

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

347 Bay Street, Suite 1100, Toronto, Ontario M5H 2R7 Telephone: (416) 354-2700 Cable: Friedco Toronto Telex: 05-23446

Substitution, Diversification and Convertibility

A New (Old) Proposal

Oct. 3rd, 1979

" What basis? Actually, it is difficult to envisage in this regard any other standard than gold. Yes, gold, which does not change in nature, which can be made into bars, ingots or coins, which has no nationality, which is considered, in all places and at all times, the immutable and fiduciary value par excellence. Furthermore, despite all that it was possible to imagine, say, write or do in the midst of major events, it is a fact that even today no currency has any value except by direct or indirect relation to gold, real or supposed. "

Charles de Gaulle

" A substitution account, properly designed, would offer a number of attractions for the financial community in general. The SDR ... is a diversified instrument, inherently involving less risk than holdings of a single national currency. The existence of a substitution account would thus provide an internationally sanctioned, nondisruptive means for countries to achieve a more diversified and stable reserve position without having to hold a number of national currencies. And implementation of an account would give important direction for the future as a concrete move towards wider use of a fully international asset - the SDR - rather than allowing us to fall by default into an unregulated multiple currency system "

Anthony Solomon, U.S. Treasury

The unlimited absorption of U.S. financial assets on the part of foreign central banks has come to an end. It was only a question of respect, time and patience. For so long as U.S. balance of payments' deficits were of a modest magnitude, foreign central banks acquiesced in their accumulation of U.S. dollars in the interest of world liquidity (growing world trade required a parallel growth of international means of payments). As the deficits mounted from a trickle to a flood, foreign central banks acquiesced in their further accumulation of U.S. dollar out of respect for the acknowledged leader of the Free World. But with the course of time and the demonstrated lack of political and economic leadership, patience ran thin. Small and medium-sized Central Banks became adept at the intricate techniques of minimizing portfolio returns. Dumping of U.S. \$ as diversification became a key concern to enough official institutions that Deutschemark holdings increased from a mere 2.1% of total reserves in 1970 to approximately 10% at mid-1979. Admittedly, the collective ensemble of foreign central banks were not buyers of U.S. dollars, but, as we have pointed out in earlier occasions, the marketplace - by revaluing gold - forced upon the larger central banks a sort of diversification. As a proportion of total world reserves, gold (at market related prices) rose from 39.6% at end of 1970 to 47.1% by mid-1979. Excluding the U.S., the proportion increased from 32.9% to 36.2%. Clearly, diversification out of U.S. dollars was proceeding even among those official institutions that did not engage in dumping.

What was there to do with the increasing and ever accelerating flood of unwanted dollars? The problem was recognized intellectually as early as 1943 (Keynes' International Clearing Union) and vigorously demonstrated by Robert Triffin in 1962. Not until 1971, and after Nixon closed the Gold Window, did it dawn on foreign central bankers the urgency of the situation. The newly created SDRs were touted as the ideal vehicle to use for substituting unwanted U.S. dollar claims. From 1972 to 1974, in a series of IMF meetings, high level officers agonized over the mechanics of substitution, who was to bear the foreign exchange risks of the new SDRs, interest rate of the new SDR, compulsory acceptance of SDRs, and so on. The desire for Reform was further complicated by Third World Nations' desire to participate in this SDR bonanza (a form of seigniorage). The meetings failed to reach a consensus, a new attempt is presently underway in Belgrade.

What are the real issues? In line with some of our previous remarks, we can discern four basic points: 1) Settlement of liabilities; 2) Disposal on the part of foreign central banks of U.S. dollars in an orderly fashion, i.e. diversification; 3) Financial responsibility and a last & least 4) Liquidity needs.

The first point, settlement of liabilities, is crucial. If the backing for paper money is more paper money, then interposing another layer of paper money (SDRs) - which is backed by nothing but thin air and valued by recurring to a basket of more paper money (major global currencies) backed by nothing but national goodwill - between the debtor (the U.S.) and the creditors (foreign central banks) is enough to cause neurotic nightmares.

The second objective, diversification, is not attainable. To become a desirable asset, SDRs must be sought after for their financial return, their long run appreciation (or, at least, preservation of purchasing power) and marketability. Since interest on SDRs is based on fiat allocation, its automatic multiplication increases the supply of SDRs vis a vis other currencies making them increasingly less valuable over time. If the SDR is not made a desirable portfolio alternative (good return and worldwide marketability) and conversion into the substitution account is made compulsory, foreign central banks will stop accumulating U.S. dollars (for fear of having to convert them into worse paper) and equilibrium adjustments would be forced on the private sector, implying a sharp fall of the U.S. dollar. Moreover, why should the IMF be more generous than its members in terms of procrastinating with its demands that the U.S. settle these dollars or put its house in order? Clearly, the members' "gain" is the IMF's loss, a fantastic form of circular reasoning. Which brings us to the third point, financial responsibility. The U.S. reluctance to accept the foreign exchange risk of a rising SDR vis a vis the U.S. dollar is well known. Since a rising SDR/US dollar exchange rate can only come as a result of U.S. monetary over-expansion, we are forced to ask ourselves why the general IMF membership should be made to bear any such losses?

SDRs were originally conceived as primary reserve assets that would expand world liquidity without the disadvantage of creating distrust of the issuer (such as the U.S. and its dollar). A look at the record indicates no such lack of liquidity. In the 1968-1978 decade, World ports grew by 44% while World Reserves (valuing gold at market related prices) grew by no less than 60%. Worldwide liquidity was being created much faster than trade needs, a far cry from those who feared a choking international trade if the U.S. was not allowed (!) to continue its deficits.

In sum, the SDR Substitution Account is a childish chimera with absolutely no chances of survival past the initial stages of euphoria. Suffice it to say that nine years later and despite all the big ado about international monetary progress, SDRs represent just slightly over US\$ 16 billion, a mere 2.7% of World Reserves and equal to a \$ 16/oz move in gold prices, a rather commonplace daily occurrence.

But all is not hopeless. The marketplace, in its unfathomable wisdom, has invented a solution. Simply stated, it suggests a return to a modified international gold standard. It would work as follows: the U.S., recognizing an accomplished fact, resumes international convertibility of U.S. dollars into gold at a price not substantially higher than the recent highs, i.e. somewhere between \$450 and \$550/oz. At such a price, the U.S. would be able to "redeem" its net external liabilities which can variously be calculated at between \$55 billion and \$120 billion (depending on whether one uses short term or long term claims and liabilities as well as Central Banks only or Central Banks and other Banks and Foreigners, as classified by the IMF). At the upper figure, full convertibility can be handled with a \$450/oz price (\$120 billion ÷ 267 million ounces). We would recommend a \$50-100/oz premium so as to instill enough confidence on the part of official U.S. dollar holders & preclude a wholesale rush to the Gold Window.

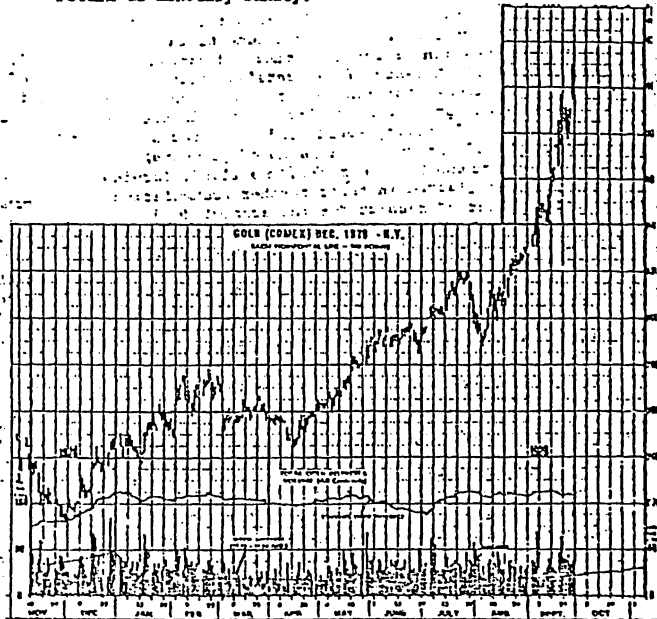
Two objections present themselves. First, it is argued that U.S. liabilities easily exceed \$500 billion if one includes Eurodollars which, colorfully, are "slushing around" the world. If true, full convertibility would only be achieved at approx. \$1900/oz. Since this figure is not only totally absurd (in terms of commodity value and long term purchasing power) but unrealistic (in terms of present market price and what it implies for a U.S. face-saving option), convertibility schemes are thrown out the window without further thought. Fortunately, the argument is specious.

In the first place, why count "slushing" Eurodollars, and ignore domestic deposits of well in excess of 1.6 trillion? The answer is simply that private U.S. dollars are willingly held by private holders for a variety of reasons, i.e. financial return, transaction and liquidity requirements, etc. The stock of money in private hands, at any one time, is always in equilibrium via the workings of the interest rate mechanism & the foreign exchange market. A private holder of money cannot be compelled to maintain dollars - if the return is not financially (or psychologically) rewarding, he demands a higher rate of return. Alternatively, he sells them for goods, services or foreign exchange. It is then clear that there is no such thing as a dollar surplus or overhang in private hands. As a result, if financially sound policies are followed private dollar holders would not only not exchange their dollars for gold but might dump their bullion into the laps of the U.S. Treasury, seeking "fertile dollars". Clearly, Eurodollars and/or domestic dollars should create no convertibility problems and only Central Banks holdings have to be computed for settlement purposes.

The second objection to our convertibility plan is somewhat stronger. The international gold standard, even after its 1922 modification, suffered from a telling weakness: a fixed gold price in an inflationary world was a diminishing international asset. At some point in the future, and given the fact that we no longer have a domestic gold standard and therefore the possibility of achieving zero inflation over the long run, gold valued at \$450-500/oz would once again not suffice to "redeem" external claims on the U.S. and, in time, a new crisis would erupt.

Having thought of this argument, we had no recourse but to compromise. Whatever price the U.S. adopted in its initial bid for dollar convertibility, monthly cost-of-living adjustments would be made. Were we to experience a 1979-style inflation under the modified international gold standard, gold would be revalued monthly by about 1%. Thus, gold holdings, in their capacity of world reserves, would never shrink and create renewed liquidity concerns, a la 1950's style. While this monthly adjustment would sanction U.S. inflation, it would not allow the U.S. to inflate faster than its main trading partners lest it failed to satisfy its increasing dollar liabilities. Furthermore, in order to stave off frequent and large redemptions, U.S. monetary policy would have to be tight enough to create positive rates of return. Since a positive rate of return by definition exceeds actual and expected inflation rates, there would be no incentive to cash in dollars for gold (which will be appreciating at 'only' the rate of inflation). A persistent policy of positive rates of return would bring about another desired result: a lessening of inflation and a better allocation of resources.

Raising the official price of gold in order to resume convertibility is an act of a bankrupt debtor. Accepting the market's verdict that, in fact, we have been bankrupt (along with the Germans and the Swiss) for a good many years, is an act of political courage that may gain the U.S. a new prestige. It will also gain the World the least inflationary and most realistic alternative for a return to monetary sanity.



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How to profit from the coming collapse of Silver

It may sound absurd, but silver prices have already 'topped out'. That is, while prices may yet move higher than the recent \$18.50/oz and could conceivably reach the \$20-\$25/oz area, the squeeze is over.

A careful look at the adjoining charts tells why. In the first place, total Comex and Chicago warehouse stocks reached their nadir in the March-April period, after a persistent 8-months' long depletion that saw total net withdrawals of approximately 32 million ounces. Irrespective of the destination of this silver (but mindful that it could have merely been transferred to private facilities and can easily re-surface again), the all important visible supplies of silver were drawn down to levels which were valued then at just \$750-800 million. The market was quite vulnerable to cornering attempts by wealthy private investors. As the spectacular advance gathered speed, this possibility gained credence: a veteran Comex broker was accumulating a heavy line on behalf of unidentified Mid-East buyers. A look at chart 2 reveals that ever since Sept. 78, silver futures no longer covered full 'carrying charges' and that, in fact, a premium was being paid to holders of the Spot commodity. Lucky owners of the metal could sell their actuals, invest their proceeds in the money market and purchase back their metal in the more forward positions. By early September, this arbitrage yielded an immensely profitable 7 1/2% return, risk free. The owner was just giving up the convenience of holding the metal in his own backyard.

This phenomenal incentive to 'lend' actual supplies to the market, did wonders for the level of visible supplies. From a record low level of 104,615M oz. in Apr. 9/79, registered warehouse stocks have increased to date by over 10 million ounces. The advance has been fairly uninterrupted and as sharp as the drawdown while the convenience yield remains at an exceptionally favorable 5 1/2% auguring well for further substantial increases. Furthermore, at present levels, visible supplies represent just over \$2 billion, a considerably larger bite for those intent cornering the market.

It is worthwhile pointing out that worldwide consumption of silver has fallen considerably since 1973 when it hit an all-time high of 478 million ounces (excluding coinage). The 90 million ounces's drop in usage was obviously due to the enormous appreciation of silver relative to other goods, which began in 1973. This relative overvaluation has been sustained via non-industrial and investment-oriented purchases and, of late, has become all the more glaring. Another substantial drop in industrial demand, associated with higher rates of recovery (Eastman Kodak, the world's largest single user of silver, recovers over 25 million ounces yearly or 30% of its needs) and substantially higher production rates in areas such as Mexico where pure silver is mined, may easily add 100-200 million ounces to world supplies over the coming months with instinctively bearish effects on the market.

STRATEGY: In view of the fact that the market may still move higher in the very short term, we would short this market via the SPREADS.

Over the coming weeks and months, supplies will begin to show up in increasing amounts, a result of the negative convenience yield. Eventually, spot prices will ease relative to forward levels bringing the market back to normal 'carrying levels'. It is this opportunity that we would like to exploit. With May '80-May '81 at a silly 65¢-70¢ (or 3.5% per annum), we recommend buying May '81 and selling May '80. The spread should eventually widen to reflect the prevailing cost of money (& storage).

Depending on what absolute level the market reaches full contango (carrying charges), the spread should widen to a minimum of \$1.50/oz and perhaps as much as \$2.10/oz.

Margin required: US\$ 7,500; risk = \$2,500 (using stop at 20¢); reward = \$7,250.00.

Chart 1

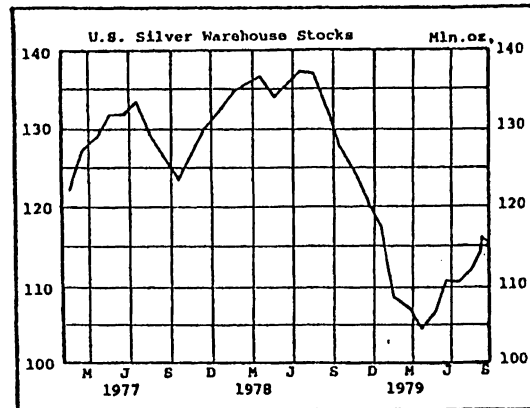


Chart 2

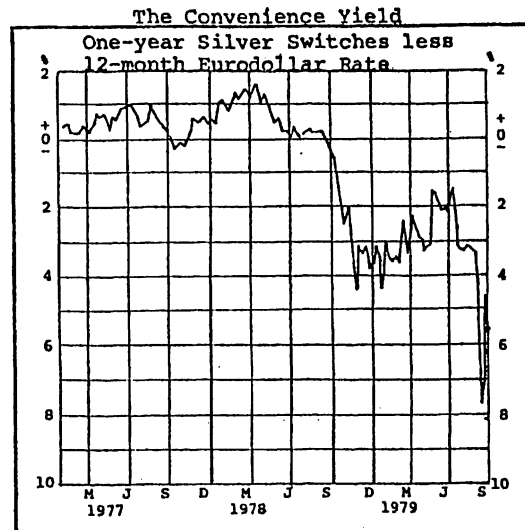
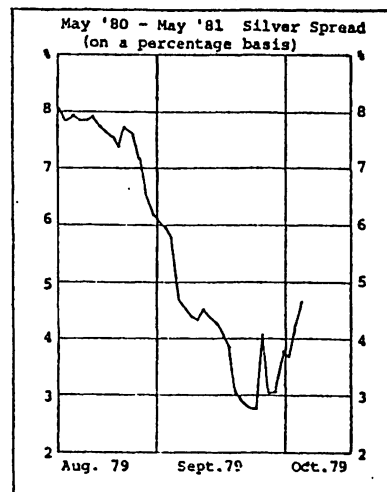


Chart 3



British Pound

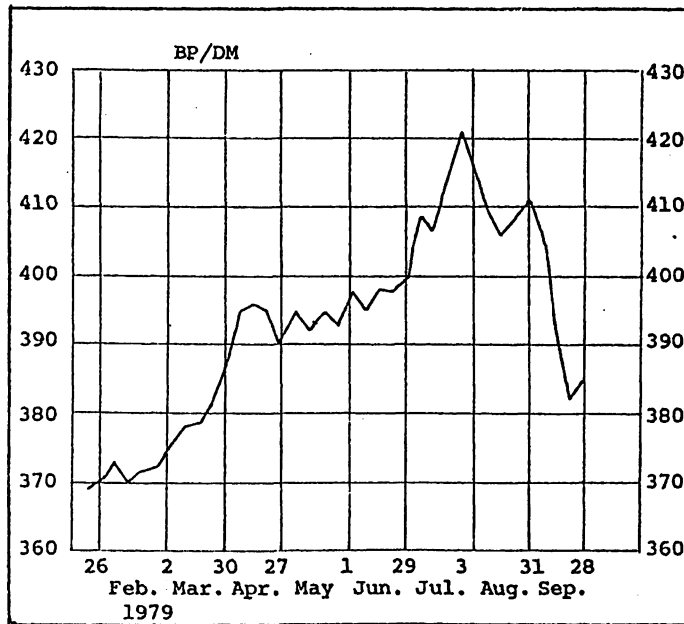
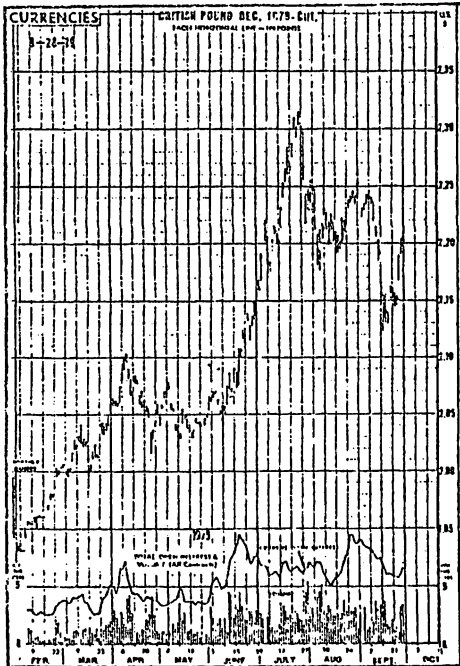
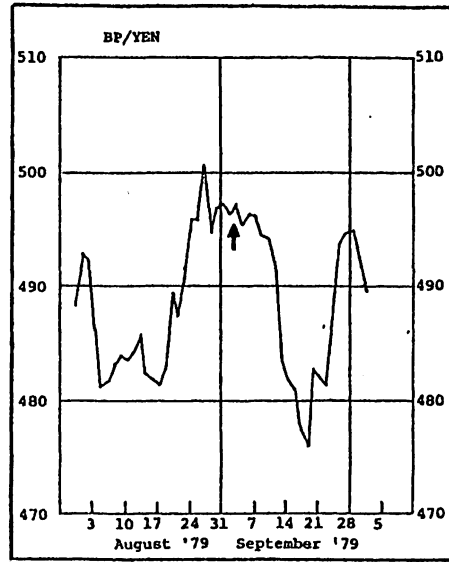
Spot: 218.42 Dec. 79: 217.95 Mar. 80: 217.60 Jun. '80: 217.25

A strange realization of potential labor problem dawned on market participants towards mid-September, probably accentuated by the strident noise emanating from the 'famous miners'. Strange because the market already discounted once this possibility in late July and a market never discounts twice the same events. Fears of substantially inflationary labor settlements will be found wanting, in our opinion.

We are feeling uncomfortable with the still-robust rate of monetary expansion shown by M3 and the DCE. The poor reception given to recent Treasury borrowings indicates that rates may yet have to be upped, lest monetary targets be violated. The simultaneous increase in the MLR to 15 or 15 1/2% coupled with the removal of the corset may be Britain's best alternative in coming months.

In spite of the sharp deterioration experienced in relative interest rates, we remain confident of the government's intention to maintain monetary discipline.

Continue to hold long BP/Short YEN straddle, first recommended in early September (see arrow in adjoining chart). The mid-September deterioration has been reversed and we expect the ratio to continue the long term BP bull market.



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	Visible Balance	Current Balance	Oil Balance	M1*	M3*	DCE	Reserves	MLR	Food Index	FT Comdty
	(£bn)	(£bn)	(£M)			(£M)	US\$bln	%		
1978 ---										
2nd Qtr.	-0.2	+0.2	-14	10.1	15.0	+2,800	16.75	10.	203.8	242.27
3rd Qtr.	-0.4	+0.2	-501	17.2	8.1	+ 572	16.55	10.	206.2	253.74
4th Qtr.	0.0	+0.4	-480	14.9	12.0	+1,774	15.77	12 1/2	208.0	257.69
1979 ---										
1st Qtr.	-1.6	-1.2	-237	7.6	9.4	+1,521	16.78	13	218.8	268.83
2nd Qtr.	-1.1	-1.1	-210	9.7	17.2	+2,708	21.69	14	225.2	293.55
Feb.	-0.8	-0.6	- 78	17.6	20.0	+1,057	16.62	14	218.7	267.36
Mar.	-0.7	-0.5	- 97	7.6	9.4	- 321	17.45	13	220.2	268.83
Apr.	-0.3	-0.3	-114	16.8	6.4	+ 825	21.47	12	221.6	277.11
May	-0.4	-0.4	- 54	13.8	8.1	+ 996	21.53	12	224.0	279.20
Jun.	-0.3	-0.3	- 42	9.7	17.2	+ 837	22.07	14	230.0	293.55
Jul.	0.0	+0.0	- 41	7.1	14.3	+ 442	23.49	14	231.2	278.92
Aug.	-0.1	-0.1	-123	5.9	12.0	+1,065	23.30	14	231.8	290.04

22, 75 (Sept)

Source: Financial Times

*Three months' growth at annual rate.

British Pound --- continued -->

Open Interest (Sep.28/79): 6,312
 Daily Volume (Sep.28/79): 2,167
 Contract Size : BP 25,000.00
 Approx. US\$: US 55,750.00
 Minimum Fluctuation : .00050(\$12.50)
 Daily Limit(Normal) : .05(\$1,250.00)
 Margin Required : US\$ 3,500.00
 Commissions : US\$ 55.00
 Trading Hours : 8:23 am - 1:23 pm
 Delivery Months : Mar.,Jun.,Sep.,Dec.

Canadian Dollar

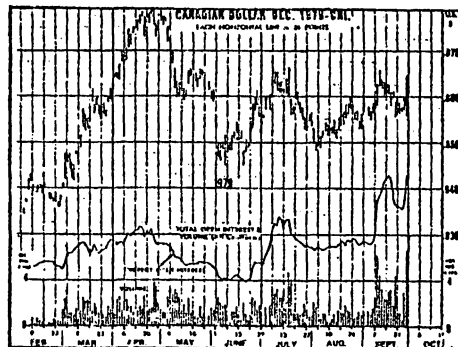
Spot: 86.07 Dec.79; 86.20 Mar.80; 86.45 Jun.'80; 86.65

Euphoric projections of recent oil and gas discoveries, turned speculative sentiment towards the CD\$, enabling it to make four-months' highs. The upward trend is being resisted by the Bank of Canada with the consequent fourth monthly gain in monetary assets.

This type of intervention will not prove particularly useful for it (a) increases the monetary base and (b) increases the government's net financing requirements including foreign exchange financing. The latter development may necessitate some substantial increases in interest rates as the government sets itself against private sector credit demands. The result : either crowding out or a run on the government as CSB's are allowed to mature. The public sector is out of control, unless sizeable cuts are made, a financial crisis is not far off.

As suggested last month, the move above 86.00 basis December '79 was an indication that, temporarily, short positions should be closed. For those who insist on taking a position, buy December '79 CD\$ at market, placing stops at 85.60, close only.

Open Interest (Sep.28/79) : 14,907
 Daily Volume (Sep.28/79) : 5,070
 Contract Size: CD\$100,000.00
 Approx. US\$: US 86,000.00
 Minimum Fluctuation : .00010(\$10.00)
 Daily Limit(Normal) : .0075(\$750.00)
 Margin Required : US\$ 2,000.00
 Commissions : US\$ 55.00
 Trading Hours : 8:21am - 1:21 pm
 Delivery Months : Mar.,Jun.,Sep.,Dec.



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1979---	Balance of Trade (Mln \$)	General Bank Loans**	Money Supply **				Total Liabilities**	Int'l Reserves (Bln US\$)	C.P.I.**	Food Index**	Unemployment	
			M1	M1b	M2	M3					S.A.	N.S.A.
Apr.	115	16.55	7.96	5.31	14.38	17.58	16.4	5.14	9.75	16.52	7.9	8.6
May	216	18.32	8.51	6.26	15.22	20.03	16.98	4.08	9.27	13.38	7.7	7.5
Jun.	206	20.34	9.32	6.35	15.75	20.22	17.91	4.18	8.85	11.70	7.5	7.0
Jul.	77	20.84	8.47	6.49	16.02	20.72		4.28	7.26	13.64	7.2	6.8
Aug.	-141	21.44	8.67	6.83	16.98	20.63		4.51	8.44	10.01	7.2	6.6
1978 ---												
Aug.	175	11.60	11.36	10.95	11.13	14.70	13.82	4.19	9.42	17.84	8.5	7.7

** Year-over-year % change.

Deutsche Mark

Spot: 56.87 Dec.79; 57.44 Mar.80; 58.22 Jun.'80; 48.82

Commercial accounts only may retain long positions, raising stops to 56.00, basis December '79, close only.

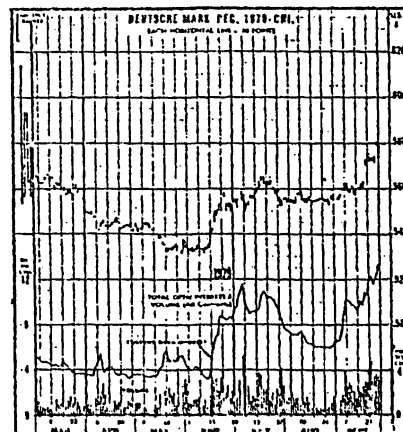
Open Interest (Sep.28/79) : 12,727
 Daily Volume (Sep.28/79) : 3,364
 Contract Size : DM 125,000.00
 Approx. US\$: US\$ 71,000.00
 Minimum Fluctuation : .00010(\$12.50)
 Daily Limit(Normal) : .010(\$1,250.00)
 Margin Required : US\$ 4,900.00
 Commissions : US\$ 55.00
 Trading Hours : 8:19 am - 1:19 pm
 Delivery Months : Mar.,Jun.,Sep., Dec.

79 ---	Balance of Trade (Mln Marks)	Balance of Paym't	Money Supply	W.P.I.**	Cost of Living	Unem-ploym't Rate
Apr.	3,330	1,350	10.89	5.79	3.53	3.8
May	2,000	- 300		6.18	3.65	3.4
Jun.	1,730	-3,200r	11.08		3.91	3.3
Jul.	607	-2,080	9.46		4.58	3.5
Aug.	976	-2,900		8.65	4.92	3.5
78 ---					5.27(Sep)	
Aug.	+3,120	+ 800	20.6	-.01	2.38	4.0

Year-over-year % change.

t Monetary Reserves (Bln Marks):

9.6(1/9), 90.7(8/9), 94.5(14/9), 98.1(21/9), 99.1(28/9)



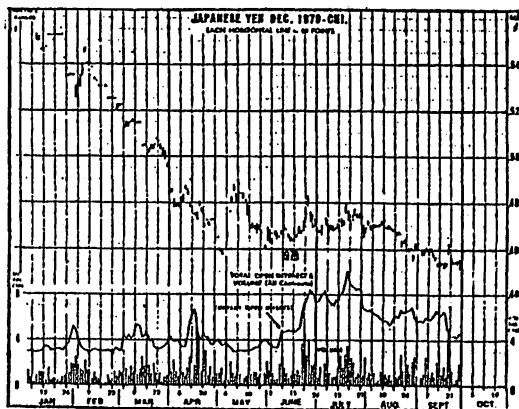
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Japanese Yen

Spot: 44.58 Dec.79; 45.15 Mar.80; 45.73 Jun.'80; 46.25

Remain short Yen versus long BP. Look for the Yen to stabilize at the 240 W/Dollar level, approximately 41.70 basis December '79. Cover short on move above 45.60, close only.

Open Interest(Sep.28/79): 5,372
 Daily Volume (Sep.28/79): 2,206
 Contract Size : Yen 12,500,000.00
 Approx. US\$ \$ 56,000.00
 Minimum Fluctuation : .000010(\$12.50)
 Daily Limit(Normal) : .0001(\$1,250.00)
 Margin Required : US\$ 3,750.00
 Commissions : US\$ 55.00
 Trading Hours : 8:25 am - 1:25 pm
 Delivery Months:Mar.,Jun.,Sep.,Dec.



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1979---	Balance of Trade	Balance of Overall Account	Paym't Current Account	(M1) Money Supply**	Reserves (Mln US\$)	W.P.I.**	Unem-loyment
	()	Mln US\$	()	%		%	
Apr.	+510	-2,970	-258	18.18	26,110	2.18	2.19
May	+ 53	- 754	-828	17.22	24,190	3.50	2.01
Jun.	+1,110	- 380	+120	9.92	24,980	5.23	2.01
Jul.	197	-1,000	+878	9.44	25,120	8.26	2.26
Aug.	- 670	- 370	-1,530		25,170	10.94	2.23
1978---							
Aug.	+1,990	+ 346	+1,250	11.7	29,200	-3.65	2.34

** Year-over-year % Change

Swiss Franc

Spot: 63.37 Dec.79; 64.77 Mar.80; 66.66 Jun.'80; 68.10

Commercial accounts (only) may remain long, raising stops to 64.00 basis December '79, close only.

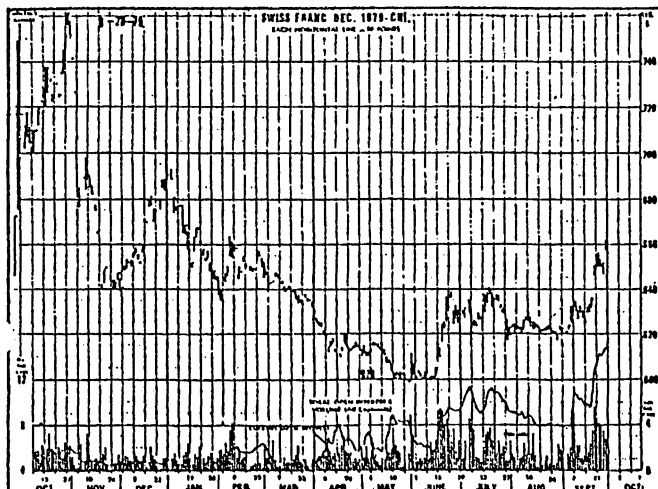
Open Interest(Sep.28/79): 14,546
 Daily Volume(Sep.28/79): 2,578
 Contract Size: SFr 125,000.00
 Approx. US\$: \$ 80,000.00
 Minimum Fluctuation : .00010 (\$12.50)
 Daily Limit (Normal): .0150(\$1,875.00)
 Margin Required : US\$ 5,000.00
 Commissions : US\$ 55.00
 Trading Hours : 8:15 am - 1:15 pm
 Delivery Months: Mar.,Jun.,Sep.,Dec.

1979 ---	Balance of Trade	W.P.I.**	Unem-loyment	M1 ** Money Supply
	(Mln SF)			
Apr.	- 300	2.09	0.4	
May	- 219	3.13	0.4	6.7
Jun.	- 78r	3.83	0.3	7.1
Jul.	- 586	4.2	0.3	8.95
Aug.	- 667	4.9	0.3	n/a
1978 ---				
Aug.	+ 156	3.5	0.3	18.07

** Year-over-year % change.

Weekly Reserves(Bln SF) ---

22.37 (30/8), 21.39(10/9), 21.92(20/9), 24.83(30/9)



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London Euro Deposits:				
	Sep.7	Sep.14	Sep.21	Sep.28
BP - 1 mo.	13 5/8	14 1/4	14.	13 3/4
3	13 3/4	14 3/8	14 3/8	13 7/8
6	13 3/4	14 3/8	14 3/8	13 7/8
12	13 5/8	13 7/8	13 15/16	13 5/8
CD\$ 1	11 7/8	11 5/8	11 5/8	11 5/8
3	12 3/16	12 1/8	12 1/4	12 1/8
6	12 1/4	12 3/16	12 3/16	12 3/16
12	12 1/8	11 15/16	12 3/4	11 3/4
DM 1	7 3/8	7 1/4	7 1/16	7 1/8
3	7 9/16	7 3/8	7 1/4	7 1/2
6	7 3/4	7 5/8	7 1/2	7 9/16
12	7 13/16	7 5/8	7 1/2	7 9/16
SF 1	2 7/16	1 15/16	1 3/8	1 1/8
3	2 1/2	2 3/16	1 11/16	1 11/16
6	3 1/8	2 3/4	2 1/2	2 1/8
12	3 1/4	2 3/4	2 11/16	2 7/16

Mexican Peso

Spot: 43.88 Dec.79: 42.91 Mar.80: 41.88 Jun.'80: 40.85 Sep.80: 39.75

MP Forward Discounts

	Dec'79	Mar'80	Jun'80	Sep'80	Dec'80	Mar'81
Spot	11.33	10.71	10.63	10.87	10.48	10.37
Dec'79		10.21	10.34	10.74	10.31	10.21
Mar'80			10.47	11.00	10.34	10.21
Jun'80				11.54	10.28	10.12
Sep'80					9.03	9.42
Dec'80						9.82

Open Interest (Sep.28/79): 3,639
 Daily Volume (Sep.28/79): 107
 Contract Size : MP 1,000,000.00
 Approx. US\$: US 42,000.00
 Minimum Fluctuation : .00001 (US\$10.00)
 Daily Limit (Normal) : .0015 (\$1,500.00)
 Trading Hours : 8:15 am - 1:17 pm
 Margin Required : US\$ 5,000.00
 Commissions : US\$ 55.00
 Delivery Months : Mar., Jun., Sep., Dec.

Interest Rates Futures

GNMA	Settle	Yield	Treasury Bonds U.S.
Dec	81-29	10.769	Dec 87-14 9.405
Mar'80	81-24	10.797	Mar'80 87-11 9.417
Jun	81-22	10.808	Jun 87-08 9.428
Sept	81-20	10.819	Sept 87-06 9.436
Dec	81-12	10.864	Dec 87-02 9.452
Mar'81	81-03	10.915	Mar'81 86-30 9.467
June	80-26	10.966	June 86-27 9.479
Sept	80-17	11.017	Sept 86-24 9.491
Dec	80-09	11.063	Dec 86-21 9.503
Mar'82	80-01	11.109	Mar'82 86-18 9.522
June	79-25	11.156	June 86-15 9.526

Monetary aggregates continue to accelerate with the Monetary Base showing an annualized 11.9% rate of growth, adjusted Federal Reserve Credit a 14.4% rate, M1 a 10.1% gain and M2 a 12.7% increment. These figures (for the two most recent months as well as the latest 6 months) substantially exceed self-imposed targets, making a mockery out of monetary discipline.

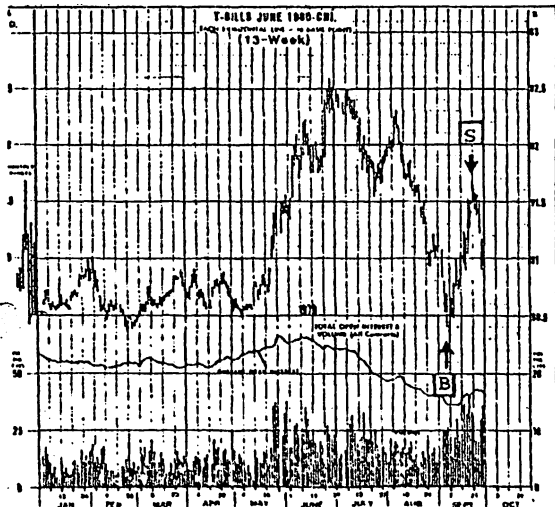
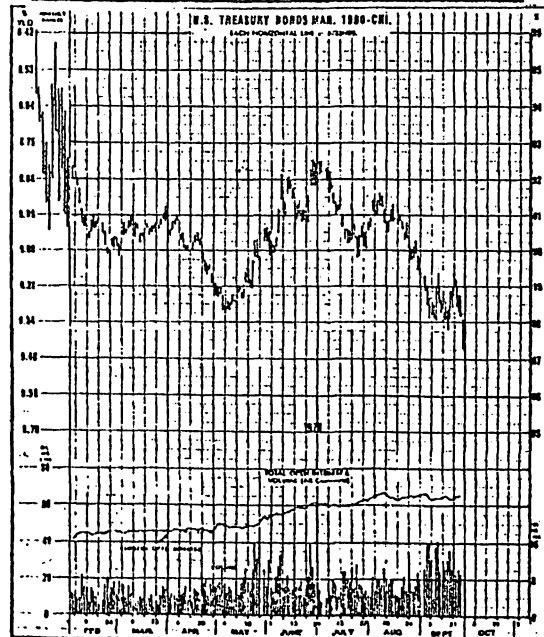
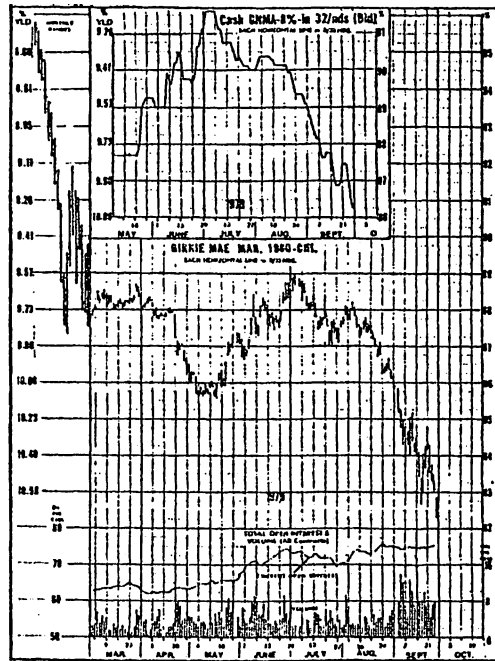
At the risk of sounding boring, we will repeat what we have been saying for the past few years: small 1/4 and 1/2% increases in Fed Funds will not do the job. If the Fed insists on following an interest rate target, it must leapfrog the market dramatically, i.e. a 1 1/2 to 2 percentage point increase.

With the 1980 election nearing and the dollar under heavy pressure, it is difficult to predict what is politically more expedient - fearing recession, a continuation of present policies and eventual rates of 15-18% or fearing inflation and the dollar drop, a dramatic increase in the Discount Rate (or Fed Funds), with the result that rates, particularly long term ones, begin to ease as soon as the move is accomplished.

In climactic fashion, the GNMA & U.S. Treasury Bond markets are groping for a bottom. Our shortcovering recommendation last month proved a bit premature, although when viewed against original short positions taken in 1977 (then also premature), the differences are pardonable.

The T. Bill recommendation, on the other hand, proved extremely rewarding. Having gone long at 90.50 and lower (see chart), a 'respectable' profit (at least \$2500, or 100% on invested capital) appeared just two weeks later (much sooner than our 60 day forecast).

Remain sidelined of all interest rates futures instruments. Should the Fed announce a credible dollar rescue plan (a very substantial increase in the Discount Rate plus, perhaps, a resumption of substantial sales of DN & SF denominated Carter bonds which will lift pressure off the domestic bond market), long positions may be taken in March '80 GNMA's, March '80 U.S. Treasury Bonds and June '80 Treasury Bills.



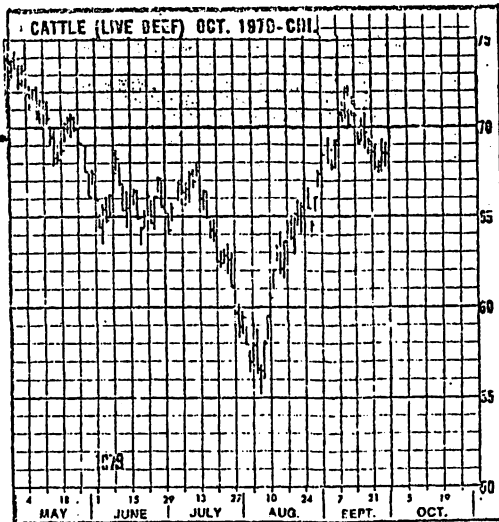
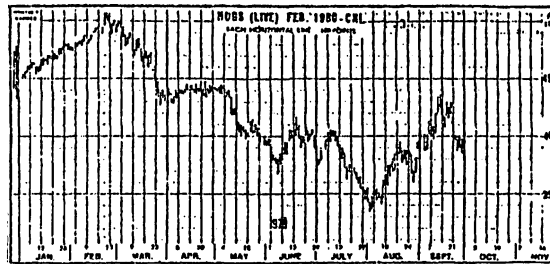
Potpourri

The Meat complex looks cheap and may represent one of the finest investment hedges ... long wheat, short soybeans, particularly in a 4-3 ratio should prove very rewarding... short sugar, on a scale up, with impunity; place stops at 15.00 basis March '80 (in case of disaster) ...

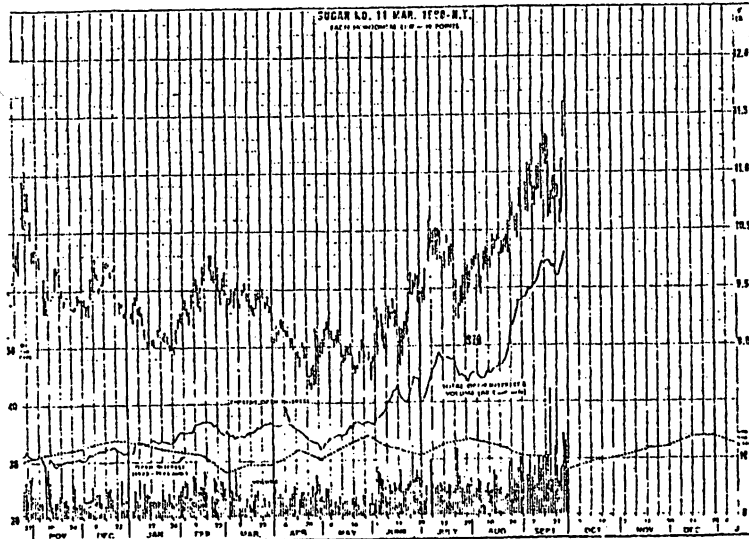
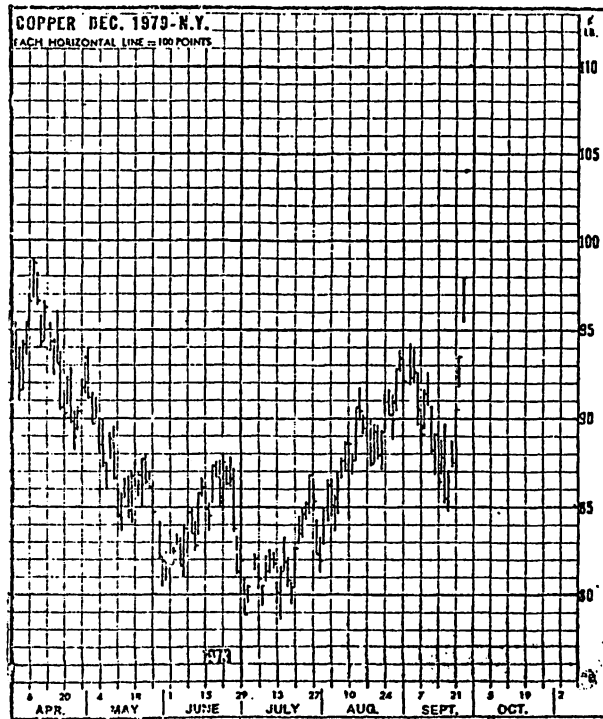
cocoa behaving well, long positions should be added...

maintain financially prudent long gold positions; as mentioned last month, increased U.S. Treasury sales are in the offing and a substantial \$80/oz drop is envisioned from any high point ...

Short Copper positions could have resulted at best in a 400-600 points profit and at worse a 250 points loss; stand aside.



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 * Tax planning season has *
 * begun. If you've enjoyed *
 * substantial realized gains *
 * during the course of 1979, *
 * ask to speak to one of our *
 * registered representatives. *
 * He will advise you of ways *
 * to minimize the tax incidence.*

FCI	Sep.79	Aug.79	Sep.78
	270.97	266.16	236.0
	+ 1.81 % from month ago		
	+14.82 % from year ago		

Albert D. Friedberg

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