977						
4th Qtr	- 5	+ 591	- 657	23.2	12.6	+ 698
1978						
1st Qtr	- 635	- 406	- 637	24.3	23.8	+1,791
2nd Qtr	- 175	+ 133	- 393	8.5	15.7	+2,857
3rd Qtr	- 334	- 18	- 507	16.8	5.3	+ 530
4th Qtr	+ 40	+ 400	- 482	....	....	......
August	+ 49	+ 155	- 96	5.7	1.6	- 292
Sept.	- 233	- 128	- 191	16.8	5.3	+ 712
Oct.	+ 100	+ 220	- 133	13.8	5.4	+ 540
Nov.	- 186	- 66	- 161	12.3	10.6	+ 110
Dec.	+ 126	+ 246	- 188	4.8	9.4	+ 753

** three months' growth at annual rate
source: financial Times



North Sea oil and gas revenue

	1975	1976	1977	1978	1979	1980	1983	1985
Assumptions								
Price of North Sea oil, $/barrel	11.9	13.0	14.3	14.0	15.2	15.9	17.9	19.4
Exchange rate $/£	2.22	1.81	1.75	1.92	1.90	1.86	1.70	1.60
Price, southern gas, £/toe	8	8	9	10	11	12	14	15
Price, northern gas, £/toe	—	—	30	27	30	32	39	45
Price, British Gas Corporation sales, £/toe	42	52	62	62	68	74	91	105
World export prices of manufactures, $, 1975=100	100	101	110	126	138	146	169	186
Output, million tonnes or toe	32	45	73	88	118	135	168	170
Oil	1	12	38	54	79	95	124	125
Southern gas	31	33	34	32	33	32	30	28
Northern gas	—	—	1	2	6	8	14	17
Imports of gas, million toe	—	—	3	4	7	8	8	8
£ million								
Oil								
Value of output	48	641	2,259	2,900	4,629	5,975	9,550	11,105
Operating costs	8	129	472	720	1,165	1,520	2,476	2,934
Taxes(a)	6	71	272	578	1,626	1,955	4,559	4,443
Net income before depreciation	34	441	1,515	1,602	1,838	2,500	2,515	3,728
Remittances abroad(a)	11	92	578	793	1,165	1,614	1,659	2,281
Southern Gas								
Revenue	234	265	301	315	350	377	403	425
Operating costs	53	59	64	70	77	83	98	107
Taxes(a)	91	103	133	135	151	166	174	181
Net income before depreciation	90	103	104	110	122	128	131	137
Remittances abroad(a)	60	69	70	74	82	86	87	92
Northern Gas								
Revenue	—	—	15	62	192	256	526	742
Operating costs	—	—	2	13	40	54	117	165
Taxes(a)	—	—	2	7	30	46	84	184
Net income before depreciation	—	—	11	42	122	156	325	393
Remittances abroad(a)	—	—	11	42	102	131	259	325
British Gas Corporation								
Total sales	1,576	1,968	2,568	2,781	3,619	4,079	5,453	6,567
Gas	1,338	1,701	2,216	2,356	3,128	3,522	4,641	5,523
Materials costs	255	285	467	481	759	897	1,252	1,540
Gas	242	279	461	474	752	889	1,241	1,527
Operating costs	840	963	1,207	1,482	1,978	2,190	2,958	3,577
Net income before depreciation	481	720	894	818	882	992	1,243	1,450
'Excess' return(b)	—	—	673	586	638	736	947	1,121
Total oil and gas benefits								
Value of output (c)	1,282	2,390	4,333	4,756	6,938	8,482	12,900	15,106
Remittances abroad(a)	71	161	659	909	1,349	1,831	2,005	2,698
Current	49	89	328	444	637	911	1,054	1,619
Net current balance effect	+1,233	+2,301	+4,005	+4,312	+6,301	+7,571	+11,846	+13,487
Government receipts(a)(d)	97	174	1,306	1,306	2,445	2,903	5,764	5,929
UK companies' income	90	383	971	845	733	953	946	1,560
Taxes relative to value of oil output, percentages								
On assumptions above	12	11	12	20	35	33	48	40
If £1=2.00, 1979–85	12	11	12	20	35	32	44	36

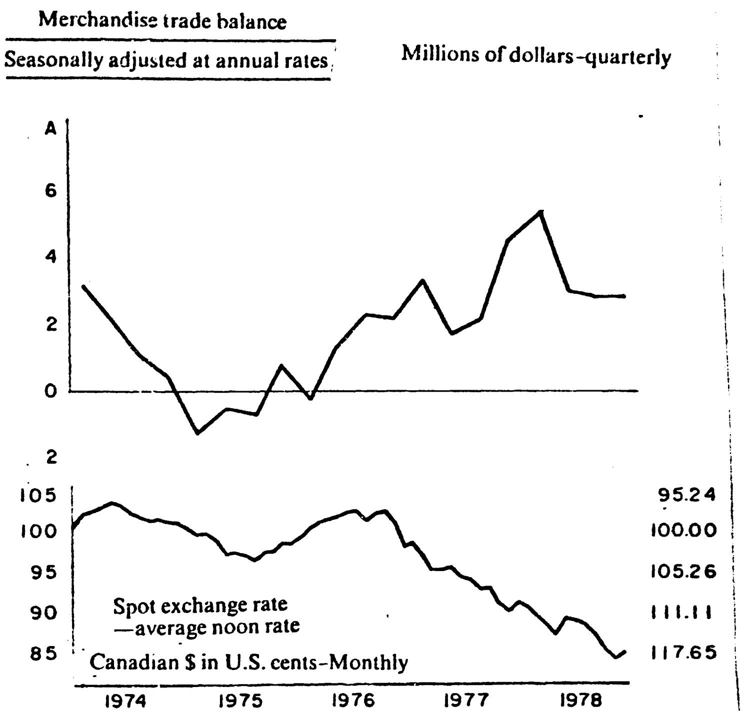
Source: *Digest of United Kingdom Energy Statistics*, British Gas Corporation, *Annual Report*, *Overseas Trade Statistics*, NIESR estimates.
(a) Accruals corresponding to each periods production; payments are made later.
(b) Return after allowing for costs of conversion to natural gas and 10 per cent return on capital.
(c) Gas is valued at the oil price on the assumption that it replaces oil imports.
(d) Taxes and British Gas Corporation 'excess' return.

United Kingdom import elasticities

	1971 II–1973 I	1973 I–1975 III	1975 III–1978 I
Whole economy	2.0	0.6	2.1
Manufacturing industry	2.4	0.6	2.5
Consumer goods industry(a)	1.2	3.1	1.1
Capital goods industry(b)	18.6	0.5	9.6
Intermediate goods industry	1.1	0.2	1.0

Source: NIESR calculations.
(a) 1973 I–1975 II, 1975 II–1978 I.
(b) 1973 I–1975 IV, 1975 IV–1978 I.

CANADIAN DOLLAR



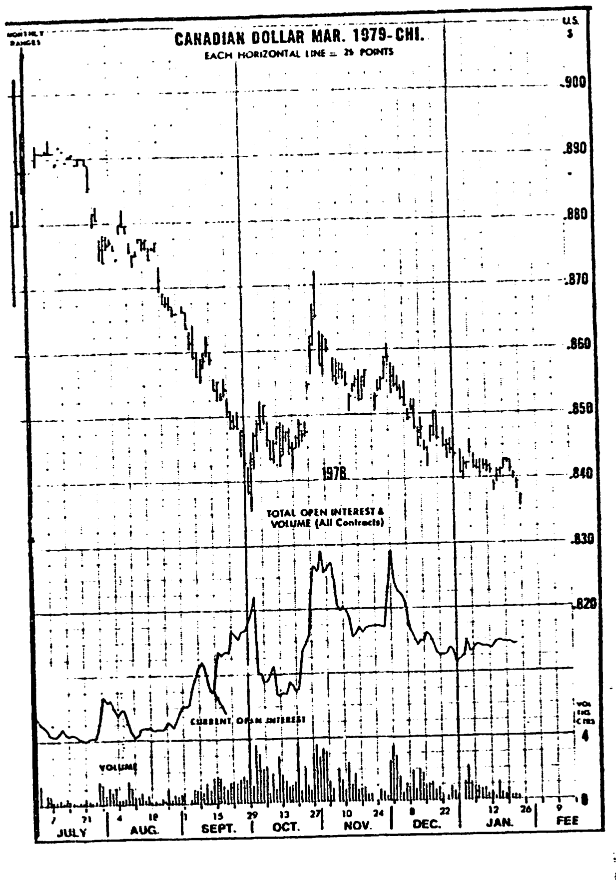
A glance at the accompanying chart makes hash of official pronouncements that the CD$ has regained international competitiveness by having been allowed to depreciate close to 20%. Annualizing quarterly figures, it can be readily seen that the peak surplus was achieved in the early part of 1978 when it neared $5.5 bln. For the closing quarter of 1978, Canada ran an annualized trade surplus of $2.8 bln (based on very preliminary figures) almost $2.0 bln below the corresponding 1977 quarter and more than $2.5 bln below the first Qtr of 1978, despite a sharply lower CD$! Clearly, the level of economic activity and monetary policy have more to do with trade figures than exchange figures. We repeat what we've said all along : the same trade results, a considerably lower rate of inflation and an equal loss of reserves could have been accomplished had the monetary authorities decided to defend the "high-priced CD$" at par. Instead, we've lost confidence, credibility and purchasing power.

Mismanagement and talk of exchange controls have caused a huge flight of unreported capital clearly seen under the heading "Errors &ommissions" in the Canadian Balance of International Payment statistics. For the two years period 1976-1977 and half of 1978, outflows of unreported capital amounted to approx. $7 billion more than offsetting the $6 billion merchandising surplus !

Remain short, lowering stops to 85.00 basis Spot.

	OCT. 78	NOV. 78	DEC. 78	DEC. 77
BALANCE OF TRADE (MLN $)				
TOTAL 1977 : + 2,930				
TOTAL 1978 : + 3,197	+153	+423	+129	435
GENERAL BANK LOANS**	12.65	11.66	12.12	12.79
MONEY SUPPLY **				
M1	12.12	12.81	8.64	11.91
M1B	9.67	10.51	6.66	10.57
M2	11.26	9.94	12.49	11.67
M3	13.85	17.56 R	17.27	13.19
CURRENCY PLUS ALL DEPOSIT LIABILITIES**	14.71	16.0	N/A	14.46
INT'L RESERVES(BLN U.S.)	5.10	4.48	4.57	4.60
C.P.I.(ALL ITEMS)**	8.67	8.70	8.43	9.5
FOOD PRICE INDEX**	14.55	14.01	12.79	15.36
UNEMPLOYMENT RATE S.A.	8.2	8.3	8.1	8.5
N.S.A.	7.2	7.7	7.9	8.3

EURO DEPOSIT %	1979 JAN. 8	1979 JAN.16	1979 JAN.22	1979 JAN.29	1978 JAN.30
1 MO.	10 1/4	10 3/4	10 15/16	11.	7.
3 MO.	10 13/16	11 1/16	11 1/16	11 1/4	7 1/4
6 MO.	11.	11 1/16	11 3/16	11 1/4	7 9/16
12 MO.	11.	11 1/16	11 3/16	11 1/4	7 11/16

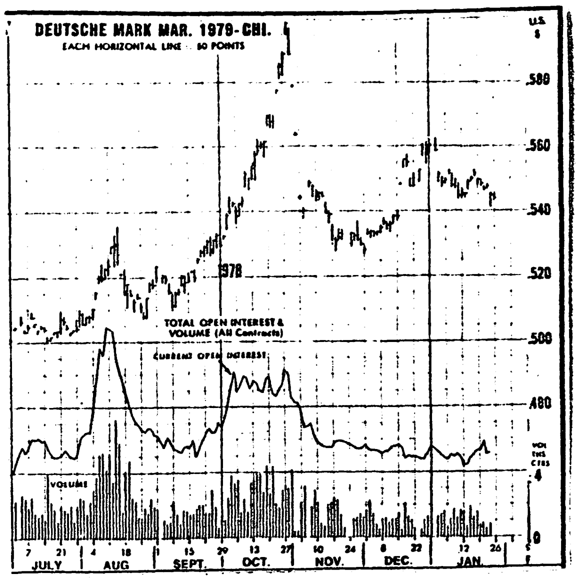


OPEN INTEREST(JAN.29):4,989 VOLUME(JAN.29): 597
CONTRACT SIZE : CD 100,000.00 (APPROX. U.S.$83,500.00)
MINIMUM FLUCTUATION : .00010 ($10.00)
DAILY LIMIT (NORMAL) : .00750 ($750.00)
MARGIN REQUIRED : US $2,000.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

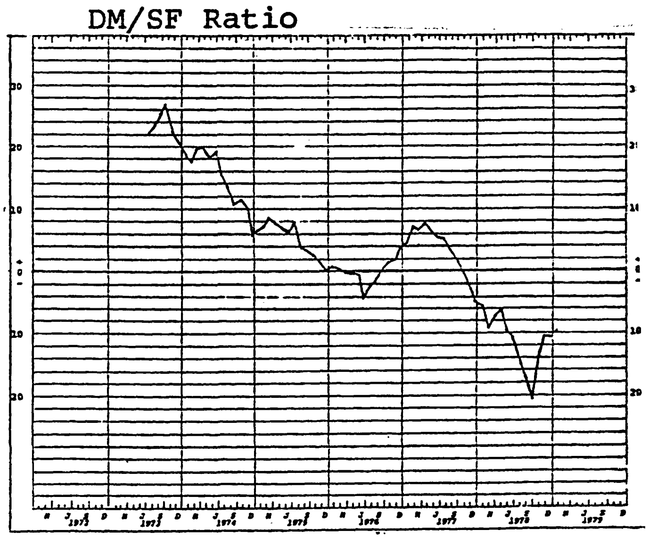
DEUTSCHE MARK

Spot : 53.64 Dec.79: 56.52
Mar.79: 54.07
Jun.79: 54.98
Sep.79: 55.79



	OCT. 78	NOV. 78	DEC. 78	DEC. 77
BALANCE OF TRADE (MLN MARKS)				
TOTAL 1977 : +38,400				
TOTAL 1978 : +40,700	4,810	3,550	3,840	4,220
BALANCE OF PAYMENTS (BLN MARKS)				
CURRENT ACCT.				
TOTAL 1977 : 5.3				
TOTAL 1978 : +13.1	3.4	3.8	...	1.66
MONEY SUPPLY ** M3	11.27	11.13	10.65	11.31
W.P.I.**	+.13	1.04	1.24	2.4
COST OF LIVING INDEX**	2.18	2.31	2.44	3.5
UNEMPLOYMENT RATE	3.9	4.1	4.4	4.8

DM/SF Ratio



	1979				1978
EURO DEPOSIT %	JAN. 8	JAN.16	JAN.22	JAN.29	JAN.27
1 MO.	3 1/16	3 1/8	3 11/16	3 7/16	3 1/16
3 MO.	3 1/4	3 7/16	4.	3 7/8	3 1/8
6 MO.	3 5/8	3 3/4	4 1/4	4 1/8	3 1/4
12 MO.	3 15/16	4.	4 5/16	4 1/4	3 3/8

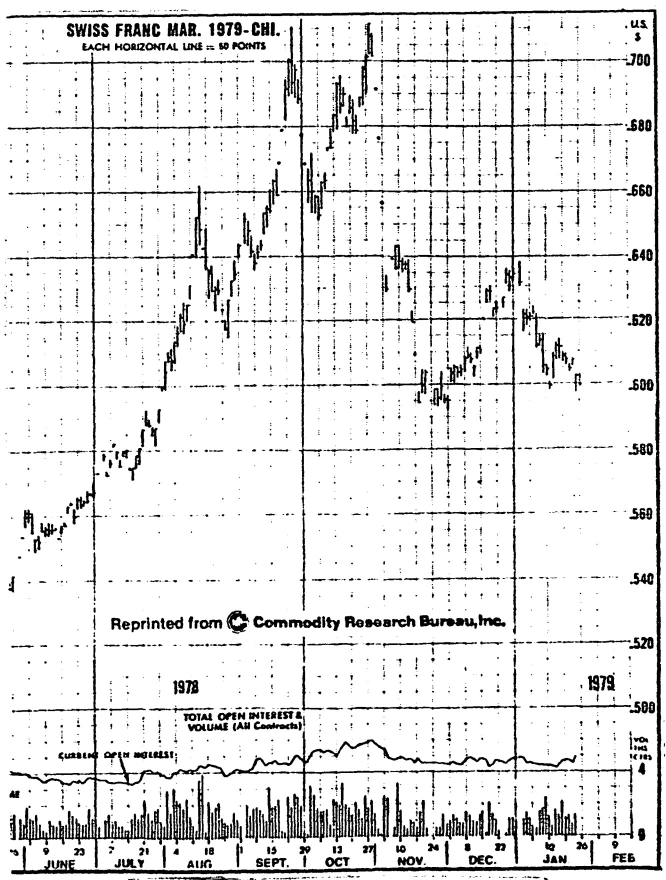
WEEKLY RESERVES
NET MONETARY
(BLN MARKS) 100.3 (DEC.31) 100.3(JAN.7) 100.8(JAN.15)

OPEN INTEREST(JAN.29): 4,977 VOLUME (JAN.29): 853
CONTRACT SIZE : DM 125,000.00 (APPROX. U.S. 67,500.00)
MINIMUM FLUCTUATION : .00010 ($12.50)
DAILY LIMIT (NORMAL) : .01000 ($1,250.00)
MARGIN REQUIRED : US $5,500.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE.

SWISS FRANC

Spot : 59.19 Dec.79: 64.50
Mar. 79: 59.97
Jun. 79: 61.58
Sep. 79: 63.05



	OCT. 78	NOV. 78	DEC. 78	DEC. 77
BALANCE OF TRADE (MLN SFR)				
TOTAL 1977 : -868				
TOTAL 1978 : -521	+12.9	+ 5.3R	+284	+491.7
MONEY SUPPLY	21.3	23.6	....	3.4
W.P.I.**	-3.96	-2.73	-2.34	-1.62
UNEMPLOYMENT RATE	0.3	0.4	0.4	0.4

	1979				1978
EURO DEPOSIT %	JAN. 8	JAN.16	JAN.22	JAN.29	JAN.27
1 MO.	PAR	1/16	3/16	1/8	7/16
3 MO.	1/16	3/16	3/16	3/16	15/16
6 MO.	3/16	5/16	3/8	7/16	1 9/16
12 MO.	9/16	11/16	3/4	11/16	2 1/8

WEEKLY RESERVES

(MLN SFR) 29,540 (JAN.5) 29,370(JAN.15) 29,470(JAN.23)

OPEN INTEREST(JAN.29): 4,664 VOLUME(JAN.29) : 901
CONTRACT SIZE : SF 125,000.00 (APPROX. U.S.75,000.00)
MINIMUM FLUCTUATION : .00010 ($12.50)
DAILY LIMIT (NORMAL) : .01000 ($1,250.00)
MARGIN REQUIRED : US $6,500.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

FRIEDBERG
MERCANTILE
GROUP

JAPANESE YEN

Spot : 49.76
Mar. 79: 50.26
June 79: 51.20
Sep. 79: 52.15
Dec. 79: 53.55

	OCT. 78	NOV. 78	DEC. 78	DEC. 77
BALANCE OF TRADE (MLN U.S.$)				
TOTAL 1977 :17,310				
TOTAL 1978 :24,700	1,040	1,430	2,600	2,675
BALANCE OF PAYMENTS (MLN U.S.$)				
OVERALL ACCOUNT				
TOTAL 1977 :7,740				
TOTAL 1978 :5,690	-980	-267	- 80	+1,860
CURRENT ACCOUNT				
TOTAL 1977 : 10,920				
TOTAL 1978 : 16,590	364	635	1,900	2,150
MONEY SUPPLY ** M1	+11.55	+11.41	N/A	7.1
RESERVES (MLN U.S.$)	29,390	32,260	33,020	22,850
C.P.I. **	3.31	3.43	...	4.8
W.P.I. **	-4.14	-3.2	-0.46	-0.02
UNEMPLOYMENT RATE	2.27	2.31	....	2.1

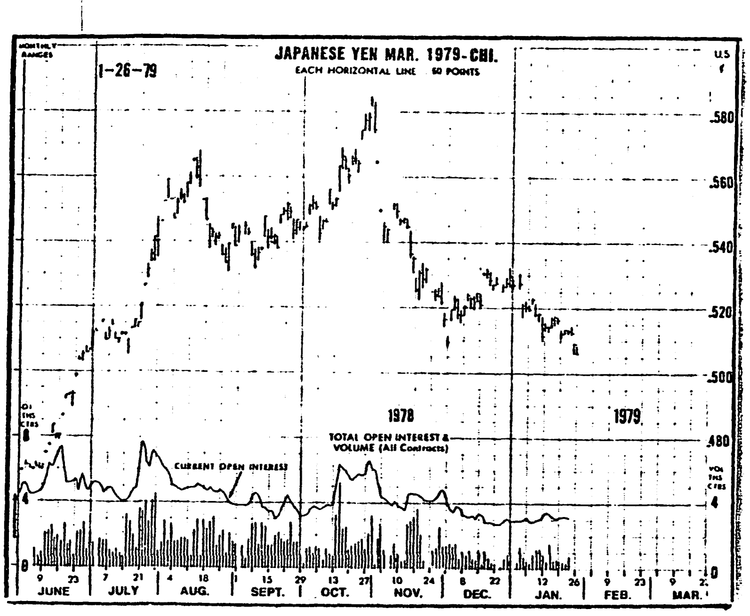
OPEN INTEREST(JAN.29): 3,787 VOLUME(JAN.29) : 1,027
CONTRACT SIZE : YEN 12,500,000.00 (APPROX.US$62,500)
MINIMUM FLUCTUATION : .0000010($12.50)
DAILY LIMIT (NORMAL) : .000100 ($1250.00)
MARGIN REQUIRED : US $5,000.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

As expected, the DM/SF has stabilized at 90-91% level.

All three currencies penetrated our stop-loss points suggested last month. The trend has turned neutral-negative but not significant enough to undertake short sales.

Remain sidelined.



FRENCH FRANC

Spot : 23.40
Mar.79: 23.66
June79: 23.60

	OCT. 78	NOV. 78	DEC. 78	DEC. 77
BALANCE OF TRADE (MLN FFR)				
TOTAL 1977 : -13,900				
TOTAL 1978 : +2,500	+721	+324	-871	+1,310
NET CHANGE OF FOREIGN EXCHANGE ASSETS **	19.82	21.31	24.45	17.51
RETAIL PRICE INDEX**	9.26	9.42	9.71	9.06

EURO DEPOSIT %	1979 JAN. 8	1979 JAN.16	1979 JAN.22	1979 JAN.29	1978 JAN.27
1 MO.	8 3/4	7 3/4	8 1/8	7 7/8	11 5/8
3 MO.	8 7/8	8 1/2	8 1/2	8 5/8	13 1/4
6 MO.	9 1/8	9 1/16	9 1/16	9.	13 3/8
12 MO.	10 1/4	9 7/8	9 3/4	9 5/8	13 3/4

WEEKLY RESERVES
GOLD & CONV. CURRENCY
(MLN FFR) 119,286(DEC.28) 126,984(JAN.5) 127,773(JAN12)
128,022(JAN.18)

OPEN INTEREST (JAN.29): 123 VOLUME(JAN.29): 1
CONTRACT SIZE : FR 250,000.00 (APPROX. U.S.58,000.00)
MINIMUM FLUCTUATION : .00005 ($12.50)
DAILY LIMIT (NORMAL) : .0050 ($1,250.00)
MARGIN REQUIRED : US $5,000.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

MEXICAN PESO

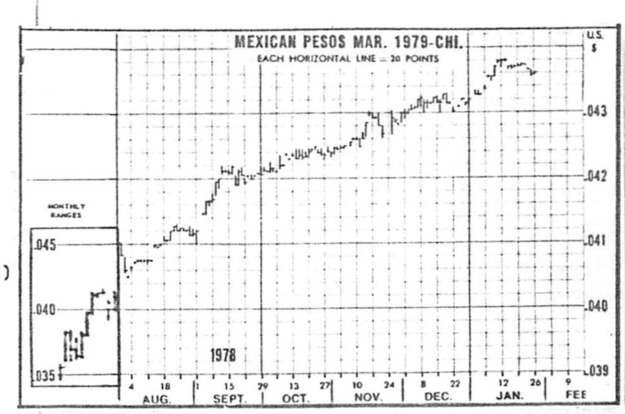
Spot : 43.89
Mar. 79: 43.75
Jun. 79: 43.50
Sep. 79: 43.12
Dec. 79: 42.60

Mar. 80: 42.31
June 80: 42.14

	1977				1978					
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	July	Aug.	Sep.	Oct.
Reserve Money ** (Bank of Mexico)	-10.25	12.25	20.50	57.12	63.51	46.54	46.24	45.52	...	...
Currency Outside Banks **	49.02	39.86	23.72	11.08	...	...	...	...	...	...
Money Supply **	30.40	26.16	21.93	26.00	...	...	...	...	...	...
Demand Deposits **	16.68	18.02	20.90	36.62	...	...	...	...	...	...
Int'l Reserves (Mln U.S.$)	1,422	1,439	1,654	1,723	1,766	1,705	1,729	1,797	...	...
Funds Position Net Draw/Funds Sales(-)	593	597	595	621	518	396	402	406	409	430
W.P.I. **	45.69	50.48	48.50	24.45	17.52	16.36	17.31	13.92	12.37	13.87
C.P.I. **	25.64	27.29	30.	22.6	18.52	17.39	17.89	16.53	15.44	15.15
Gov't Finance Deficit (-)	-5,387	-9,123	-10,781	-29,971	-20,263	-7,493	-4,509	...	...	...
Revenue	42,841	49,148	48,008	53,544	52,574	65,539	17,230	...	...	...
Expenditure	48,228	58,271	58,788	83,515	72,837	73,032	21,739	...	...	...

Forward Discount
Annual Basis

	Mar.79	Jun 79	Sep 79	Dec 79	Mar 80	Jun 80
Spot	3.91	2.71	3.08	3.64	3.44	3.10
Mar.79		2.32	2.94	3.61	3.40	3.04
Jun 79			3.57	4.27	3.77	3.23
Sep 79				4.97	3.87	3.11
Mar 80					2.77	2.19
Jun 80						1.62



OPEN INTEREST (JAN.29):3,455 VOLUME (JAN.29): 83
CONTRACT SIZE : MP1,000,000.00(APPROX. U.S. 43,500.00)
MINIMUM FLUCTUATION : .00001 ($10.00)
DAILY LIMIT (NORMAL) : .00150 ($1,500.00)
MARGIN REQUIRED : US $6,000.00 COMMISSIONS : $60.00
TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

** YEAR-OVER-YEAR % CHANGE

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A veritable boom (with the Mexican Dow Jones surpassing 1000 for the first time) fuelled by loose money and oil megalomania is sweeping the land.

Stand aside for the day of reckoning.

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Foreign Policy: End of an Era

By Irving Kristol

The crisis represented by the turmoil in Iran might well mark the end of an era for American foreign policy. It seems highly improbable, as of this writing, that out of this turmoil there could emerge a stable government friendly to American interests. More likely is a Communist regime in the not too distant future, or a national-socialist-Islamic regime (on the Libyan model), or some peculiar amalgam of the two—from the American point of view it hardly matters. What is decisive is the fact that the existence of any such regime, taken together with a Communist Ethiopia, a Communist Afghanistan, and a disintegrating Turkey, means the effective expulsion of American power from the entire Middle East.

The economic, political and military consequences of such an event are almost impossible to exaggerate. We can manage, if uncomfortably, without Iranian oil, but we—and Europe and Japan—cannot manage without Saudi Arabian oil. Yet it is fairly certain that a friendly (or at least not hostile) Saudi regime cannot survive in the kind of isolation that now looms ahead for it. A new Saudi regime—or an old regime with new policies—will doubtless continue to sell its oil abroad, but it surely will also attach all sorts of political-diplomatic strings to such sales. Our NATO partners, if their behavior during the 1973 embargo is any precedent, will obligingly repackage their own foreign policies with those strings.

The Camp David agreement inevitably will become a dead letter, as Egypt falls into line with the new Middle Eastern realities. Jordan, Iraq and Syria, too, will forsake whatever "moderation" they have, in recent years, acquired. Under those circumstances, a new Arab war against Israel—the one nation in that part of the world that is still a friend to us—would seem certain. The United States would "deplore" such a war, of course—but what would it do? What could it do?

Our reaction to this crisis has been revealing. The White House, we are informed, has solemnly told the Russians not to "intervene" in Iran. In return, the Russians have given us an exact duplicate of this warning. One hardly knows whether to laugh or cry at these demarches. The Russians have neither the need nor the intention of actually sending troops across the border. They may not even desire a Communist Iran; any species of anti-American Iran should suffice for their purposes. As a result of spending tens of millions of dollars, over many years, to build up clandestine organizations and operations in Iran, they are well situated to emerge with satisfactory results from the current chaos. Our own CIA, of course, has been rendered impotent for any countervailing action. Nor does our government have the means or the will to engage in direct military intervention. Instead, it seems to be fully preoccupied with intense self-analysis.

Should we have supported the Shah? The consensus in Washington at the moment seems to be that, in retrospect, this was unwise and probably immoral, since it turns out that he was never really all that popular. Should we have intervened in a clandestine way to overthrow the Shah? That same consensus regards any such action, anywhere, as unwise and definitely immoral. Should we actually and openly intervene with military force to establish a new and more stable government? The consensus regards such an action as unwise and immoral in the extreme. Should we support a military coup that would inaugurate a friendly military dictatorship? That is clearly so unwise and immoral as to be unthinkable. After all, we are now busy disentangling ourselves from "embarrassing" alliances with other friendly military dictatorships, and are not about to create a brand new one.

Bankrupt Foreign Policy

So where does that leave us? It leaves us with nothing—with a patently bankrupt foreign policy. Oh, yes, we'd like very much to see a liberal-constitutional regime emerge in Iran. But the chances of that happening are practically nil. The kinds of political traditions and ideological passions that prevail today throughout most of the so-called Third World are incompatible with any such outcome. The world is just not now of a mind to give birth to new liberal-constitutional regimes.

Moreover, our policy is not only bankrupt in the sense of our being unable to act, but bankrupt in the sense that we have obviously lost the ability even to think coherently about foreign policy. Every thought gives rise merely to a new paradox, a new dilemma. It is the end of the road—a road down which we began to travel some 60 years ago, when Woodrow Wilson first devised the intellectual framework within which American foreign policy has since been trapped.

Wilsonian liberalism marked a radical departure from the previous styles of American foreign policy, which had centered quite specifically on the idea of "national interest." Our isolation from European affairs prior to 1912, was defended in those terms; so were our nationalist-expansionist policies in the Western hemisphere. True, we preached to the world the blessings of self-government, and held ourselves up as a shining example—but we did little else to the world, as the world did little else to us.

Board of Contributors

Since Vietnam, our foreign policy has collapsed into what can only be called a decadent Wilsonianism, retaining shreds and tatters of the traditional evangelical moralism and self-hypnotic legalism, but also displaying new pathological features.

It was Woodrow Wilson who first gave American foreign policy its distinctive character — a compound of evangelical idealism and strict legalism. The notion that, since we were now a world power, it was our destiny to convert the world to instant democracy was born then, as was the idea that the sovereignty of international law, under the aegis of a League of Nations, would establish a benign and enduring world order.

Traces of this Wilsonianism are still much in evidence in the way we conduct our foreign affairs. What else explains our stubborn attachment to the United Nations despite the indignities and humiliations it incessantly exposes us to? And what else can explain the automatic passion with which our State Department reacts to any transgression of existing boundaries, regardless of provocation or circumstance, regardless of whether it is committed by friend against foe (Suez in 1956), foe against friend, or foe against foe (Vietnam and Cambodia)? The man in the street certainly sees a difference; the State Department cannot.

The utopianism of Wilsonian liberalism is now generally recognized and discounted. Still, in all fairness to it one must say that it had a vitality and self-confidence that our later foreign policies lacked. It tended to make us overly arrogant and self-righteous, but not incredibly feeble and self-deprecating. In our own day, Senator Moynihan has tried to revive a kind of Wilsonian vigor and self-confidence, but with only minimal success. The world is simply no longer a place where the Wilsonian vision of liberal democracy universally triumphant can be taken seriously. In truth, it never really was such a place.

With the end of World War II and the onset of the Cold War, our foreign policy was redefined as a kind of defensive Wilsonianism. We would no longer make the world safe for democracy but we would see to it that the world would not be made safe for totalitarianism, either. In effect, our policy of "containment" meant the maintenance of the international status quo, while waiting for the Soviet Union and other nations to evolve "naturally" into pacific, liberal societies, as they experienced the pleasures of economic growth. But such an evolution seems not to be written into history's genetic code after all, and we found ourselves coping with one critical situation after another, as our complex network of defensive treaties unravelled in one place after another. Sooner or later we were bound to come up against a "leak" which we could neither contain nor repair. That happened in Vietnam, where the limits of a purely defensive and reactive strategy—in which we fight endless "limited wars" while our opponents seek the most favorable opportunities for unlimited success—were exposed, and the strategy itself discredited.

Since Vietnam, our foreign policy has collapsed into what can only be called a decadent Wilsonianism, retaining shreds and tatters of the traditional evangelical moralism and self-hypnotic legalism, but also displaying two new pathological features.

The first is a profound sense of guilt. To be a liberal American today is to be infused with instant guilt at all the disagreeable features of the universe—and most especially toward poor and distant nations to whom we have never done any harm. It is because of such guilt feelings that, whenever such nations are involved in a dispute with us—over the expropriation of American property, for instance—the instinctive reaction of our State Department is not to defend our interests but rather to act as a benevolent mediator.

'The Therapeutic Ethic'

The second new feature is the prominence of what Professor Philip Rieff has called "the therapeutic ethic"—the conviction that the only decent and effective way to cope with people who cause trouble is through the exercise of compassion, patience and the provision of social services. The assumption is that if they are behaving nastily and aggressively, it can only be because some form of "deprivation" has made them unreasonably suspicious and resentful of their fellow creatures. It is this assumption and this ethic that guides our behavior toward the Third World, in the United Nations, and — unbelievably — toward the Soviet Union itself.

Foreign Policy: End of an Era ...

On December 12th, President Carter said with reference to the SALT talks: "If the Soviets are adequately forthcoming, we will have an agreement.... If they are not forthcoming, then we will continue to negotiate." Why? Why won't we just pack up and go home? Well, the reason is that this administration, like its predecessors, perceives the SALT negotiations as, above all, a means of "involving the Russians in a dialogue" that would eventually lead to "greater mutual understanding"—in short, as a form of therapy that will convert a sullen and delinquent Soviet Union into a "mature" good neighbor. Unfortunately for us, the Russians have no idea that their mental health is poor—though they must surely be wondering if we are well.

The self-defeating posture has much genuine moral passion behind it, but in the end it will—as is already beginning to happen in our domestic policies—have to come to terms with the world's realities. Our first and overriding obligation, clearly, is to defend the interests of those existing liberal democracies that are our natural allies. To achieve this, however, we must be ready to defend our own strategic and economic interests as a world power, willing and able to use the necessary force to do so.

This earth will be a place where American *ideals* are respected only if the world also respects our *interests*—which it is not likely to do if we show no respect for our own interests.

World Admires Winners

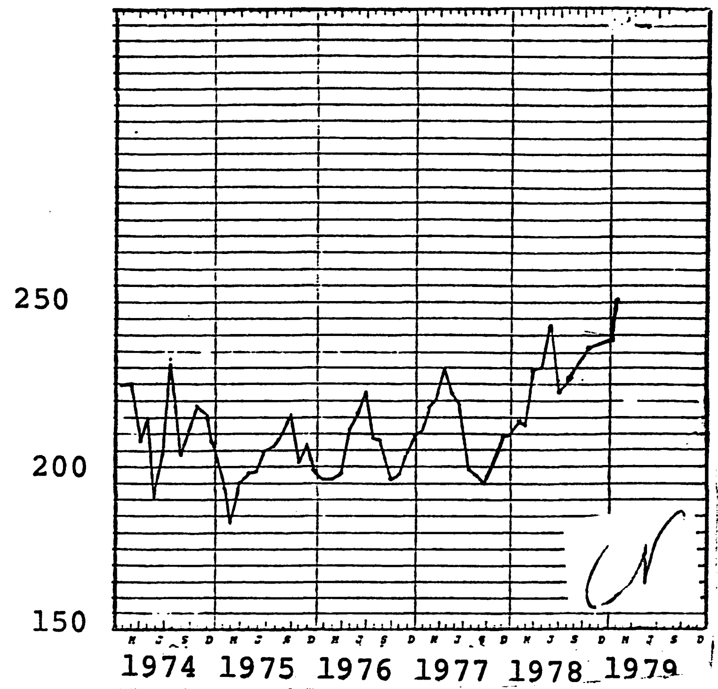
It is this vital connection between ideals and interests that has been missing for so long in our thinking about foreign policy. The nations of this world admire winners, not losers—not even "nice" losers. When democratic nations are strong and willing to act decisively, the rest of the world may take the ideology of liberal democracy seriously. When a democratic nation, however, and most especially the leading democratic nation, engages interminably in Hamlet-like soliloquies on the moral dilemmas of action, the world will seek its political models elsewhere.

We have for too long lived with the illusion that the prime purpose of our foreign policy should be to restrict and eventually eliminate the use (and abuse) of power in international affairs. The moral intention is splendid—but utopian, since much of the world does not share it. We know that power may indeed corrupt. We are now learning that, in the world of nations as it exists, powerlessness can be even more corrupting and demoralizing.

Mr. Kristol is Henry Luce Professor of Urban Values at NYU, a Senior Fellow of the American Enterprise Institute and a member of the Journal's Board of Contributors.

The Wall Street Journal,
Jan. 18th,1979

FCI



FCI

	Jan.79	Dec.78	Jan.78
+11.84% from prev. month	250.83	238.99	213.00
+37.83% from year ago			

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

Albert D. Friedberg