

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Financial Education Services

November 3rd, 1980

On A Collision Course

Three economic developments will shape the decade of the 1980's, two of which may inflict incalculable damage upon the economies of the industrialized world. First and foremost is the inexorable drift away from the enlightened liberalism of the post-war period with regard to free international trade. International and inter-regional bickering over trade barriers and tariffs has been gaining the upper hand for the past seven or eight years and is now, during this period of depressed economic activity, emerging as the single most destructive force of economic growth and Western cohesion. Pitted in this formidable battle are the U.S. versus the EEC (primarily over imports of steel and exports of raw agricultural products), the EEC versus the U.S. (over textiles, fertilizers and chemicals), the U.S. versus Japan (steel and autos), the EEC versus Japan (autos and other consumer goods), the Industrialized Ten versus the New Industrial States (over steel, textiles and electronic products), and so on.

As worldwide unemployment rises, there is little hope of resolving these issues in a friendly and constructive atmosphere. In the resulting fractionalization of world trade, standards of living will suffer. The advantages to be gained from specialization and division of labor will be lost and productivity will be cut down to *negative* numbers on a per capita basis, at least in those countries

bent on practicing protectionist measures. Negative per capita growth rates will exert a profound social impact on the industrialized societies. Furthermore, it will shift the balance of economic power away from the so-called Big Ten to the new 'rich kids on the block', among them Singapore, Hong Kong, Taiwan, South Africa, Turkey (if the military can stay in long enough), Chile and China (?). Unfortunately, these countries are not large enough to sustain world trade on any kind of long-term uptrend.

The second development is the unrelenting and uncontrolled expansion of the public sector in most industrialized and semi-industrialized countries. Table I graphically illustrates this phenomenon: A persistently high and, at times, still growing rate of growth of government expenditures even in the so-called conservative nations such as W. Germany and Switzerland. Furthermore, this inordinate increase in government expenditures is accompanied by a persistently high, and at times, growing central government deficit. We have included the growth rate of Domestic Credit, a measure of monetary expansion easily controllable by the monetary authorities and independent of foreign exchange inflows and/or outflows, to emphasize the unresolved dilemma: How to rein in monetary expansion in the face of growing budgetary deficits. The latter is the third, and only hopeful economic development that will shape the

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Grains: Scarcity feeds the bull market.

European Currencies: While the DM & SF still look lower, Sterling should make fresh highs.

Canadian Dollar: It could represent good value if a bit lower.

Interest Rates: They are real and they are here to stay.

Gold: A bearish case spells a bullish position.

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Friedberg's Commodity & Currency Comments is published monthly by Financial Education Services, 716 Gordon Baker Rd., Willowdale, Ont. M2H 3M8
Make cheques payable to and direct all editorial and subscription enquiries to Financial Education Services.

Content for Friedberg's Commodity & Currency Comments is supplied by the Friedberg Mercantile Group, commodity and currency brokers.

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decade of the eighties. Inflation can only be brought down by the strict lowering of and adherence to monetary targets. While this perception is now well understood in the industrialized nations (and thus there is no immediate danger of hyper-inflation), 'crowding out' rears its ugly head and has already begun to take its toll on at least two members of the Big Ten: The UK and Japan.

concerted bull market in industrial commodities such as base metals and wood.

b) Inflation will not *reaccelerate* and may even move down to 'acceptable' levels for a number of years making precious metals a poor investment.

c) Interest rates will remain fairly high in *real terms* although in nominal terms they may come down as the rate of inflation eases. Financial instruments should be bought when their *real rate of return* is unusually high (3-4%) and sold when they approach a 1-2% return.

	1972	1973	1974	1975	1976	1977	1978	1979	1980	
									1st Qtr.	2nd Qtr.
United States										
(1)	9.18	8.16	12.69	22.30	5.09	11.48	10.53	10.32	15.67	
(2)	-8.13	-6.31	-1.60	-15.66	-19.58	-12.38	-12.76			
(3)	12.65	13.89	9.81	4.23	8.06	10.35	11.12	11.74	11.18	
Canada										
(1)	13.14	15.90	27.15	21.04	5.99	10.32	8.91	10.53	15.75	
(2)										
(3)	18.19	23.88	18.15	19.50	18.93	17.18	20.88	22.61	52.85	18.77
Belgium										
(1)	19.28	7.52	18.89	26.53	14.98	15.72	16.08	8.77	6.93	22.32
(2)	-10.88	-8.68	-5.63	-10.51	-12.22	-12.45	-14.89	-15.62		
(3)	17.44	16.84	10.63	13.83	16.35	15.22	10.77	14.67	14.59	14.18
W. Germany										
(1)	12.78	12.74	11.57	18.77	4.51	4.44	9.83	8.10	15.86	7.43
(2)	2.88	5.41	-2.41	-11.98	-9.35	-7.20	-7.05			
(3)	15.28	10.45	8.26	11.53	11.14	9.74	11.61	12.25	11.67	10.51
Netherlands										
(1)	12.21	13.27	16.08	24.61	16.87	11.19	14.48	9.03	11.71	12.79
(2)										
(3)	102.82	34.73	67.11	46.05	8.84	32.46	38.56	22.09	16.57	15.41
Switzerland										
(1)	20.45	14.00	14.06	10.26	13.42	-5.99	6.27	5.71	19.37	24.26
(2)	9.08	5.13	6.19	-2.42	-3.18	-3.34	-1.76			
(3)	11.28	10.01	7.19	6.69	8.80	7.66	7.73	15.45	16.60	13.26
United Kingdom										
(1)	13.24	13.55	28.64	35.03	14.42	7.41	15.10	17.68	19.22	
(2)	-7.26	-10.47	-11.59	-18.21	-13.24	-7.91	-13.51	-13.73		
(3)	29.16	26.06	17.49	8.06	13.83	5.96	9.98	9.90	12.49	
Japan										
(1)	17.23	4.98	19.70	27.01	-6.06	36.18	23.61	9.19	208.38	25.13
(2) n/a										
(3)	25.21	17.14	15.05	16.68	13.74	10.55	13.66	8.40	8.88	8.75

(1) Year-over-year % change of expenditure plus lending minus repayments.
 (2) Central Government overall deficit or surplus as percentage of expenditure plus lending minus repayments.
 (3) Year-over-year % change of domestic credit.

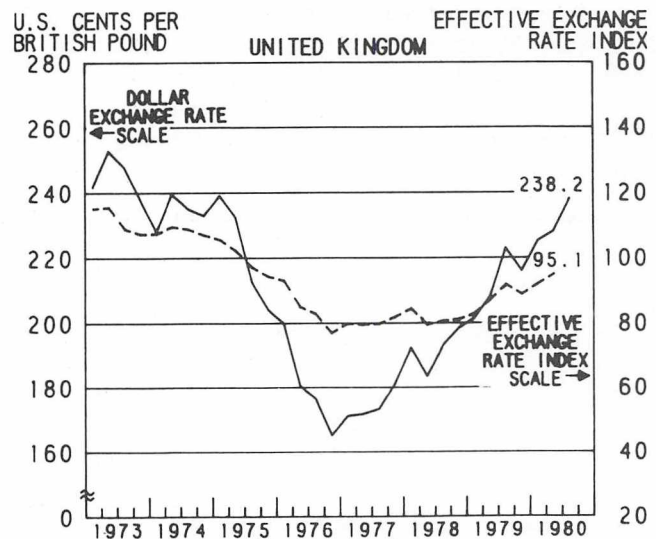
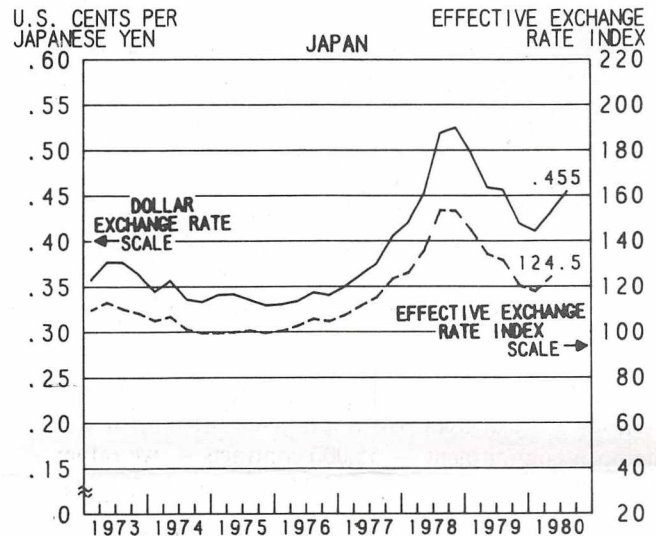
Sources: IMF Survey
 Government Finance Statistics Yearbook
 International Financial Statistics

An interesting side effect of this crowding-out process, i.e. a rate of domestic credit expansion well below the rate of growth of government expenditures, is the *relative* strengthening of the foreign exchange value of the 'crowded out' nation (see charts Japan, UK). In the long run, this upvaluation creates competitive problems for the local industry already starved out of necessary long-term funds. Unless labor costs in these industries can adjust downwards (at least in real terms), these nations face the prospects of literally closing down entire sectors of their economies. And all this because their Central Governments have not been able to come to grips with the realities of the trade-off: It's either more government spending and less private industry or less government spending and more private industry.

Monetary policy has made the above choice clear. We doubt that democratic governments will opt for less government. In the end, and perhaps after some great suffering, monetary control will have to give way to the insatiable appetite of politicians and a renewed cycle of accelerating inflation will begin. But that may be a few years away.

In the interim we may be able to draw the following investment conclusions:

a) World trade will remain particularly depressed — at least for a number of years — militating against any



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 OF ST. LOUIS

Copper

The red metal's recent intrasigence is the effect of a huge number of equally-resolute bulls and bears having their own reasons to justify their bets. The former point to forecasts of a rebounding economy and the strike that prevails at most major US mines. The bears on the other hand, point to other forecasts of a sluggish economy, especially in the housing sector, and to the fact that copper inventories, though declining modestly over the past month to 305,000 tonnes (combined Comex and LME from 315,000 tonnes) remain ample. We side with the bears inasmuch as we also see a sluggish economy. We also note, in conjunction with that view as it relates to Copper, that warehouse stocks in London of lead, tin, zinc and aluminum, which are extremely industrially sensitive, are advancing rapidly to new high levels for 1980. Mines in the U.S. are still shut down, and remain so because they realize that, despite their significant losses so far a return to work would drop the price of their product so that at this point they would lose even more.

Placed in the context discussed above, a continuation of the strike seems unlikely by itself to force prices higher. We would say then, that the market would work itself lower by degrees. However, given the huge size of the open commitment — 55,000 contracts — we rather expect the market to break quickly on massive liquidation once the scales are tipped.

STRATEGY: *Short with long term protective buy stops at 102.00 basis December long term objective : low 80's, high 70's.*

Addendum:

The long-awaited breakthrough of fibre optics seems here. Infinitely cheaper and more efficient than copper-made coaxial cable, it is possible the popular introduction of this new method of transmission systems may have an effect on the copper market in the not-too-distant future.

Corn & Soybeans

The dramatic advance since last writing has come about in the wake of an influx of bullish news that was so conspicuously absent during the month of September. There appeared, in sequence, first the USDA revision of domestic corn production to 6.46 mln. bushels from 6.5 bln. bushels and of soybean production to 1.79 bln. bushels from 1.83 bln. bushels. Next came the formalizing of a trade agreement with China which, though not of material consequence at present, may represent a substantial source of demand in the not-too-distant future — witness the unexpected success the USDA had selling

cotton to the Chinese last year. Finally came two sharp downward revisions of Soviet grain production: The first to 195 mln. tonnes and the second to a shocking 181.0 mln. tonnes. The latter is a genuine surprise not only because of its divergence from the 200-210 mln. tonnes expected as recently as a month ago, but also because the source was the USSR itself. The Soviet Union is not a country to readily admit such an embarrassment to its central-planned economy nor are its traders traditionally liable to present their cards to the world market which of course immediately bids up values in anticipation of the obvious need for imports. Nonetheless, verification of the Soviet predicament is revealed in the substantial chartering of cargo vessels on the Baltic exchange. One ship is an ice breaker which suggests that not only do the Russians need grain but they need it during the next six months. (We advised in last month's comments that a Soviet announcement of this sort was likely to pull down these markets out of their trading ranges.)

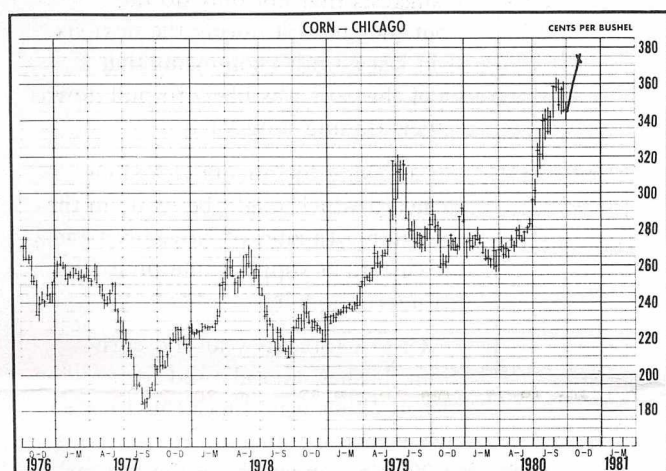
Taken together, and allowing for possible revisions either upward or downward which might be made in the final two USDA production estimates of November and December, it is clear that a tight supply situation exists both domestically and internationally.

As an example, the USDA forecast year-end corn stocks to fall to 704 mln. bushels, and allowed for a swing factor of 250 mln. bushels either way. Since this forecast was made at a time when their estimate of Soviet production was some 20 mln. tonnes above the Soviets' new number, we might take the worst scenario and project carryout at 500 mln. bushels or an astoundingly low 6.5% of this year's consumption. By comparison, during 1974/75 (crop year begins Oct. 1.), year-end stocks represented 7.4% of usage. Corn futures achieved a record high \$4.00 bushel in Sept. of that year.

Looking at the negatives for a moment, one must note that with so much bullish news published during the past month, there cannot be much if any more in the offing. Secondly, three separate technical indicators pointed to a top of 380 basis December corn which was achieved precisely. Third, ongoing high interest rates apply downward pressure on all commodity prices. One must understand that to remain a bull at this point is to believe the market will turn into one of those phenomena which we as brokers as well as analysts, know all too well is rare indeed. Is it worth it? We believe yes and for the following reasons; 1) First and foremost because the numbers discussed above are too fresh to be discounted. The market thus should move from the anticipatory into the non-expectational demand phase. 2) The markets thus far have advanced contra-seasonally, into the harvest which is now nearly over. The seasonals now favour us. 3) On a statistical basis, the high of 1974 should be exceeded and, on an inflation-adjusted basis, exceeded handsomely.

STRATEGY: Last month we advised placing stops in Nov. Beans at 795 which were executed on an intra-day basis, remaining sidelined corn and in close contact on both. This latter advice is to be taken literally by all subscribers. Not typically substantial long positions were reassumed within days of publication. At present, corn should be protected with an intermediate stop of 364 basis December and a longer term stop of 353. Add on a firm close above 380.

Taking all things into consideration we feel old crop futures will climb to between 450 and 472. Place stops in March beans at 888 on close. If old crop corn achieves 477 beans will exceed \$11.00/bushel.



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Currencies

B.P. — The present controversy surrounding deep cuts in Government expenditures is best summarized by a recent quote from U.K. Environment Minister Michael Heseltine, who seemed to put Mrs. Thatcher's stingy spending policies succinctly: 'I get no pleasure in cutting my housing or construction programmes, but nor can I ignore the consequences of public expenditures on the people who have to pay the bills'.

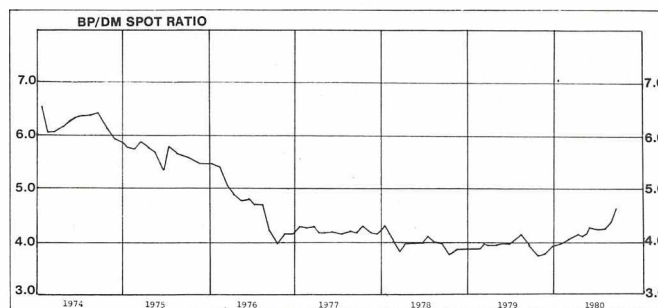
Mounting unemployment, now at a seasonally adjusted 7.8% of the labor force, has at least had a positive effect on wage settlements.

More than two million members of the Engineering Union, who had been seeking pay increases of 18% have accepted an 8.2% offer.

Consumer prices continue to moderate their increases and are now running at approximately 8.5 — 9% per annum. Furthermore, the UK's current account has taken an unexpectedly rapid turn for the better thus providing further support to Sterling in case the MLR is lowered in months ahead. Given the present extreme overshooting of the 7-11% growth target for M₃, we doubt any immediate

and significant reduction in UK interest rates. What is more likely is a minor one-half per cent cut associated with new budgetary measures to be announced late this month.

STRATEGY: Sterling continues to firm on foreign exchange markets, already coming close to attaining our early 1979 target of 4.75 DM. In terms of its U.S. dollar exchange rate, we believe that Sterling will ultimately exceed 2.60 and may even challenge the pre-1967 parity of \$2.80. Remain long and raise stops to \$2.38 basis Spot.



U.K. Economic Indicators

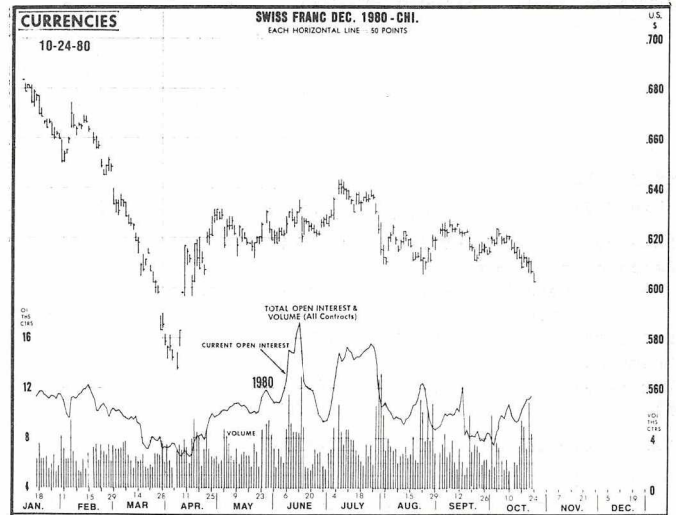
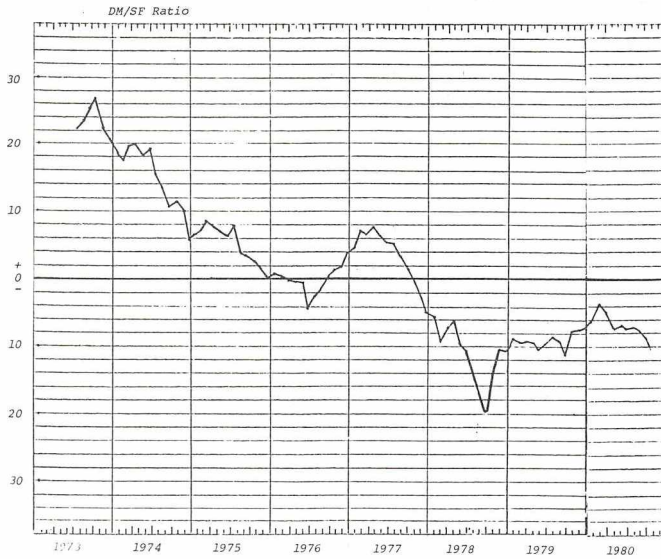
	Visible Balance*	Current Balance*	Oil Balance*	DCE*	Resv. US\$ bn	M1**	M3**	MLR	RPI	Foods	FT Comdty
1979											
1st Qtr.	-1,602	- 965	- 235	+1,296	16.78	7.2	8.4	13	208.9	218.8	268.88
2nd Qtr.	- 525	- 264	- 229	+2,628	21.69	5.2	15.6	14	216.5	225.2	293.55
3rd Qtr.	- 492	+ 5	- 158	+3,642	23.18	12.0	11.2	14	231.1	231.9	301.66
4th Qtr.	- 785	- 639	- 157	+2,977	22.54	14.4	15.6	14	237.6	237.2	295.13
1980											
1st Qtr.	- 632	- 162	- 126	+1,724	24.87	-4.0	7.2	17	248.8	247.5	284.47
2nd Qtr.	- 301	- 68	- 29	+3,218		-1.5	10.7	17	263.2	255.9	267.45
March	- 126	+ 30	- 5	+ 716	26.96	-2.3	8.2	17	252.2	251.1	284.47
April	- 303	- 225	+ 26	+ 702	28.01	-4.0	5.9	17	260.8	254.1	275.67
May	- 1	+ 77	- 25	+1,147	28.28	4.0	12.6	17	263.2	255.7	268.23
June	+ 3	+ 80	- 30	+1,369	28.17	-4.9	13.7	17	265.7	257.9	267.45
July	+ 261	+ 336	+ 102	+3,462	28.27	11.7	36.5	16	267.9	259.9	273.57
Aug.	+ 63	+ 138	+ 10	+2,016	28.29	11.2	40.8	16	268.5	259.0	275.38
Sept.	+ 369	+ 444	+ 53	+1,004	27.64	20.5	39.8	16	270.2	259.0	276.44

* Millions of British Pounds
** Three months' growth at annual rate.

Source: Financial Times

DM/SF — Short positions in these two currencies, recommended two months ago, have rewarded us handsomely. The relatively better performance of the SF versus the DM can be explained by referring to Table I in our introductory remarks, where domestic credit expansion in Switzerland has been relatively more restrained in respect of Government spending, and is thus 'tighter' than Germany's. Nevertheless, we do not expect the SF to become as overvalued in relation to the DM as it was in the third quarter of 1978 because the Swiss National Bank has maintained a very keen eye on competitive developments. At the present time, the Swiss are 'talking up' the DM hoping that adjustment will come from the German side. In view of Germany's catastrophic performance on current account, we doubt their prayer will be heard. Instead, a more paralleled depreciation will continue.

STRATEGY: Remain short Dec '80 DM, lowering stops to 54.30 and Dec. '80 SF lowering stops to 61.75.



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Swiss Franc

	Sep.80	Aug.80	Jul.80	Jun.80
Balance of Trade (mln SFr)	-1,100	-1,030	- 992	- 742
C.P.I.**	3.78	4.18	3.32	3.33
W.P.I.**	4.01	4.70	4.83	4.23
Unemployment	0.2	0.2	0.2	0.2
Money Supply (M1)	n/a	n/a	55.05	57.28

Reserves : (bln SFr)

Oct.20: 19.27 Oct.10: 19.52 Sep.30: 23.16

Euro Deposits: %	Oct.31	Oct.24	Oct.17	Oct.10
1 Mo.	4 1/2	4 1/4	4 5/8	4 7/8
3 Mo.	5 1/2	5 7/16	5 3/8	5 1/2
6 Mo.	5 9/16	5 9/16	5 1/2	5 5/8
12 Mo.	5 9/16	5 1/2	5 1/2	5 1/2

Quotes :

** Year-over-year % change.

West German

(mln DM)	Sep.80	Aug.80	Jul.80	Jun.80
Balance of Trade	+1,630	-100	+107	+279
Balance of Payments				
Overall	n/a	-266	1,215	2,214
Current	-2,700	-3,900	-5,184	-3,156
Unemployment Rate	3.5	3.7	3.7	3.4
Cost of Living**	5.09	5.56	5.47	5.96
W.P.I.**	5.19	6.68	7.78	8.11
Money Supply (bln DM)				
M1	240.50	236.60	234.60	235.10
M2	407.70	408.20	404.30	404.70
M3	694.40	692.80	689.50	688.10

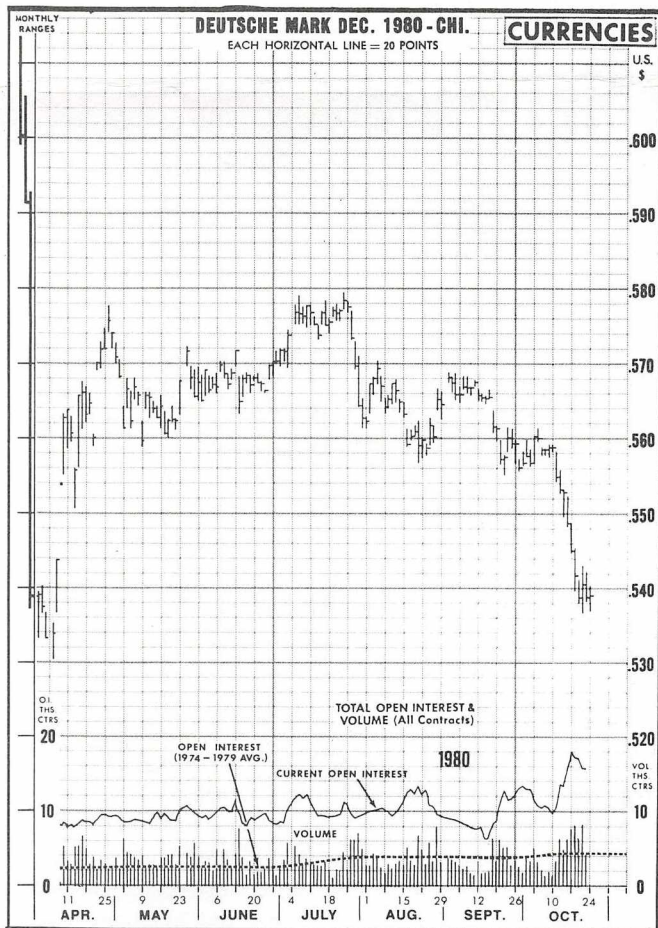
Monetary Reserves: (bln DM)

Oct.23 : 73.90 Oct.14: 75.5 Oct.7: 75.4 Sep.30: 75.3

Euro Deposits %	Oct.31	Oct.24	Oct.17	Oct.10
1 Mo.	9 1/16	8 15/16	8 9/16	8 11/16
3 Mo.	9 1/16	8 15/16	8 9/16	8 5/8
6 Mo.	9	8 13/16	8 9/16	8 5/8
12 Mo.	8 7/8	8 9/16	8 3/8	8 5/16

Quotes :

** Year-over-year % change.



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Japanese Yen — Remain sidelined.

Japanese Yen

(bln US\$)	Sep.80	Aug.80	Jul.80	Jun.80
Balance of Trade	+1.970	+ .314	+ .113	+ .127
Balance of Payments				
Overall	+ .95	+ .879	+ .322	Bal.
Current	+ .95	- .865	-1.030	- .929
W.P.I.**	15.50	17.12	18.46	20.25
Unemployment	2.02	2.09	2.09	1.89
Reserves (bln US\$)	23.77	23.05	22.79	22.64
MI	n/a	65.96	64.82	
Euro Deposits %	Oct.31	Oct.24	Oct.17	Oct.10
1 Mo.	9 3/4	10 1/8	10.	10 7/8
3 Mo.	9 3/4	9 3/4	10 1/8	10 7/8
6 Mo.	9 1/16	9 1/2	10.	10 1/8
12 Mo.	9	9 1/2	9 3/4	9 7/8

Quotes :

** Year-over-year % change.

Canadian Dollar — The thinly disguised budget brought down by the Trudeau Government re-emphasized in deed, rather than in just words, the Liberal Government's economic direction. It was the epitome of statism and nationalism, steeped in the best tradition of that ruinous economic policy called *import substitution*. The Liberal Government expressed no concern whatsoever about uncontrolled Public-Sector spending making inevitable the ultimate confrontation referred to in our opening comments: A head on collision with the firmly fixed Bank of Canada targets. On that score it pleases us to report that the rate of growth of currency and deposit — liabilities of the chartered banks has eased off significantly in recent months. This broad measure of money supply is now growing at slightly under 14% per annum, year over year.

Crowding-out pressures should begin to emerge in the months ahead with beneficial side effects on the foreign-exchange value of the CD\$. In the interim, substantial back-up lines of credits in U.S. dollars will moderate the present decline.

STRATEGY: We would be buyers of deferred CD\$ positions in the 84-84.60 range.

Canadian Dollar

(mln CD\$)	Sep.80	Aug.80	Jul.80	Jun.80
Balance of Trade	n/a	+1,041	+391r	+ 892
General Loans **	16.54	17.50	20.01	22.16
M1**	5.83	5.0	3.78	1.28
MLB**	4.01	2.88	1.62	-0.31
M2**	17.17	17.32	18.21	17.76
M3**	11.94	13.00	15.73	15.06
Int'l Reserves (Bln US\$)	3.95	4.27	4.2	4.31
Total Money **	n/a	13.63	15.55	15.83
C.P.I.**	10.75	10.74	10.10	10.13
Food only **	12.98	10.63	9.08	12.26
Unemployment Rate	7.4	7.7	7.5	7.8
Euro Deposits %	Oct.31	Oct.24	Oct.17	Oct.10
1 Mo.	12 1/2	11	10 1/2	10 5/8
3 Mo.	12 7/8	11 7/8	11 1/2	11 1/2
6 Mo.	13 1/8	12 3/4	12 1/4	12 3/8
12 Mo.	13 1/8	13	12 1/4	12 3/8

Quotes :

** Year-over-year % change.

Mexican Peso — In earlier issues we argued that Mexico's vast oil wealth would not make a dent on its huge (and growing) current-account deficit and that a formal or informal devaluation of at least 25% and as much as 40% was in the cards. Events since then have confirmed our worst suspicions. Mexico's trade deficit for the first eight months of 1980 totalled \$2.11 billion, a 4.4% increase from the \$2.02 billion deficit recorded in the similar period of 1979. This dismal performance was achieved despite a phenomenal 300% increase in crude oil and natural-gas exports, now taking 63.2% of total exports as against 38.6% last year.

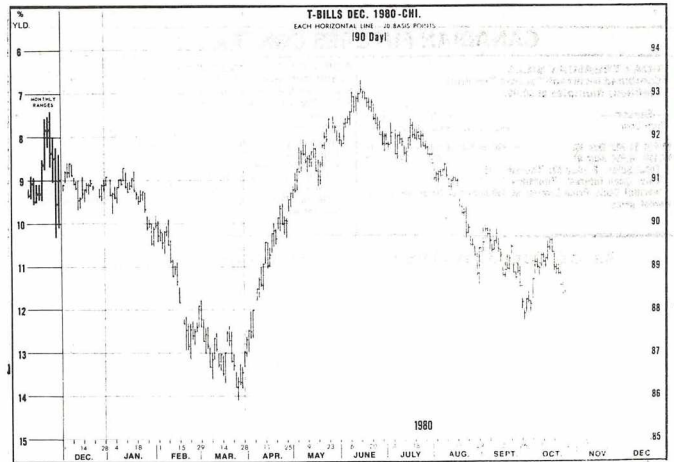
Dr. Louis Pazos, a young and brilliant Mexican economist, has recently ticked off a number of other worrisome facts: a) Over 75% of Mexico's population is younger than 25 years of age, shifting the burden of taxation on about 25% of the population — clearly an untenable social and economic development; b) Until 1976, Mexico was a huge producer of sugar, exporting as much as 600,000 tonnes in 1973. By 1976, after ruinous price controls and subsequent government nationalization, Mexico was *importing* sugar. In 1980, it will import at least 800,000 tonnes at a cost of as much as \$1 billion; c) Since Mexico's railroad system had reached a high level of decomposition (and U.S. trains wandering in to Mexico were somehow 'disappearing'), the Mexican Government had to begin building seaport facilities to handle *imports* of grains, once the pride and domain of its loyal farmers; d) Mexico's state oil enterprises, Pemex, employs four times as many employees per unit of output than Brazil — a little wonder that Fortune magazine has rated it as the second most inefficient oil firm in the world.

Bankers take note: In the words of Dr. Pazos, President Portillo is clearly headed to the left. After pointing out that the federal budget in 1979 was miscalculated by no less than 109%, Dr. Pazos remarks: 'We consider it incongruous that the Government should wish to plan the entire economy when it hasn't even been able to plan its own public sector'.

STRATEGY: Remain short December '80 MP.

Quotes as of Oct. 31st, 1980

	Dec. 80	Mar. 81	Jun. 81	Sep. 81	Dec. 81
Mexico Peso	42.50	41.33	39.70	38.31	37.25
Swiss Franc	58.88	60.23	61.35	62.70	
British Pound	2.423	2.42	2.42	2.42	
Canadian Dollar	85.17	85.50	85.63	85.75	
West German Mark	52.64	53.48	54.10	55.00	
Japanese Yen	47.66	48.33	48.85		



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Interest Rate Futures

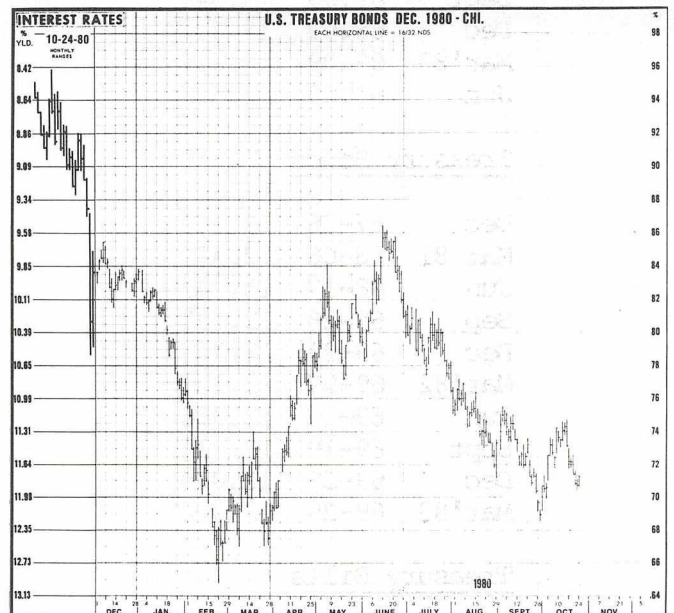
Loan demand at the nation's commercial banks has increased at the expense of the growth of commercial paper, mostly a result of the narrowing spread between the prime rate and commercial-paper rate. Financial intermediation has become more competitive and efficient, a sign that *loan demand, in fact, is weaker than otherwise indicated.*

Interest rates continued to rise solely as a result of the Fed's desire to restrain the growth of monetary aggregates and bank reserves. The minutes of the Sept. 16 meeting left unchanged its previous goal of holding the weekly average Fed-Funds rate within a range of 8-14%. With Fed Funds trading at 13/7/8% for the better part of last week, the upper limit will no doubt be breached in a surge that will convince the money markets that the Fed means business with its new policy.

The Fed's careful and disciplined approach has produced the most sustained period of positive returns of the past few years and augurs well for a long-term reduction in inflationary pressures. It has also been responsible for the strange phenomenon of an inverted-yield curve in the midst of an economic slump.

STRATEGY: We have been stopped out at 87.80 of the December '80 T-Bills purchased at 89.10. Remain sidelined.

We have purchased December '80 T-Bonds at 67.10 as per last month's advice; lower stops to 63 from the original 64.17 advice. The next few weeks may be turbulent for the bulls but should prove rewarding in the long run.



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CANADIAN FUTURES CONTRACTS									
91-DAY TREASURY BILLS (Combined Montreal-Toronto Trading) \$1 million; multiples of \$0.005					GOV'T. OF CANADA BONDS (Combined Montreal-Toronto Trading) — 18-Year 7 per cent \$100,000 principal; price is per cent of par value (Fractions are 32nds of 1 per cent)				
---Season---		Settle	Open	---Season---		Settle	Open		
High	Low	High	Low	High	Low	High	Low	Price	Chge
97.420	96.940	Dec 80	96.980	96.960	96.950	-	.020	51	
97.330	96.950	Mar 81	-	-	96.940	-	.020	19	
Total Sales: Friday 52; Thursday 28					Total Sales: Friday 34; Thursday 54				
Normal Daily Price Limits: \$0.150 above or below prior set					Normal Daily Price Limits: 64-32 above or below prior set				
Hemet price.					Hemet price.				

As of Oct. 31st, 1980

The Globe & Mail

Precious Metals Gold

The bulls' argument that 1980 will see no (or little) Soviet sales as compared to 200 tonnes in 1979 and 400 tonnes in 1978 received a rude jolt this week on disclosure that 25 tonnes of Soviet gold was seen airlifted to Zurich over the past few weeks — no doubt, for sale. If one considers the enormity of the Russians' financial needs, it would be incongruous to believe a priori such an argument. Three million tonnes of sugar (above last year's requirements) represents close to \$3 billion; 20 million tonnes of grains plus transportation, approximately \$5 billion. In all, \$8 billion of additional funds in a money market already spooked by Polish troubles and reticent to extend additional credits. At today's prices, this borscht represents no less than 11 million ounces or roughly 340 tonnes, all bunched up in the second half of 1980. As against that, the IMF and the U.S. have stopped selling, and South Africa has withheld approximately 1.8 million ounces so far this year from their current production. The Iranians are not likely to have sold any gold either because they can't find a use for the proceeds (officially, which nation will sell it anything?) or because arms middlemen will just as well accept payment in Japanese Yen, DM or whatever U.S. dollars they still may have. The Iraqis, meantime, have already shown a preference for gold over currencies and they, too, will probably not be sellers of bullion.

Technically, the release of the hostages, when and if it comes, will prove anti-climatic and the market seems to have discounted it already. Furthermore, the Russian selling did not manage to break the long-term uptrend connecting the August '79 and March-April-May '80 lows now standing at approximately \$625/oz basis Spot.

The bull case appears far more convincing with than without the hypothesis of heavy Soviet sales. That's because of the resilience shown once the perception became widespread.

STRATEGY: Re-enter long side of market, placing stops at 599 basis Spot, close only. Accept modest profits.

GNMA as of Oct. 31st, 1980

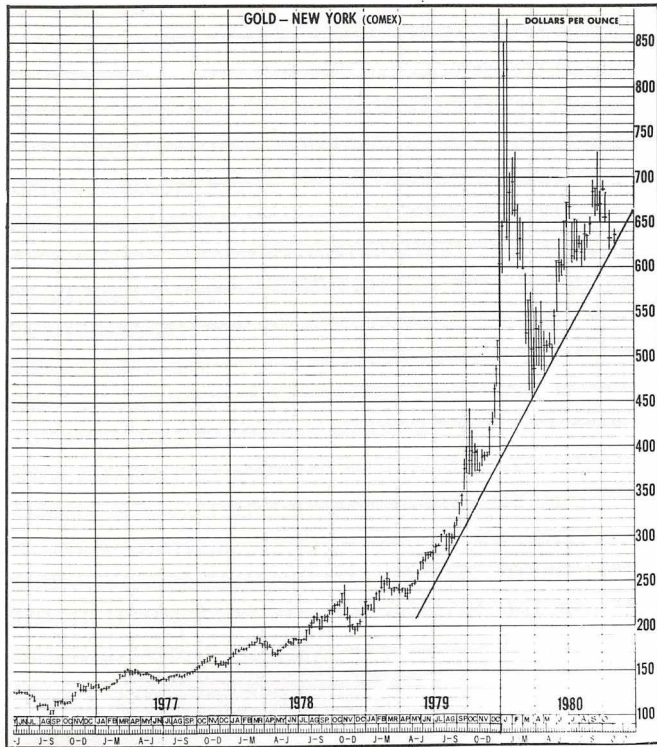
Date	Settle	Yield
Dec.	67.30	13.617
Mar '81	67.26	13.647
June	67.31	13.619
Sept.	68.03	13.581
Dec	68.06	13.559
Mar '82	68.07	13.552
June	68.08	13.545
Sept	68.09	13.547
Dec	68.09	13.537
Mar '83	68.09	13.537
Jun	68.09	13.537

Treasury Bonds

Dec	67-26	12.382
Mar '81	68-06	12.312
Jun	68-17	12.249
Sep	68-26	12.197
Dec	69-01	12.157
Mar '82	69-07	12.123
Jun	69-13	12.090
Sept	69-19	12.056
Dec	69-29	12.028
Mar '83	69-29	12.000

Treasury Bills

Dec	87.17	11.83
Mar '81	87.27	12.73
Jun	87.51	12.49
Sep	87.69	12.31
Dec	87.82	12.18
Mar '92	87.91	12.09
Jun	87.99	12.01
Sept.	88.05	11.95



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Platinum

Spot Platinum is selling at a mere \$6/oz premium over Gold vindicating our long Gold/short Platinum spread. We believe Platinum will go to a discount of as much as \$100/oz in due course.

STRATEGY: Remain short Platinum; you may protect it from time to time by buying gold on good dips (such as now).

Silver

While total visible stocks on Comex, Chicago and LME warehouses have increased to a recent high of nearly 160 million ounces, it should be pointed out that apparent private holdings have declined approximately 16 million ounces in the first half of 1980, thus indicating the first reflow of silver in over two years. Previously, they had been built up over 68 million ounces (see table).

As against a slightly lower official stock position than in early 1978, private stock increased 52 million ounces while consumption decreased approximately 40 million ounces on an annual basis. Clearly, the U.S. is not running out of silver. Nevertheless, anticipated strength in gold may spill over the silver pit; we prefer to remain sidelined.

Silver	1979				1980	
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
Stocks, beginning of period	28,790	33,482	27,747	21,500	16,102	30,052
Industry Stocks	6,450	5,940	5,810	5,240	5,670	5,400
Defense Dept.	39,157	39,149	39,129	39,064	38,990	38,958
Treasury Bullion	58,227	49,092	54,114	51,405	74,809	81,615
Commodity Exchange	59,885	55,325	56,845	65,290	58,320	57,515
Chicago Board of Trade						
Total	192,509	183,488	183,645	182,559	193,891	215,540
Plus:						
Production:						
Mine	9,415	9,604	9,365r	8,688	9,140	8,721
Refinery	21,952	22,822	20,641	25,715	31,993	28,746
Imports	24,756	18,071	18,570	30,981	21,971	17,481
Total	56,123	50,497	48,576r	65,384	63,104	54,948
Minus:						
Consumption:						
Net Industrial	51,779	43,040	30,916r	31,515	31,450	31,462
Coinage	5	12	76	74	4	0
Exports	5,197	4,208	5,239	20,919	24,580	38,744
Total	56,981	47,261	36,231r	52,508	56,034	70,206
Stocks, end of period						
Industry	33,482	27,747	21,500r	16,102	30,052	30,407
Defense Dept.	5,940	5,810	5,240	5,670	5,400	4,860
Treasury Bullion	39,149	39,129	39,064	38,950	38,958	38,958
Commodity Exchange	49,192	54,114	51,405	74,809	81,615	81,992
Chicago Board of Trade	55,325	56,845	65,290	58,320	57,515	45,750
Total	183,488	183,645	182,559r	193,891	215,540	202,157
Apparent increased in Private Vaults	8,163	3,079	13,431r	1,544	-14,579	-1,875

Sugar

Projections of the current year's world supply/demand balance are well known and have been subject to little alteration over the past month (see September's Comments). Attention has been squarely focussed on the Russians' need to import 3.0 mln. tonnes as a result of the failings of its own beet harvest and the Cuban cane production now forecast as low as 5.0 mln. tonnes versus 6.5 mln. tonnes last year. An interesting enigma that has prevailed so far throughout the bull market has been the reluctance of U.S. refiners to enter the market despite relatively low stock levels. How much of the Soviets' problems has been discounted, and whether and to what degree the market expects the U.S. to turn to it before the Western European crop becomes available this winter, are the salient factors influencing this market at present. Our technical indicators suggest, on balance, the net effect will be bullish.

STRATEGY: In reviewing previous issues of these Comments, the reader will note recommendations that have tended to vascillate monthly. Such advice has, on balance, been quite profitable. The inconsistency has, in addition, been appropriately conservative. Despite the length and breadth of this bull market, the swings have been vicious to a virtually unsustainable degree for the common speculator. At present, we change from last month's sidelined posture to the bullish side placing stops at 40.50 basis March. Our preliminary target of 49.00 may be followed by a test of the highs.

Albert D. Friedberg
David B. Rothberg

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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.
