

COMMODITY COMMENTS

May 31, 1978 Page 7

The following is an explanation of our ranking system:

***** Very Bullish
***** Bullish
**** Bullish Neutral
*** Neutral Bearish
** Bearish
* Very Bearish

COCOA

**** September '78 129.25
**** December '78 125.60

The reinstatement of our long position was rather premature. We were misled by the length of time the market had taken to begin its logical descent.

At this stage, however, the descent has become all too logical and the consensus is unanimously bearish. We prefer the sidelines but would be prepared to go back on the long side on any moves above 140.00 basis July '78.

COFFEE

May '78 (expired) 179.50
**** September '78 165.52
*** March '79 153.50

The mini-bull market has been largely confined to deferred terminal values where discounts have been much too wide.

We doubt the rally will carry further than another 200 - 500 points barring an unforeseen weather accident.

Sell March '79 at 160.00 or better, covering only on confirmed reports of a frost that reportedly wiped out more than 25% of the Parana crop (a tall order?).

COPPER

**** July '78 65.30
**** December '78 68.10

All systems are "go". Warehouse movement is showing a sustained drop on a 3 months' and 1 year rate of change while the long term July '76 - July '77 downtrend has been penetrated on the upside. On a more negative note, the background news are a bit too bullish while there has been little trade hedge lifting; if anything, the trade has been a prominent seller.

Remain long (after having bought at 64.00 basis July '78 as per last month's comments) placing protective stops at 63.50 basis July '78, close only.

COTTON

*** March 64.78
*** October 62.35

The bulls took the bait too soon. The high degree of bullishness prevailing against a poor fundamental background makes us quite reticent in following the advance. In fact, we think a sizeable drop is imminent.

Sell March '78 at market, placing protective stops at 66.60. Look for minimal 250 point correction and perhaps a new bear trend.

ORANGE JUICE

May '78 (expired) 109.00-110.50
**** July '78 106.55
**** November '78 99.00

The uninspiring expiration of the May contract triggered heavy liquidation bringing prices back below 100 for at least one 1978 contract month.

Prices for deferred deliveries are "cheap" enough to warrant a "shot" at the long side. Buy at market, placing stops at 95.00 basis November '78, close only.

INTEREST RATE FUTURES

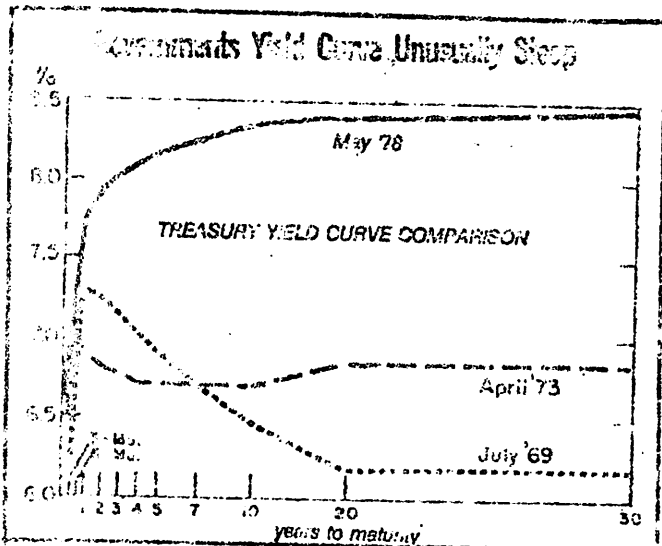
			Yield
****	June '78 TB	93.21	6.79 %
*****	September '78 TB	92.64	7.36 %
****	June '78 GMNA's	91.28	9.124 %
****	September '78 GMNA's	90.22	9.037 %

Monetary policy, although slightly higher, remains on the whole accomodative. The rate of growth of total bank reserves and non-borrowed reserves (see tables) has been trending downwards and correcting the explosion that took place in the early part of the year. We expect the traditional measures of money supply to show some pronounced deceleration in the near future but probably no earlier than early Fall. Total money supply growth, as roughly represented by a proxy denominated deposits subject to reserve requirements (see table) continues to grow at an alarmingly inflationary pace.

The implications of the unusually steep yield curve may be a bit too pessimistic. In the first place, the Fed, being a political entity, may not be able to raise Funds much further than what it has already done without first seeing the likely course of Federal spending and the budget making process over the next few months. The Senate Banking Committee called today for a less restrictive monetary policy to be accompanied by a smaller Federal Budget deficit. Although it may never happen, the Fed is duty-bound to observe developments that may take weeks and months. Secondly, the Fed will be eager to see what results the recent rapid run up in Funds has on monetary aggregates - again, it may want to wait 2 - 4 months. Finally, and this point is merely relevant to TB futures, a weak dollar paradoxically implies low bill rates, as foreign Central Banks move dollars into Government Securities.

We reiterate: the Street has become too bearish on debt securities. Tightness and sharply escalating interest rates are further into the future than implied in our terminal values.

Buy September '78 TB at market; place stops at 92.55 close only. Stand aside on Ginnie Bases.



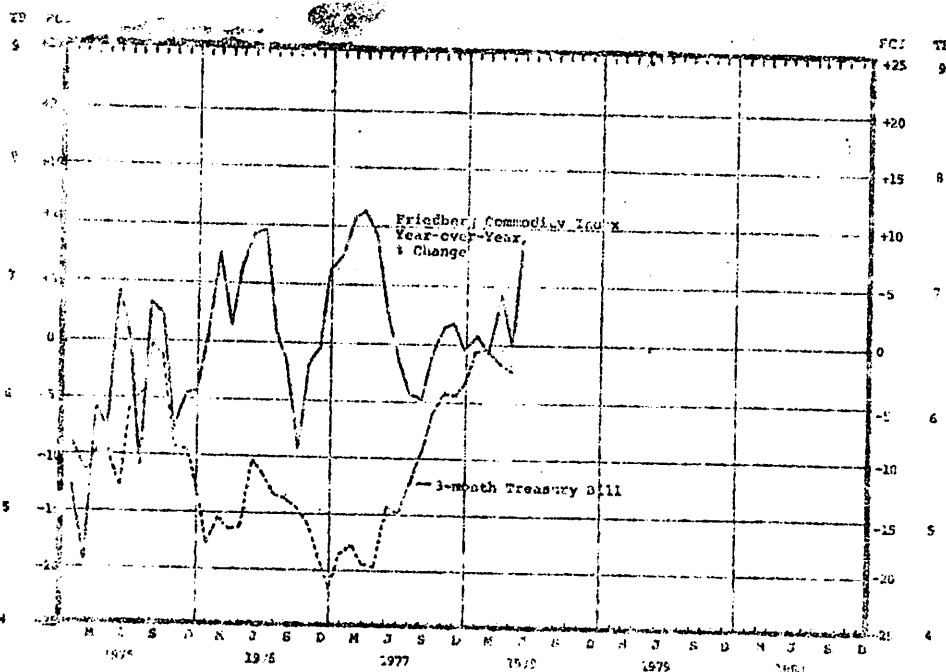
The Money Manager May 22, 78

Member Bank Deposits- Subject to Reserve Requirements

Date	3 Mo.*	6 Mo.*	12 Mo.**
Mar. 77	5.0		
Apr.	4.5		
May	5.2		
Jun.	5.6	5.28	
Jul.	8.5	6.28	
Aug.	9.3	7.07	
Sep.	10.96	6.4	
Oct.	11.59	7.6	
Nov.	13.18	9.73	
Dec.	14.22	9.68	7.57
Jan. 78	17.46	10.69	8.11
Feb.	14.56	10.16	8.28
Mar.	13.15	10.80	8.50

* All percentage changes are at seasonally adjusted compounded annual rates.

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



PRECIOUS METALS

*****	June '78 Comex Gold	184.30
*****	December '78 Comex Gold	192.80
*****	July '78 Comex Silver	543.00
*****	December '78 Comex Silver	562.10
*****	July '78 Platinum	254.30

As proof to our restatement that offerings is the stuff that makes bull markets (obviously because it is able to accommodate sizeable bids), both the IMF and U.S. Treasury gold auctions went like "hot cakes". On May 3, the IMF sold 524,800 ounces at 170.40/oz. but it is noteworthy that over 3 million ounces were bid, the highest amount since the December 8, 1976 auction, when gold was awarded at \$137/oz. Have 18 months made gold as attractive today at \$170/oz. as it was then at \$137/oz? The answer is probably yes, in view of the cheapness of gold when denominated in Yen or other strong European currencies. (See table) -

	<u>Dec. 8, 1976</u>	<u>May 3, 1978</u>	<u>% Change</u>
Dollar gold price (per ounce)	137	170.40	+ 24.4
Swiss Franc gold price (per ounce)	329	336	+ 2.0
Japanese Yen gold price (per ounce)	40,592	38,577	- 4.9

The U.S. Treasury gold auction conducted on May 23, was just as successful. Total bids of 1,360,000 ounces were entered for the 300,000 ounces on sale. The prices awarded ranged from \$180.01 to \$182.35/oz. averaging 180.38, above that day's London Fix.

"The International Monetary Fund said reduced public amount at gold auction to 470,000 from 525,000, but intends to continue full gold sale program. The IMF said that it intends to complete its sales of 25 million ounces of gold. The new amount on offer will be reviewed after the first six months, and that it is planned from now on to conduct all auctions under the bid price method. The IMF said that in reducing the amount of gold on offer at the next six auctions "developing member countries can opt for purchasing gold from the Fund by submitting noncompetitive bids for up that part of 25 million ounces of gold which corresponds to their share in fund quotas on August 31, 1975. These members will have inform the fund by May 22, 1978 whether they wish to have this option, and they will be entitled to exercise the option or any part of it in any of the auctions held before May 31, 1979" the IMF said. The Fund continued that in view of the amendment to its articles, "monetary authorities of member countries are no longer prohibited from submitting bids, and the terms and conditions for the auctions to be held in the coming months do not restrict such participation. The IMF said that the amount of gold awarded to noncompetitive bidders will be sold in addition to the 470,000 ounces, and "subsequent auctions will be adjusted in a manner to assure that the entire 25 million ounces are sold within the agreed four year period. As the actual amount of noncompetitive bids that will be tendered is not known, adjustments to the amount auctioned each month to competitive bidders will be considered in the light of experience after the first six months," the Fund said. The IMF said as soon as possible after May 22, it will make public the total amount for which the non-competitive option has been retained. In addition, after each auction the IMF also intends to release the names of noncompetitive bidders and the total amount of non-competitive bids where gold has been awarded. The IMF said it will review experience with the auctions, including participation in the, and developments in gold markets, and will adjust the terms and conditions for the auctions as necessary. The IMF said the auctions will continue to be held on the first Wednesday of each month, the minimum competitive bid will remain 1,200 ounces, a deposit of the higher of \$10 an ounce or \$25,000 will continue to be required. Delivery will be at one of the IMF's major gold repositories and payment will have to be completed by about seven days after the auction. The next auction, on June 7 will require payment to be completed by June 16, with delivery of the gold taken by June 30 in New York." - Reuter May 19.

This market looks considerably higher and would not be surprised to see it go through the \$200/ounce mark on its way to \$210 - 220 by early August. Remain long and add on dips.

Both Silver and Platinum have turned extremely strong in recent weeks, with the latter moving sporadically into backwardation. We expect both metals to continue firm and set our sights at \$6.50/ounce for September '78 Silver and \$300/ounce for October '78 Platinum.

SUGAR

Nervousness over the possibility that the U.S. will not ratify the ISA coupled with heavy producer selling depressed sugar values to the low 700's. In recent days the market has shrugged off increased hedge selling and has been able to firm up somewhat. Having been stopped out at approximately 7.50 we prefer to remain on the sidelines.

WOOD COMPLEX

***** September Lumber 197.00
 ***** September Plywood 202.9

We remain friendly to this market and prefer to trade it from the long side. Place stops 300 points below present levels, on close only.

FCI

+ 5.2 % from month ago
 + 9.0 % from year ago

May '78

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April '78

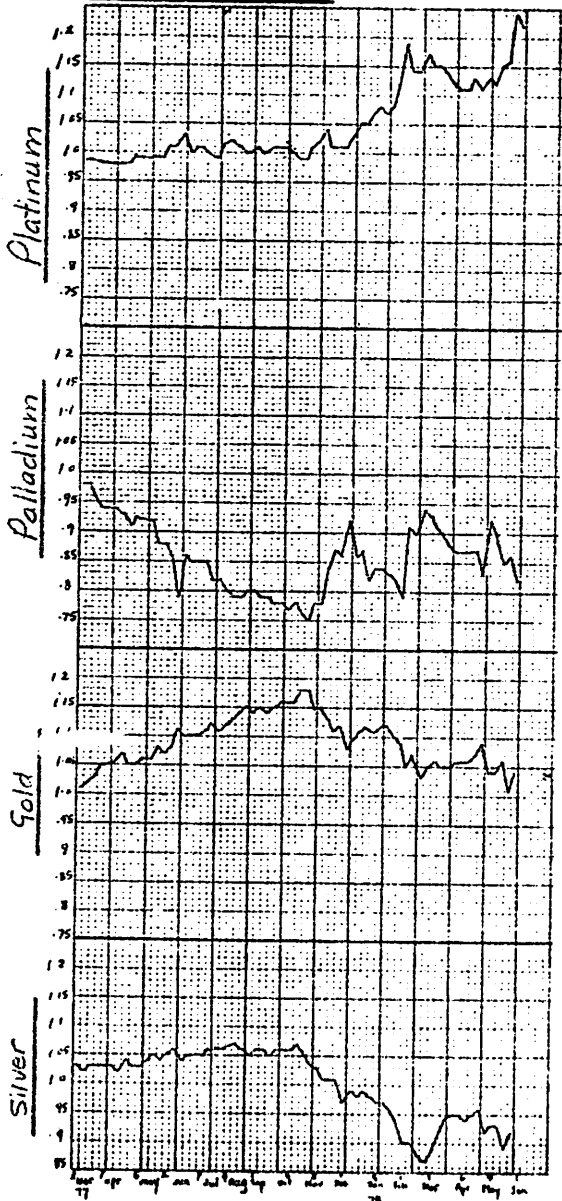
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May '77

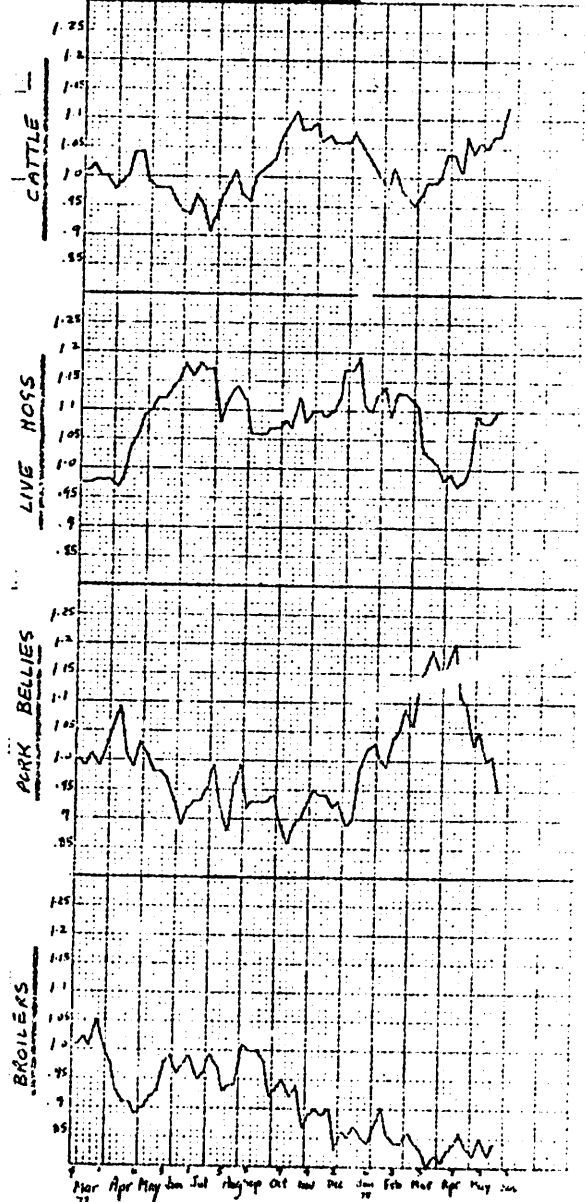
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RELATIVE STRENGTH

Precious Metals



Livestock & Meat



U.S.
Reserve Aggregates *

Date	TOTAL RESERVES			NONBORROWED RESERVES		
	13 wks prev.	26 wks prev.	52 wks prev.	13 wks prev.	26 wks prev.	52 wks prev.**
Jan. 18	10.3	8.3	5.9	17.7	7.1	4.6
25	13.0	10.2	6.4	22.2	8.7	5.0
Feb. 1	13.2	9.5	6.6	24.0	8.9	5.5
8	13.1	9.6	7.3	23.2	9.6	6.1
15	12.6	8.5	7.3	19.1	9.3	6.1
22	11.8	7.9	7.8	16.9	11.0	6.8
Mar. 1	11.2	8.0	7.6	16.5	12.4	6.7
8	8.0	6.4	7.1	12.6	10.9	6.1
15	5.2	4.8	6.5	9.8	8.6	5.5
22	6.2	6.1	6.4	10.3	8.8	5.8
29	6.0	6.6	6.2	8.9	8.3	5.6
Apr. 5	4.4	6.3	6.3	7.3	8.5	5.8
12	4.5	6.9	6.4	7.4	10.1	6.0
19	5.3	6.6	6.5	8.0	11.8	5.9
26	4.0	6.6	6.5	5.3	12.2	5.6
May 3	4.8	7.1	6.3	2.2	11.1	4.5
10	4.0	7.4	6.7	-2.6	9.0	3.9

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

** Average of 4 weeks ended from 4 weeks average ...

U.S. Cocoa-Chocolate Products Imports (Source:Census Bureau) in Lbs.

Date	Period	Cocoa Beans	(A)	Cocoa Butter	(A)	Unsweetened Chocolate	(A)	Unsweetened Cocoa	(A)	Total Bean Equivalent	(A)
May 26	Apr. 78	45,920,969	+11.1%	4,250,835	+24.9%	8,289,469	+25%	17,256,402	-8%	110,790,305	+8.3%
May 26	Jan-Apr 78	197,318,255	+11.9%	13,586,767	-12.4%	36,604,985	+82.6%	68,314,608	+13%	459,339,341	+21.6%

A-Year over year change

U.S. Coffee Inventories (In thousands of bags)

Period	Source	Projection	Type	No. of Bags	Year over Year % Change
March 31/76	Census Bureau		Green	3,194	+19.5%
June 30/76	Census Bureau		Green	2,908	+ 1.3%
Sep. 30/76	Census Bureau		Green	2,961	-23.1%
Dec 31/76	Census Bureau		Green	2,768	-16.1%
Mar. 31/77	Census Bureau		Green	3,519	+10.2%
June 30/77	Census Bureau		Green	3,115	+ 7.1%
Sep. 30 /77	Census Bureau		Green	2,617	-11.6%
Dec. 31/77	Census Bureau		Green	1,684	-39.1%
Mar. 31/78	Census Bureau		Green	2,247	-36.1%

Copper Statistics (in thousand shorttons)

Period Ending	Comex Open Interest	3 Months Rate of Change	1 Year Rate of Change
Dec. 77	598.8	+34.1	-3.12
Jan. 78	572.8	+18.2	-13.78
Feb. 78	620.6	+22.4	-7.7
Mar. 78	611.9	+2.2	-8.69
Apr. 78	578.5	+1.0	-14.3
May 78	686.4	+10.6	+18.9

Copper Stocks-Comex and LME in thousand short tons

Period ending :	Combined Comex & LME	3Month Rate of Chng	1 Year Rate of Chng	Comex, LME & Refined	3 Month Rate of Chng	1 Year Rate of change
Dec. 77	891.2	+1.3	+2.9	1177.9	+12.2	+7.4
Jan. 78	891.0	N/A	+1.2	1197.8	N/A	+4.1
Feb. 78	869.5	-2.4	-3.1	1177.7	+5.9	+1.25
March 78	813.8	-8.7	-8.5	1104.7	-6.2	-5.3
April 78	782.2	-12.2	-12.5	1086.9	-9.3	-5.7
May 78	764.	-12.1	-13.1	N/A	N/A	N/A

Cotton and manmade fibers: Daily rate of mill consumption on cotton-system spinning spindles, unadjusted

Period	1976/77	1977/78	% Change
	Bales ²		
August	26,623	25,244	-5.1
September	25,496	24,774	-2.8
October	26,872	26,163	-2.6
November	25,465	25,835	+1.4
December	23,616	23,225	-1.6
January	25,904	25,362	-2.0
February	26,805	26,190	-2.2
March	26,654		
April	25,855		
May	25,919		
June	25,177		
July	20,158		

Source: U.S.D.A.

1 Preliminary. 2 480-pound net weight bales.

Citrus Statistics (in thousands of Boxes unless otherwise specified)

Period to date	Inventory to date (gallons)	A %	Period to date	Consumer Purchases to date				Average Price to date			
				Frozen	A %	Chilled	%A	Frozen	A %	Chilled	A %
4.22.78	60,791	-36.17	4.15.78	43,335	-20.24	64,613	-16.10	35.4¢	+58.03	51.0¢	+28.78
4.29.78	63,774	-31.	4.22.78	45,366	-20.15	66,860	-16.17	35.2¢	+56.44	51.2¢	+28.96
May 6/78	66,610	-32.51	Apr 29/78	47,455	-20.01	69,096	-13.36	35.3¢	+55.50	51.2¢	+28.96
May 13/78	70,109	-29.97	May 6/78	46,691	-24.44	71,774	-13.23	35.3¢	+54.13	51.3¢	+29.22

A - Year over year change

Citrus Statistics (figures in thousands of boxes unless otherwise specified)

Sources: Growers Administrative Committee, Lakeland; Division of Fruit & Vegetables Inspection, Winter Haven; Florida Cans Association, Winter Haven; Florida Citrus Mutual Statistical Division, Lakeland

Period to Date	Gallon Packed to Date	A %	Retail Movement to date (gallons)	A %	Institutional Move. to date (gallons)	A %	Bulk Move. to Date (gal)	A %	Total Movement to Date (gal)	A %
4.22.78	98,379	-19.24	48,589	-20.34	5,659	-30.29	14,364	-38	69,321	-18.14
4.29.78	104,202	-17.73	50,518	-19.91	7,006	-28.73	14,703	-25	72,228	-17.59
May 6/78	109,736	-16.46	52,385	-19.95	7,313	-28.17	15,285	+1.46	74,984	-17.8
May 13/78	116,005	-14.44	54,476	-19.37	7,618	-26.87	16,008	-1.10	78,103	-17.05
May 20/78									81,227	-16.34

A-Year over year change

Albert D. Friedberg

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

Central banks and money supply

Credit demands imposed upon the economy by an expanding public sector have interfered with the ability of the Bank of Canada to control the supply of money, according to a vice-president of Friedberg and Co. Ltd.

THE GLOBE AND MAIL, WEDNESDAY, MARCH 22, 1978 B11

Central bank control of money felt impaired by government tie

By ROBERT STEPHENS

Credit demands imposed upon the economy by an expanding public sector have interfered with the ability of the Bank of Canada to control the supply of money, according to Albert Friedberg, vice-president of Friedberg and Co. Ltd. of Toronto.

"Herein lies the weakness of a politically controlled central bank, unable to pursue an independent monetary policy," he said in a study paper published by Friedberg. The monetarists' belief that money as a commodity should have its worth determined by supply and demand cannot be tested because fiscal considerations have interfered with the self-corrective functioning of the free market.

The federal Government's net financing requirements rose sharply in the 1975-77 period, totalling \$14.3-billion to and including the third quarter last year, compared with \$2.6-billion in the 1966-68 period. In addition, Bank of Canada purchases as a

percentage of these financing requirements have been steadily increasing.

Mr. Friedberg said preliminary figures for 1977 "indicate that almost 24 per cent of the Government's financing requirements have been provided by the central bank," compared with 18 per cent in the 1966-68 period.

"What stands out clearly, and this is a crucial point, is the inability or the unwillingness shown by the Government of Canada in obtaining non-inflationary financing (for example, sales to the non-banking general public), and its increasing reliance on the printing presses," Mr. Friedberg said.

According to Mr. Friedberg, credit demand can be accommodated either by expanding the money supply, or by increasing the velocity of money at higher and higher interest rates. "In the years after World War II and until 1966-67, money creation was not excessive and therefore periods of excessive credit demands were self-correcting through the mechanism of rising interest rates."

However, he said monetary growth in the past 10 years has accelerated rapidly. "Excessive credit demands were being accommodated rather easily by the further creation of money, and therefore interest rates were not allowed to perform their credit allocative function."

To meet rising credit demand, the Bank of Canada simply expanded the money supply by monetizing government debt. The federal Government's obligations accounted for about 76 per cent of the central bank's total assets in 1977. In addition, Mr. Friedberg said that chartered banks are able to bloat the money supply still further "by bidding aggressively for term and other notice deposits whose required cash reserve ratios are lower than those required by demand deposits."

He estimated that the Government's financing requirements will exceed \$10-billion a year in fiscal 1978 and 1979, that the Bank of Canada's allocation will average as much as 40 per cent of these requirements; that the multiplier effect achieved by shifting deposit liabilities will result in every central bank dollar becoming

approximately \$6.60 of total money, and that the total money velocity will remain relatively unchanged.

"The net result would be a whopping \$61-billion increase in total money supply during a two-year period, which should translate into a 25 per cent annual compounded rate of depreciation," Mr. Friedberg said.

Because "the realities of the political processes in present-day Canada relegate the achievement of a balanced budget to the category of an impossible dream," he suggested two other approaches to minimizing inflation.

A large foreign currency loan would both "raise the external value of the Canadian dollar and diminish the potential monetization of the deficit," provided the foreign currency proceeds were not absorbed into reserves.

The other solution would be a government issue of indexed bonds, which would carry a nominal rate of interest and be tax-exempt on the indexed gains. "In our opinion, such an offering of indexed bonds for up to \$10-billion to \$11-billion would be oversubscribed in a matter of hours."

He sees two distinct phases of public reaction during a period of inflation. "In the early stages, total money supply velocity declines as the public is duped into holding money at high nominal rates of interest (but negative real rates of return). At this point, the public's inflationary expectations have not exceeded actual monetary creation.

But in the advanced stages of inflation, the public begins to perceive that the money supply surplus is eroding the dollar value "and an orgy of spending takes place," which only adds fuel to rising prices. In this last phase, which Mr. Friedberg calls hyper-inflation and which he thinks has yet to come, "the huge increments of money are already being reflected in prices before they are being spent.

"Unless draconian economic measures are taken, Canada is headed for a long and painful bout of inflation."

Inflation in Canada: a Monetarist Interpretation and Forecast by Albert Friedberg, Friedberg and Co. Ltd., 247 Bay St., Toronto M5H 2R7.