

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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An Obsession called Recession

May 29-30, 1979

The longevity of the present economic expansion, dating back to the first quarter of 1975, begs the inevitable question: how much longer? Spotty economic statistics are being widely used to forecast the imminence of a recession, with some observers wondering wistfully whether we are already into the downturn without actually realizing it. Not qualified to quarrel with econometricians and astrologers, we are, nonetheless, impressed with the following observations:

- 1) the 1974-75 downturn was severe enough to lay the base for a powerful and prolonged recovery, one that would exceed the common four-year cycle,
- 2) although oil prices have, of late, risen dramatically, percentage comparisons are useful for keeping a healthy perspective. While oil prices tripled during 1973-74, they have so far only risen by something like 35-40%, and, more importantly, they have not risen unexpectedly. Severe relative price adjustments are part and parcel of a well-functioning capitalistic system and do not have to cause more than transitory dislocations.
- 3) unlike the 1974-75 experience, not all OECD economies are in-phase; some important ones, such as Japan, West Germany and Canada are still in an early expansionary phase thus allowing for rotating strengths and weaknesses.
- 4) the current U.S. expansion has been fed by an extremely accommodative monetary policy. While the present growth of aggregates such as M1, M2 and Monetary Base has slowed down considerably, very important portfolio changes have occurred to blur, if not negate, contractionary implications. In the main, the appearance of Money Market Certificates (see table I) has allowed the banking system to find reasonable funding for otherwise robust credit demands to the point that Bank Investments have once again moved to the plus on an annualized basis (see table II). Furthermore, ATS accounts and Repurchase Agreements have maximized M1 velocity and offset its sluggish growth rate. The 'freeing' of money markets has produced remarkable and totally expected results: the convergence of all money market rates around an apparent equilibrium rate, i.e. 9 5/8 - 10 1/8% (see adjunct chart). This 'arbitrage' has reduced financing costs giving, in the process, the false appearance of a drop in interest rates. What has happened, in reality, is that, slowly pockets of liquidity have been mopped at the magical 10% level forming an ominous base from which rates are expected to catapult further.
- 5) monetary policy, measured by the cost of funds, cannot possibly be considered restrictive. Looking at the most recent rate of inflation, 14% on an annualized basis, money costs are strongly negative implying, for the near future, a violent re-acceleration of credit demands.

Table I

Money Market Certificates*	
Commercial Banks	
(Mln of \$)	
1978:	
Jun. 7	774
28	2,055
Jul.	5,470
Aug.	7,792
Sep.	9,679
Oct.	13,858
Nov.	19,729
Dec.	22,956
Jan. 1979	31,855
Feb.	35,981
Mar.	41,193
Apr.	48,491

*Last Wednesday of each month's figure since June 1978.

Table II

Total Bank Investments*	
Oct.77	- 1.4
Nov.	- 5.0
Dec.	- 8.6
Jan.78	3.8
Feb.	14.0
Mar.	1.9
Apr.	5.2
May	12.2
Jun.	7.1
Jul.	9.5
Aug.	2.3
Sep.	0.9
Oct.	2.7
Nov.	- 8.6
Dec.	- 9.1
Jan.79	9.0
Feb.	17.1
Mar.	6.9
Apr.	4.1

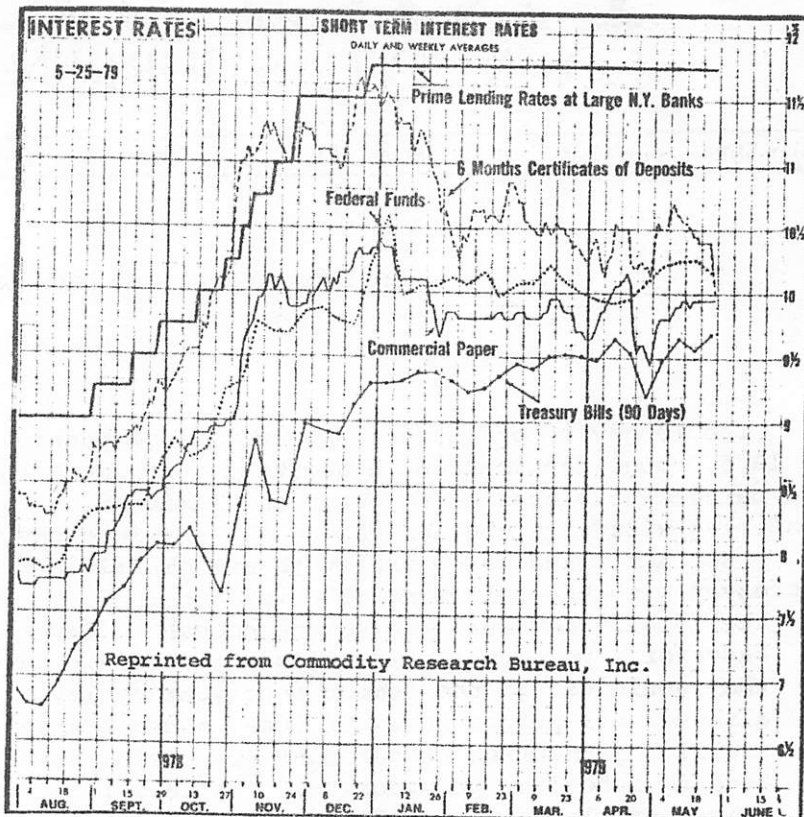
*Compounded annual rates of change over previous month.

Source: FRB of St. Louis.

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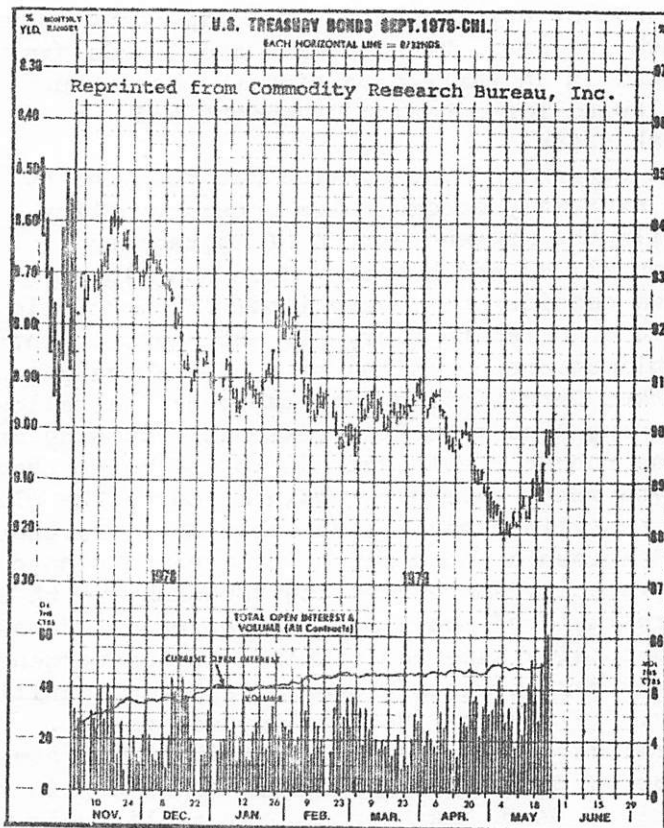
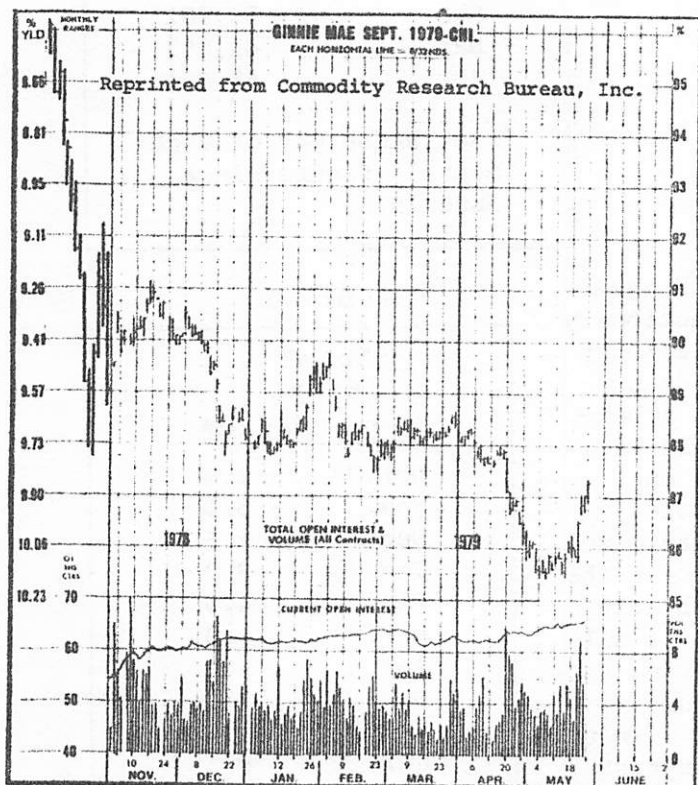
In sum, we do not think that, at the present time, we have the necessary elements to foredoom the current economic expansion. We prefer to interpret bearish statistics as being : a) the result of a severe winter, b) a truckers' strike; c) a transitory adjustment to oil price increases and spot gasoline shortages (scaring away car buyers) and d) a random occurrence.

If our thesis is correct, forthcoming economic statistics will show a rebound and money market rates will 'bottom out' at approximately current levels, later to resume their long term advance. Sticking our neck out, we should expect the U.S. economy to peak no sooner than late 1980 or early 1981.

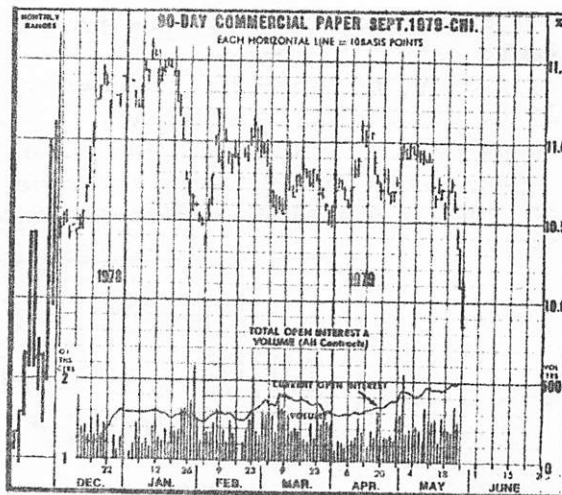


INTEREST RATES FUTURES - STRATEGY

Remain short GNMA and Treasury Bonds risking closes above 88.24 basis Sept. GNMA and 91.05 basis Sept. Treasury Bonds. Buy Dec. '79 90-day commercial Paper at 9.46 (today's close) and be patient. They should trade well above 11.00 before the year is out.



GNMA	Settle	Yield	US Treasury Bonds
Jun. 79	87-14	9.824	June 90-08 9.065
Sep.	87-09	9.850	Sep 90-13 9.046
Dec.	87-10	9.845	Dec 90-17 9.031
Mar. 80	87-11	9.840	Mar80 90-18 9.028
Jun	87-07	9.860	June 90-16 9.035
Sep.	87-03	9.880	Sept 90-13 9.046
Dec.	87-00	9.896	Dec 90-12 9.050
Mar. 81	86-27	9.922	Mar81 90-09 9.061
Jun.	86-21	9.953	June 90-08 9.065
Sep.	86-17	9.973	Sept 90-04 9.079
Dec.	86-13	9.994	Dec 90-02 9.087



BRITISH POUND

Jun. 79: 205.55 Sep.79: 204.95 Dec.79: 204.55 Mar.80: 204.00

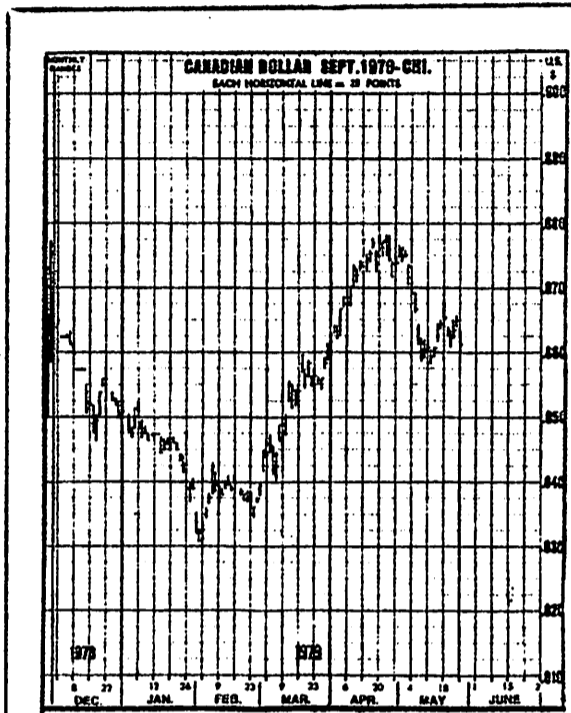
The next speculative attack against the U.S. dollar may be led by Sterling, but the time has not arrived as yet.

Remain sidelined. Buy only on breakout above 210.50 basis Spot.

	FEB. 79	MAR.79	APR.79	APR.78	
RESERVES (BLN U.S.\$)	16.62	21.95	21.47	17.04	
RETAIL PRICE INDEX **	9.60	9.80	10.07	7.93	
RETAIL SALES INDEX **	4.40	3.27	7.31	5.05	
C.P.I. **	83.9	8.54	N/A	10.9	
UNEMPLOYMENT RATE	5.7	5.7	5.5	5.7	
1979					
EURO DEPOSIT %	MAY 4	MAY 11	MAY 18	MAY 24	1978
1 MO.	11 5/8	12 1/8	11 3/4	12.	10 1/8
3 MO.	11 5/8	12 1/8	11 7/8	11 15/16	10 7/8
6 MO.	11 3/4	12 1/8	11 7/8	11 13/16	11.
12 MO.	12.	11 3/4	12.	11 11/16	12.

OPEN INTEREST(MAY 29/79): 3,459 DAILY VOLUME(MAY 29/79): 785
 CONTRACT SIZE : SP 25,000.00 (APPROX. U.S. \$1,000.00)
 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



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CANADIAN DOLLAR

Aside from a very intangible element of confidence, the emergence of a Tory minority government cannot possibly change (for the better) in the short run the highly destabilizing level of Fiscal Borrowing Requirements for 1979. Foredoomed to exceed \$13 billion, it remains to be seen how it will be financed without affecting Domestic Credit Expansion in a negative way. A sharply deteriorating current account deficit will begin putting intense downward pressure on the CD\$ and we are, therefore, satisfied with the short position recommended shortly before the election.

Add to short positions; place stops at 86.90 basis Sept. '79.

Jun.79: 86.30
 Sep.79: 86.16
 Dec.79: 86.17
 Mar.80: 86.04

	FEB.79	MAR.79	APR.79	APR.78	
BALANCE OF TRADE (MLN \$)					
JAN-MAR.78: +1,291	+151	+150	N/A	+127	
JAN-MAR.79: 687					
GENERAL BANK LOANS**	14.34	15.60	16.55	11.16	
MONEY SUPPLY **					
M1	8.85	10.21	7.96	9.08	
M1B	5.83	4.04	5.32	8.57	
M2	13.95	13.57	14.38	9.55	
M3	20.14	18.36	17.58	13.12	
CURRENCY PLUS ALL DEPOSIT LIABILITIES**	17.6	17.3	N/A	12.34	
INT'L RESERVES(BLN U.S.)	4.11	5.42	5.14	4.6	
C.P.I.(ALL ITEMS)**	9.18	9.2	9.75	8.42	
FOOD PRICE INDEX**	16.11	17.4	16.52	14.71	
UNEMPLOYMENT RATE S.A.	7.9	7.9	7.9	8.6	
N.S.A.	8.8	8.9	8.6	9.3	
1979					
EURO DEPOSIT %	MAY 4	MAY 11	MAY 18	MAY 24	1978
1 MO.	11 1/8	11 1/8	11 1/4	11 1/16	7 3/4
3 MO.	11 1/4	11 1/4	11 1/4	11 3/16	8 1/4
6 MO.	11 1/16	11 1/16	11 1/16	11 5/16	8 1/2
12 MO.	10 7/8	10 7/8	10 7/8	11.	8 5/8

OPEN INTEREST(MAY 29): 5,524 VOLUME(MAY 29): 934
 CONTRACT SIZE : CD 100,000.00 (APPROX. U.S.\$ 87,500)
 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

	FEB. 79	MAR. 79	APR. 79	APR. 78
BALANCE OF TRADE (MLN MARKS)				
JAN-APR.78: +11,930	2,410	3,400	N/A	3,250
JAN-APR.79: N/A				
BALANCE OF PAYMENTS (BLN MARKS)				
CURRENT ACCT.				
JAN-APR.78: +4,790	0.8	1.9	N/A	1.7
JAN-APR.79: N/A				
MONEY SUPPLY ** M3	10.92	11.21	10.89	9.78
M.P.I.**	3.07	4.83	5.79	-0.7
COST OF LIVING INDEX**	2.95	3.27	3.53	2.3
UNEMPLOYMENT RATE	5.0	4.2	3.8	4.4
EURO DEPOSIT %	-----			
	1979			
	MAY 4	MAY 11	MAY 18	MAY 24

	1978			
	MAY 26			

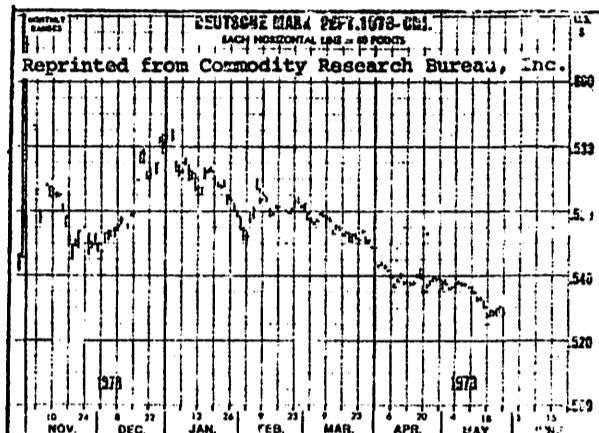
1 MO.	5 1/8	5 1/2	5 9/16	5 3/4
3 MO.	5 7/16	5 7/8	5 7/8	6 1/16
6 MO.	5 7/8	5 7/8	6 7/8	6 11/16
12 MO.	6 7/16	6 7/8	6 7/8	7 1/8

Jun. 79: 52.27
 Sep. 79: 52.81
 Dec. 79: 53.22
 Mar. 80: 53.67
 Jun. 80: 54.02

WEEKLY RESERVES
 NET MONETARY
 (BLN MARKS) 90.6(30/4) 89.0 (7/5) 86.9(15/5)

OPEN INTEREST(MAY 29): 5,252 VOLUME (MAY 29): 2,060
 CONTRACT SIZE : DM 125,000.00 (APPROX. U.S.66,000.00)
 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.



Looks lower.
 Remain short or spread
 against short SFr.

SWISS FRANC

Jun.79: 57.72 Sep.79: 58.91 Dec.79: 59.90 Mar.80: 60.45 Jun.80:61.10

The market continues to move lower under the weight of speculative liquidation and commercial unwinding of leads and lags. It would appear that only a dramatic drop in short term U.S. interest rates, an event we are not anticipating, will turn the Swissy around.

Remain short lowering stops to 60.80 basis Sept. '79 (from last month's 61.25) and locking-in a very substantial profit. The long DM/short SFr spread continues to narrow. Maintain spread basis December '79.

	FEB. 79	MAR. 79	APR. 79	APR. 78
BALANCE OF TRADE (MLN SFR)				
JAN-APR.78:-605	-355	-321	-300	-119
JAN-APR.79:-1,162				
M.P.I.**	+0.5	1.11	2.09	-3.75
UNEMPLOYMENT RATE	0.6	0.5	0.4	0.3
MONEY SUPPLY M1 **	19.7	N/A	N/A	16.7
EURO DEPOSIT %	-----			
	1979			
	MAY 4	MAY 11	MAY 18	MAY 24

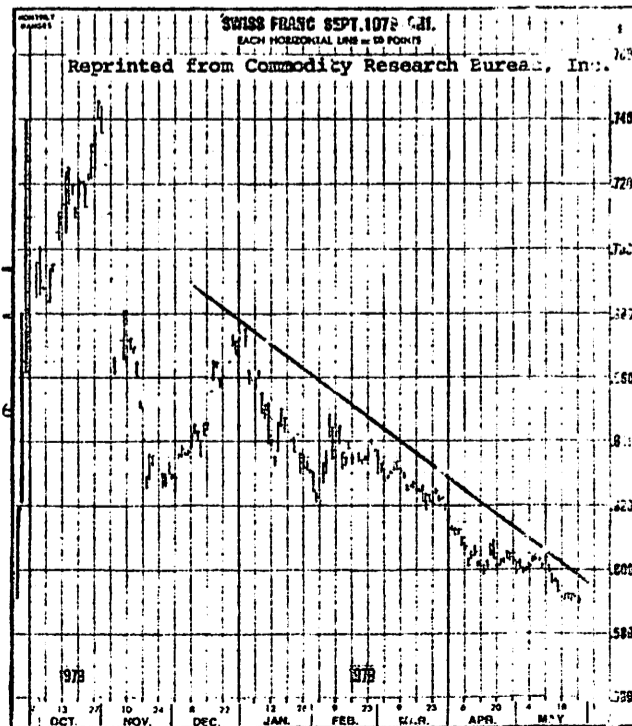
	1978			
	MAY 26			

1 MO.	1 1/2	1 1/8	1.	1 11/16
3 MO.	1 1/8	1 7/16	1 7/16	1 3/4
6 MO.	2 1/2	2 5/16	2 3/16	2 9/16
12 MO.	2 3/4	2 3/4	2 5/8	2 5/16

WEEKLY RESERVES
 (BLN SFR) 24.07(30/4) 22.39(7/5) 22.16(15/5)

OPEN INTEREST(MAY 29): 8,413 VOLUME(MAY 29): 1,531
 CONTRACT SIZE : SF 125,000.00 (APPROX. U.S. 72,500)
 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



JAPANESE YEN

Jun.79: 45.13 Sep.79: 45.62 Dec.79: 46.05 Mar.80: 46.45

News of a liberalization of capital inflows produced a dramatic turn-about from the early May lows cancelling our suggestion last month of selling long positions and re-instating them above 220 Yen/Dollar as they both took place simultaneously.

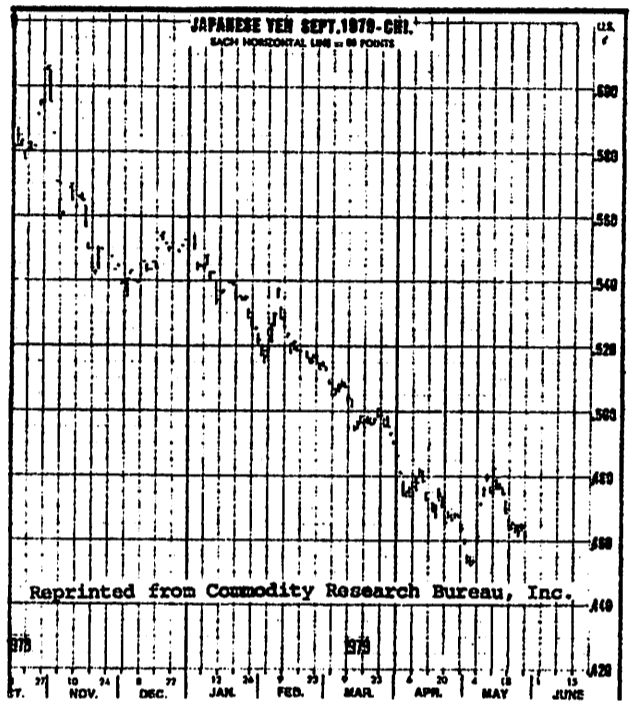
The magnitude of the U.S. dollar sweep and the concomitant downward pressure on the Yen can be gleaned from the enormous \$7 billion loss of reserves experienced by the Bank of Japan over the past four months.

Remain long placing stops at 45.00 basis Sept. 79 Commercial hedgers should effect modest scale down purchases purely for insurance purposes.

	FEB. 79	MAR. 79	APR. 79	APR. 78
BALANCE OF TRADE (MLN U.S.\$)				
JAN-APR.78:+8,115	+1,000	+1,540	+ 520	+2,270
JAN-MAR.79:+2,233				
BALANCE OF PAYMENTS (MLN U.S.\$)				
OVERALL ACCOUNT				
JAN-APR.78:+5,171	-760	-1,570	-2,470	+ 229
JAN-MAR.79:-5,274				
CURRENT ACCOUNT				
	+ 500	+ 596	- 210	N/A
MONEY SUPPLY ** M1	11.01	13.27	N/A	7.8
RESERVES (MLN U.S.\$)	32,090	28,820	26,110	27,530
C.P.I. **	2.42	2.31	2.61	3.4
C.P.I. **	-0.85	0.09	2.18	-2.24
UNEMPLOYMENT RATE	1.88	2.08	N/A	2.2

OPEN INTEREST (MAY 29): 3,969 VOLUME (MAY 29): 1,195
 CONTRACT SIZE : YEN 12,500,000.00 (APPROX. US\$ 56,000)
 MINIMUM FLUCTUATION : .000010 (\$12.50)
 DAILY LIMIT (NORMAL) : .000100 (\$1250.00)
 MARGIN REQUIRED : US \$4,500.00 COMMISSIONS : \$60.00
 TRADING HOURS : 8:45 AM - 1:10 PM (CHICAGO TIME)
 DELIVERY MONTHS : MARCH, JUNE, SEPTEMBER, DECEMBER

* YEAR-OVER-YEAR % CHANGE



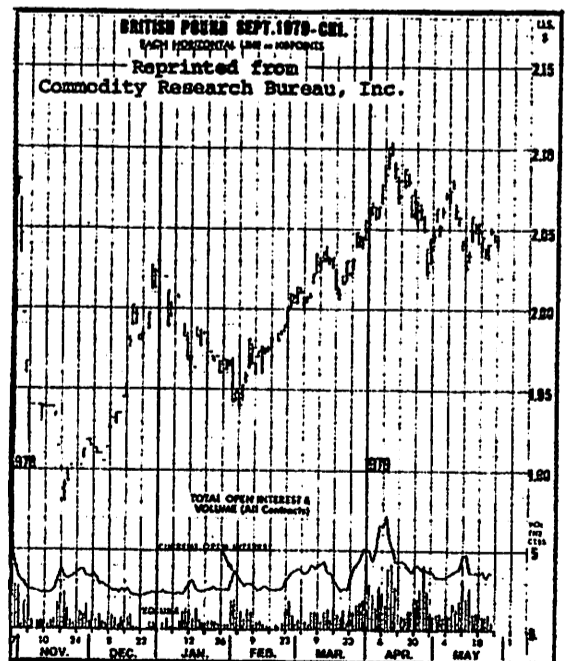
FRENCH FRANC

	FEB. 79	MAR. 79	APR. 79	APR. 78
BALANCE OF TRADE (MLN FFR)				
JAN-APR.78:-248	- 9	+1,200	+ 477	+ 352
JAN-APR.79:+1,719				
NET CHANGE OF FOREIGN EXCHANGE ASSETS **	29.85	30.43	28.57	16.52
RETAIL PRICE INDEX**	10.12	10.13	N/A	9.00
1979				
EURO DEPOSIT %				
	MAY 4	MAY 11	MAY 18	MAY 24
				MAY 26
1 MO.	8 5/8	9 3/8	10 1/2	10 5/8
3 MO.	8 5/8	9 5/8	10 3/8	10 5/8
6 MO.	9 1/8	9 11/16	10 5/8	10 13/16
12 MO.	9 11/16	10 1/8	10 5/8	10 15/16

WEEKLY RESERVES
 GOLD & CONV. CURRENCY
 (MLN FFR) 105,351(26/4) 105,398(3/5) 105,506(10/5)
 105,550(17/5)

OPEN INTEREST (MAY 29): 10 VOLUME (MAY 29): 0
 CONTRACT SIZE : FR 250,000.00 (APPROX. U.S.57,000.00)
 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

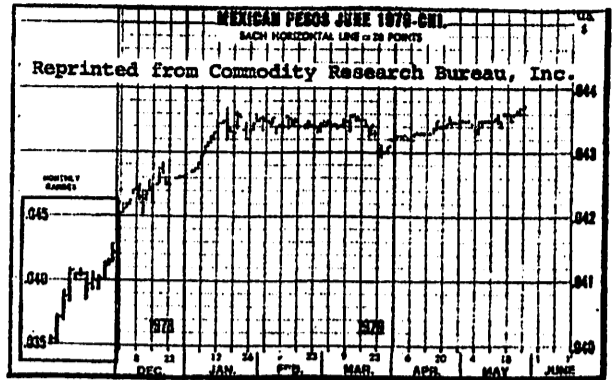
** YEAR-OVER-YEAR % CHANGE



Looks lower.

MEXICAN PESO

Jun.79: 43.74 Sep.79: 42.90
 Dec.79: 41.95 Mar.80: 41.05
 Jun.80: 40.30 Sep.80: 39.27



May deliveries of oil cut 40% by Mexico

By Jeff Carruthers

Ottawa - Mexico has informed buyers of its crude oil that May deliveries will be reduced to 60 per cent of contracted volumes.

The allocation, confirmed by the Mexican embassy in Ottawa, is the result of difficulties in bringing on offshore production and related problems with offshore loading facilities.

The embassy added that the problems should be resolved within a month or two and that the reduced deliveries during the first part of this year will be made up by the end of the year.

Mexico's exports, currently set at 640,000 barrels a day, are scheduled to increase to 680,000 barrels a day by August and 720,000 barrels by next February.

Most of the Mexican crude oil is earmarked for U.S. markets, with about 30,000 barrels a day going to Israel. Other export customers include Spain, Japan and France.

Exxon Corp. of New York, parent of Imperial Oil Ltd. of Toronto, is a major buyer of Mexican crude oil.

The Canadian Government last week initialled an agreement with the Mexican Government that sets the stage for Petro-Canada to negotiate a commercial deal with its Mexican counterpart for the purchase of up to 100,000 barrels a day of Mexican crude by 1981.

First deliveries could take place late this year or early in 1980, with a level of 50,000 barrels a day anticipated by 1981. (The Globe and Mail)

	Forward Discounts Comp. Annual Rates				
	Sep.79	Dec.79	Mar.80	Jun.80	Sep.80
Jun.79	8.07	8.72	8.83	8.54	9.01
Sep.79		9.37	9.22	8.69	9.24
Dec.79			9.06	8.36	9.20
Mar.80				7.65	9.27
Jun.80					10.91

The widening of forward differentials have aligned MP futures closer to reality. In the first place, inflation is running at least 10 percentage points higher than in the U.S. Secondly, there seems to be a consensus that the MP is overvalued by at least 10% taking into account unit labor costs increases of the past 3 years.

We would be buyers of June '80 at 37.00, showing a discount of approximately 15% from Spot levels. Otherwise, remain sidelined.

Real Annualized Rates of Return on 3 months Currency Deposits

Based on expected rates of inflation*

	Feb.79**	Mar.79**	Apr.79	May 79	Average
British Pound	2.6 %	.84 %	1.37%	1.295%	1.526%
Canadian Dollar	1.96	1.0	1.26	0.95	1.293
Deutsche Mark	0.508	.935	1.62	1.37	1.108
Swiss Franc	0.996	-3.003	-2.938	-1.588	-1.63
U.S.\$	1.41	-0.028	-0.525	-5.49	-1.158
Japanese Yen	1.31	3.29	n/a	n/a	2.3

* Linear regression used on past 3 months' year over year rates of inflation to project next 3 months.

** Projection is compared to prevailing Eurocurrency rates in 3rd week of the first month of the subsequent period.

METALS

Is gold overvalued ?

In our Comments of Dec.4,78 we argued forcefully that the November bear move that saw gold prices drop as much as \$60/oz. inside of thirty days was merely a correction in a long term bull market and that the June '79 contract would see \$300/oz. We adduced two arguments: one technical, the other one empirical.

On a technical level, the long 1976-78 uptrend intersected at \$190/oz, exactly fifty cents under what was to become the eventual lows. Provided that our dubbed Golden Uptrend held this level, a bull market was still intact.

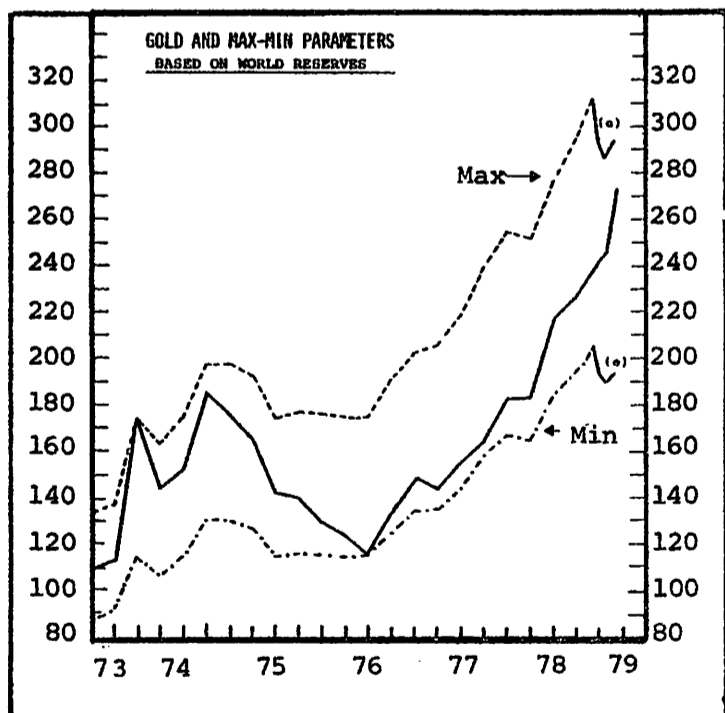
On a more empirical basis, we postulated a mythical gold demand function for world Central Banks and noted that the growth in world reserves was being accompanied by a fairly constant and proportional rise in its gold content despite the slight reduction in tonnage that occurred as a result of some official liquidation.

We have updated the table presented last December:

	1979								
	1972	1973	1974	1975	1976	1977	1978	Jan.	Feb.
World Reserves at Market related prices (bln of SDR's)	172.0	211.3	299.3	280.5	303.9	365.1	420.3	434.7	448.0
Gold holdings at market related prices (bln of SDR's)	60.8	94.7	154.7	121.6	116.9	138.3	176.7	184.8	198.0
Proportion of gold holdings to Total Reserves	35.4%	44.8%	51.7%	43.3%	38.5%	37.9%	42.0%	42.5%	44.2%

As it can be seen, the gold porportion has over the past seven years, varied between 35.4% - 51.7%. Conceivably, gold has been re-monetized by the market with the help, or at least without the hindrance, of official institutions.

Over the past few months, the strengthening U.S. dollar has forced liquidation of large official dollar balances and, consequently, world reserves have shrunk somewhat, possibly by as much as 5-8%. Assuming a max-min of 35.4-51.7%, we have constructed a chart (shown below) delineating the max-min parameters for gold prices. Fluctuating in-between, of course, is the PM London fix at the end of each quarter and end of May 1979. From III Qtr 1976 to II Qtr 1978, gold traded in the lower end of the range, closely following the historical minimum proportion. Interestingly, a \$195/oz 'support' was projected for the end of 1978, thus buttressing our technical indicator.



Of late, gold has been moving to the upper limit of our model indicating that the advance may be running into some considerable resistance.

Conclusion : Assuming that the maximum proportion holds to its historical high (i.e. 51%) gold will be nearing a peak at close to \$300/oz. In view of the extraordinary public interest being shown (a clear sign of a top), the nearness to our model's predicted top range and the much lower intersection of the major uptrend (\$215-220/oz), we would strongly caution against initiating long positions at these levels.

Remain sidelined.

SILVER

Swing objectives of 900-910 basis July '79 were achieved early this week, following which a one-day reversal took place.

The market has become far too emotional. We prefer liquidating at once long positions suggested last month at 826 basis July.

PLATINUM

Market has climbed over \$30/oz in the past month, although the advance has been rather orderly.

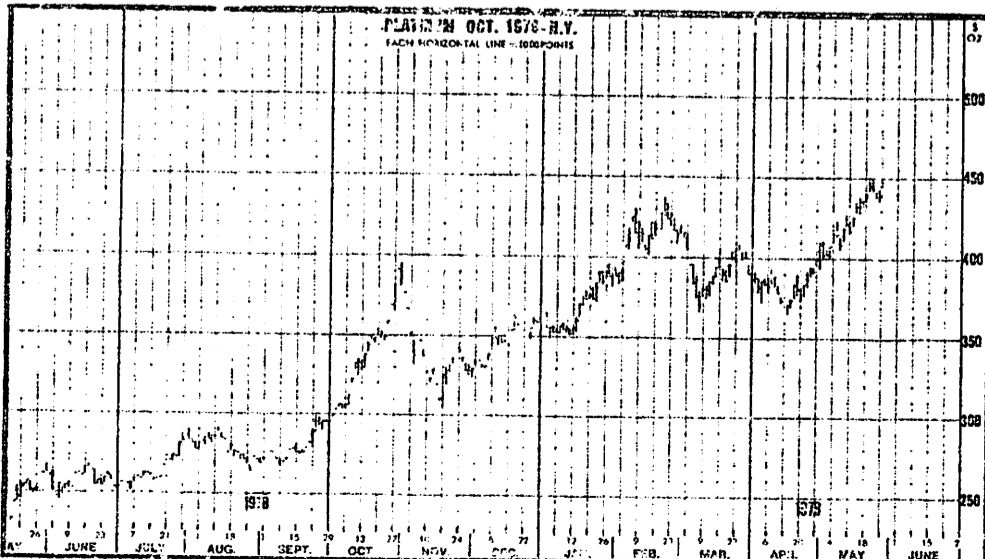
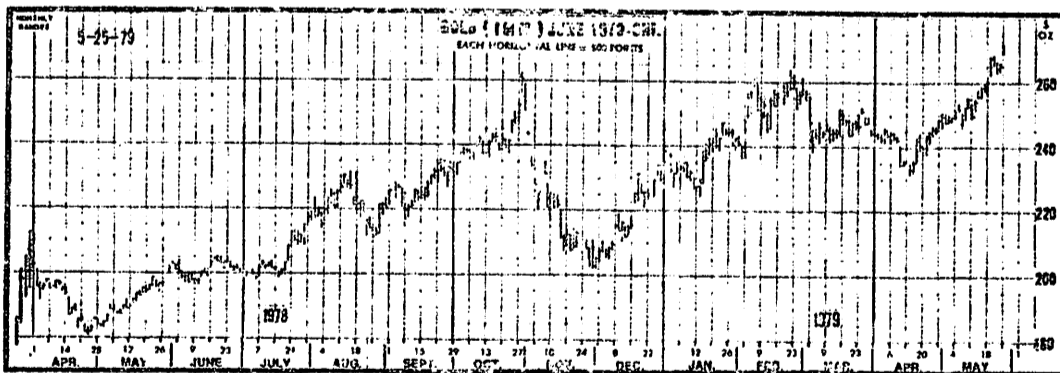
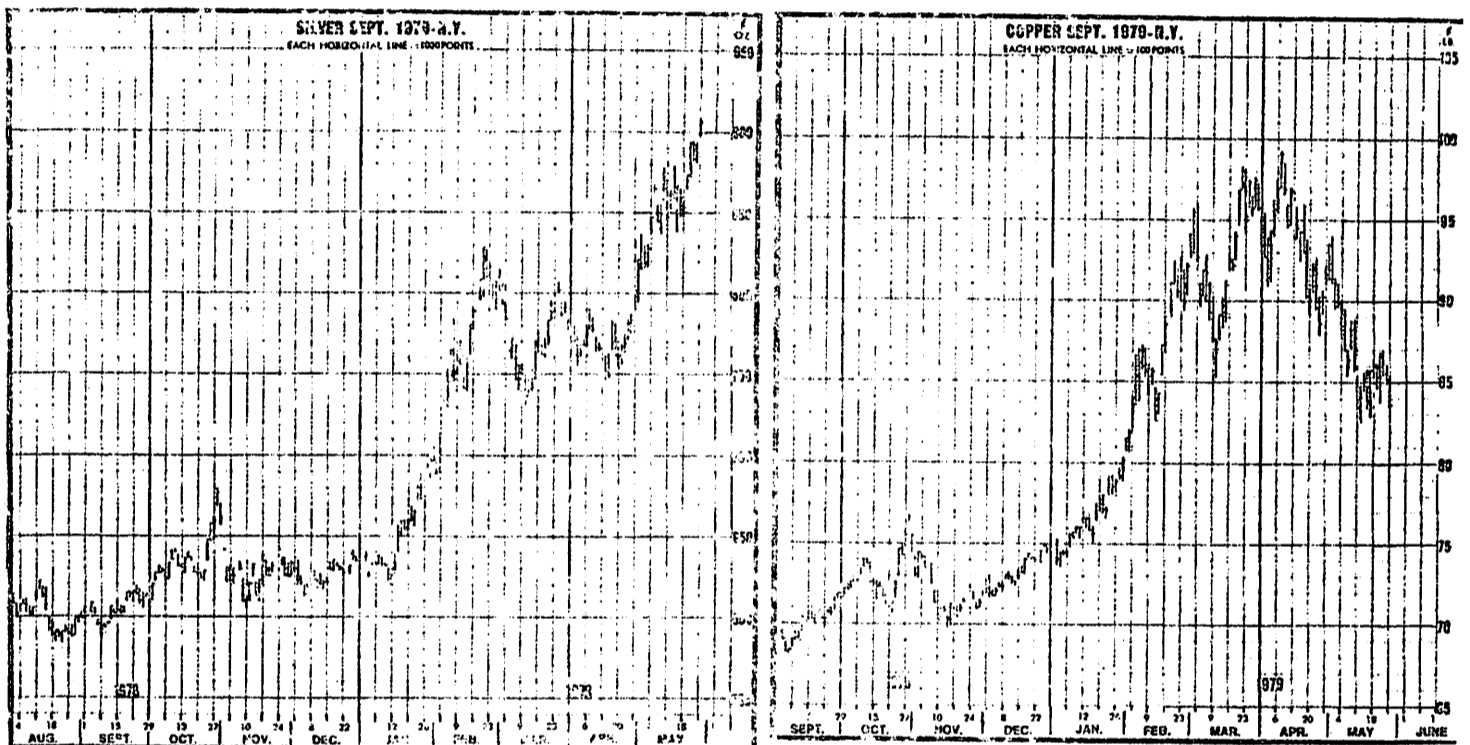
Nearby tightness still justifies maintaining long positions but would be prepared to accept profits on a move above 475. Failing that objective, protect long positions with stops at 435 basis July '79.

COPPER

Having broken the critical 87¢ level basis July, the market slumped 550 points before encountering some technical support. Despite strong oversold readings, little upside progress was made and, once again, liquidation re-appeared driving nearby July to an extreme low of 77.70.

The widening of forward switches coupled with the breakdown of major technical support levels indicate a near term trading range of 72-85.

We prefer to remain sidelined.



POTPOURRI -

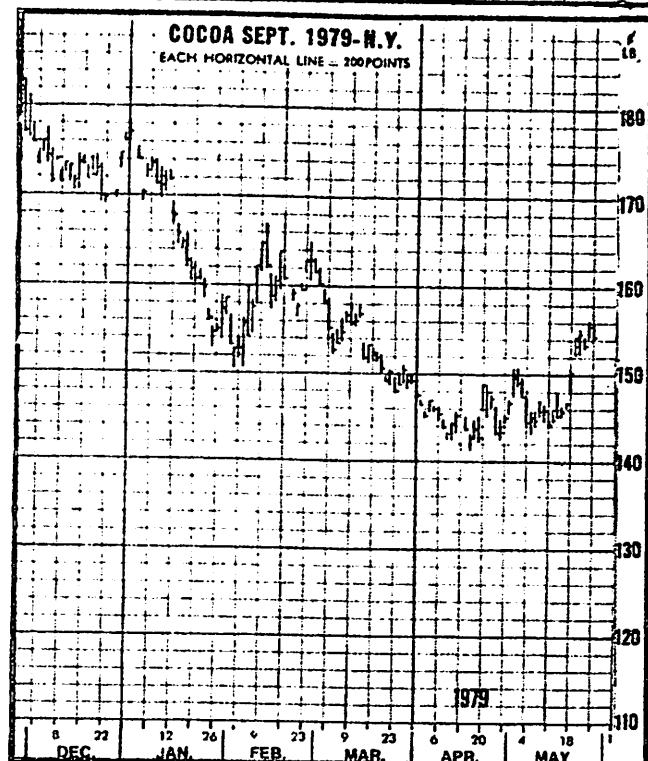
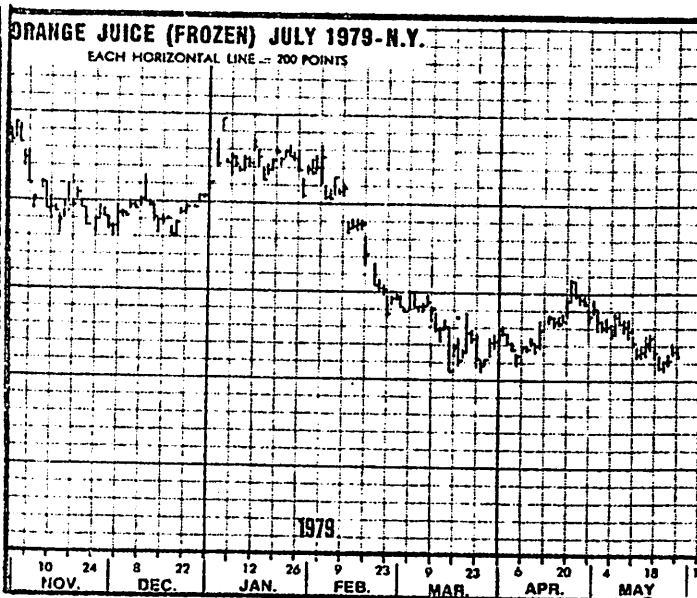
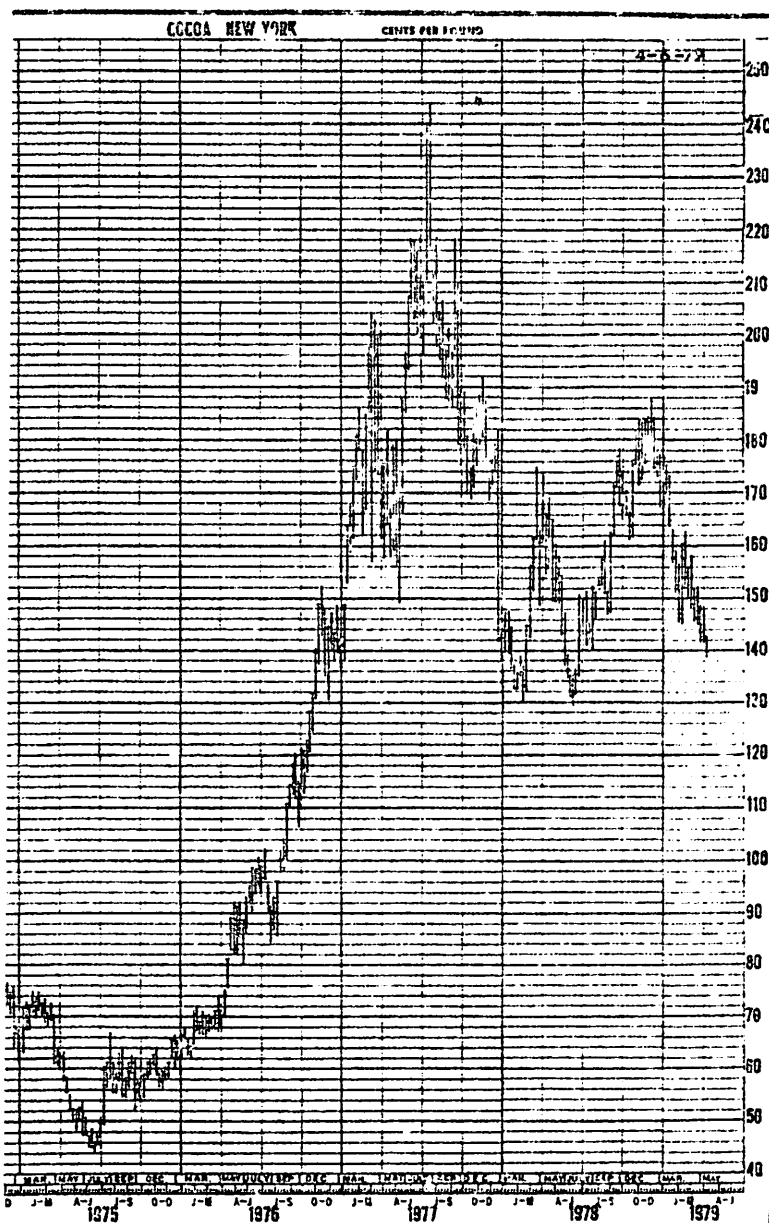
Orange Juice prices eroding in line with expectations ...

Cocoa provides an interesting example of the noxious effects of government intervention. The producer price of cocoa in Ghana was $\text{¢}560$ a ton during the 1974/75 season producing a crop of 380,000 tons and maintaining Ghana as the world leader (despite the fact that outturn was 120,000 tons lower than a decade earlier!). Even though the producer price was raised three times during 1977/78 and doubled again in Sept. 1978 to $\text{¢}2,666$ per ton, production at an estimated 263,000 tons for 78/79 has dropped so precipitously that Ghana has lost its pre-eminence and now trails Ivory Coast and Brazil. The reason is simple : the present producer price of $\text{¢}2,666/\text{ton}$ is equivalent to just $\text{\$}970/\text{ton}$ at a time when the free market stands at $\text{\$}3,500/\text{ton}$. Furthermore, in domestic purchasing power and in 1975 prices, $\text{¢}2,666$ is equivalent to only $\text{¢}315$ per ton, a full 44% less than the producer price prevailing during 1975. Will Ghana's cocoa policies teach the U.S. oil czars a thing or two about controlled prices ...?

Back to cocoa, the fundamentals are shaping up constructively if only because world production has remained practically stationary for the past 10 years, hovering around 1,450,000 - 1,500,000 tons. Facing a highly inelastic supply curve, prices have had to move up dramatically to ration out demand.

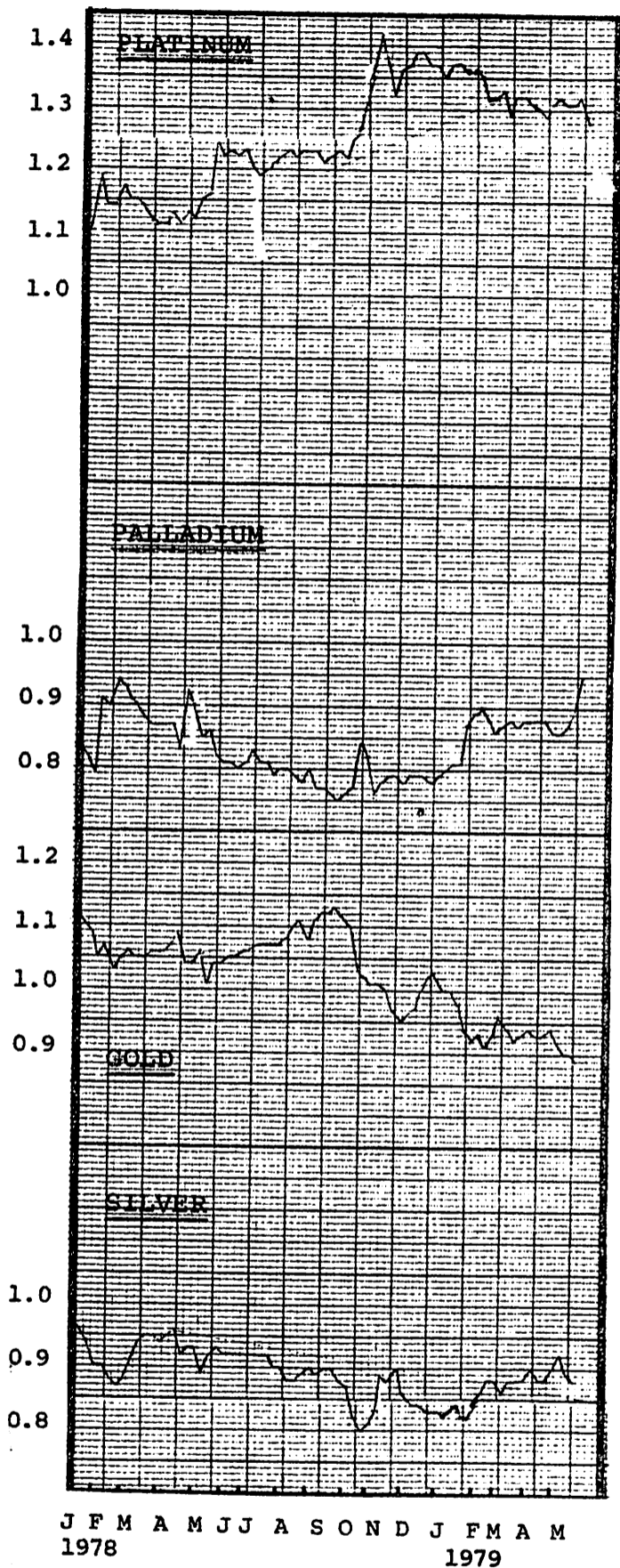
Prices are now well down from the 1977 highs of 2.40/lb and have been finding good support in the 1.30-1.40 area indicating that a good long term base may be in the offing.

Long term investors and, particularly, commercial hedgers may be well advised to be buyers at the 1.40 - 1.45 level for jobbing turns of 20-25¢.

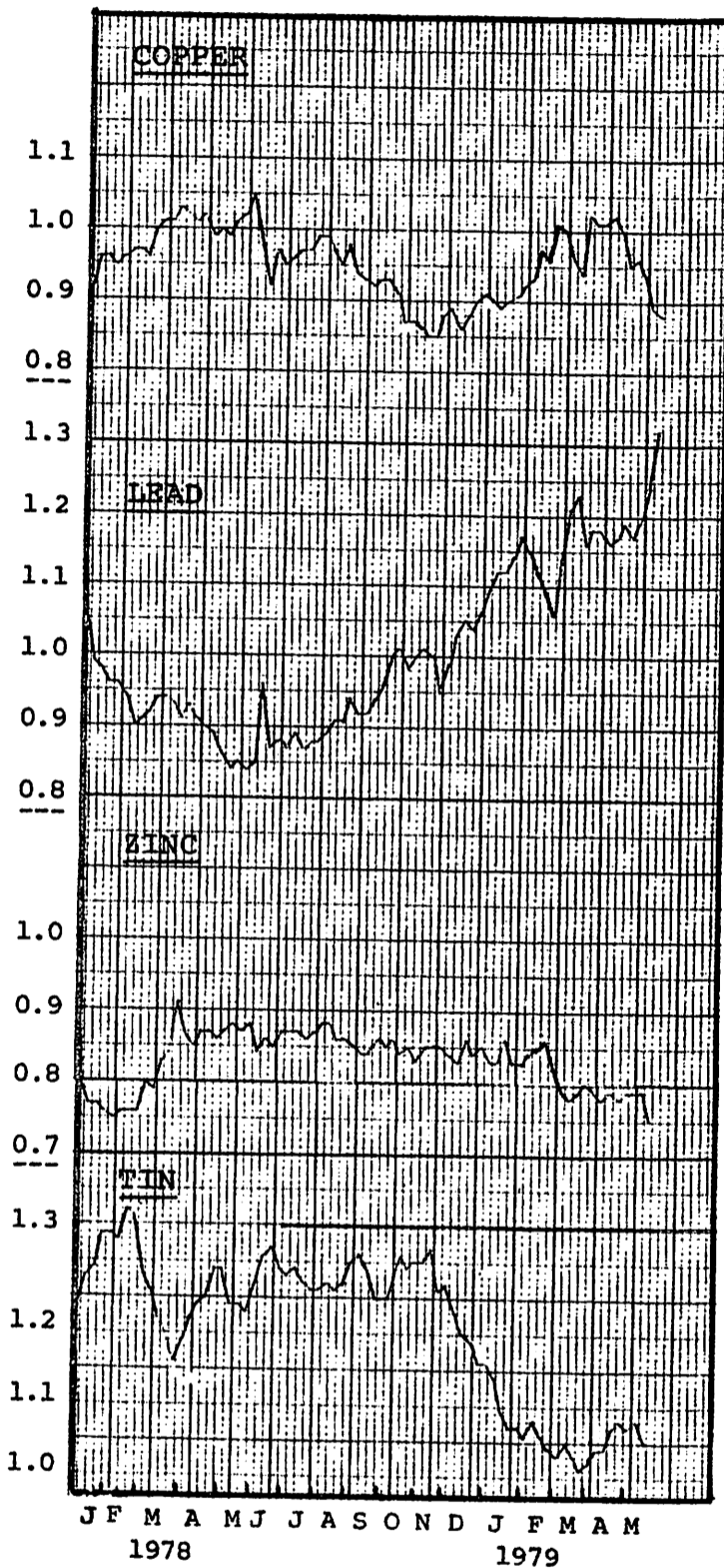


RELATIVE STRENGTH

PRECIOUS METALS



BASE METALS



<u>F.C.I.</u>	<u>May 79</u>	<u>Apr.79</u>	<u>May</u>
-2.7% from month ago	260.9	268.0	242
+7.8% from year ago			

Note: Revised, generally lower, commission rates structure will be put into effect as of June 1st, 1979.

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

Albert D. Friedberg