

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



Volume 5, No. 10 October 14, 1984

## Still losing its glitter?

In the spring of 1983 we carried an inquiry into the merits of purchasing gold at its then current price of \$440/oz. Having climbed from just under \$300/oz. in the fateful summer of '82 to just over \$500/oz. less than 9 months later, bullion prices staged a dramatic about-face and collapsed nearly one hundred dollars in the short space of 12 trading days. All, of course, in round numbers (gentlemen are never as rude as Comex traders).

Our unabashed verdict was that "gold is not fairly priced at these levels and is not likely to withstand easily a liquidation wave.... Investors should patiently wait for values to reappear. When? Not today. Where? Not at these levels." Proudly, we submit that we were not only right on the money but, in addition, we saved cash (and futures) holders from the agonizing pain of carrying a depreciating asset at an approximate opportunity (and real) cost of 12% per annum. Which, of course, added another \$50/oz. or so. Again, in round numbers.

Our long-term bearish case (and we are crowing again) was postulated almost as soon as yellow metal completed the parabolic rise that took it from \$375/oz. to \$875/oz. in the early days of 1980 ("The price of gold and its economic consequences," Feb. 4, 1980). Among the negatives we ticked off the incredible rise of gold prices in real terms and the strong probability that strapped-for-cash nations would begin unloading such an overpriced commodity. Exactly one year later ("Gold: The long cycle," Feb. 8, 1981) we "discovered" a simple rule: Gold's cycles of under- and over-valuation left, at least in the 19th and 20th centuries, a well-defined trail.

When undervalued, most or all of the metal's production would end up in private hands. It was all too natural: Gold's industrial and monetary hoarding demand would rise when it lagged incomes and prices, thus diverting production to private use. Conversely, when overvalued, most or all of the ongoing production would swell central banks' coffers. The latter have acted, deliberately or not, as buyers of last resort, perhaps in an attempt to shore up the price of their most valuable reserve asset, perhaps as an effort to diversify reserves and achieve a more traditional mix. In the '20s and '30s, over 90% of world production accrued to Western official reserves. By the decade of the '50s, this proportion had

dropped to 52% and by the '60s, only 5% of world production was being channeled into official holdings. Clearly, at \$35/oz. gold had become a bargain. This situation persisted in the '70s where central banks had to sell 8% of their holdings to satisfy private demand. Thanks to rising prices, this demand did not exhaust official gold holdings, which it might easily have done had central banks persisted in maintaining the \$35/oz. level.

Nineteen hundred and eighty saw an increase in central bank gold holdings, their absorption having represented 17% of that year's outturn. It was a year that saw massive private liquidation that was not fully reflected in official holdings simply because declining prices were allowed to take the brunt of the selling. Ever since then, central banks' gold holdings have been receding — if ever so slightly — while prices have remained relatively stable. Using annual averages, \$375.80 for 1982, \$422.47 for 1983, and approximately \$369.00 thus far in 1984. Since 100% of world output has been absorbed by private sources at relatively flat nominal prices, *it would appear that the 1979-1980 overvaluation has been substantially corrected.*

This conclusion, of course, does not take into account a further downward shift in private demand, mostly of a monetary nature, occasioned by revised inflationary expectations (a disinflationary era?) or a further strengthening of the US dollar. Strangely enough, both of these factors have been widely discussed and analyzed without significantly altering the demand schedule for gold.

Why? We believe that deep in the market's subconscious lies the belief that the US is the world's banker. As such, its net external liabilities must be "backed" by an international asset, which is none other than gold, the international money par excellence. What are the US government's net (short term)

### In this issue

We reaffirm our intensely bullish outlook on the US dollar; we're recalcitrant about crude oil prices and stock index futures. And in this issue we begin a new feature: Exotica — all about all the money in the world and how to trade it. Contributions by Albert D. Friedberg and Danny Gordon.

external liabilities? The US government's net liabilities to other official institutions (i.e., the dollar portion of their international reserves) and the net position of its commercial banks vis à vis nonresidents. If net external liabilities rise, then the dollar must be "devalued" or what is the same, gold must be revalued, to restore proper cover.

Chart 1 plots a history of this "parity value" versus the price of gold. The two lines trace a remarkably, though predictably, paralleled course. The upward "pull" on gold prices begins to take effect in the early '60s and continues unabated until 1979, at which point gold prices reach their theoretical parity and then soar beyond this point in a classic blow-off. Soon thereafter, a downward "pull" is exerted on gold prices: As the US acquires an increasing amount of short-term claims on the outside world, its position as banker improves. Gold prices follow this irresistible downward valuation until about mid-'82 to early '83.

Coincidentally, although not accidentally, our valuation model signals an important *change*: The US creditor position begins to deteriorate. While it would be natural for a cross-over to take place, i.e., market prices meet our theoretical parity levels, this need not occur, *simply because the market has begun to anticipate a rapid erosion in the US net position.*

One might argue that the downward "pull" on gold prices existing in early '83 has abated, as our valuation model bounced

Chart 2

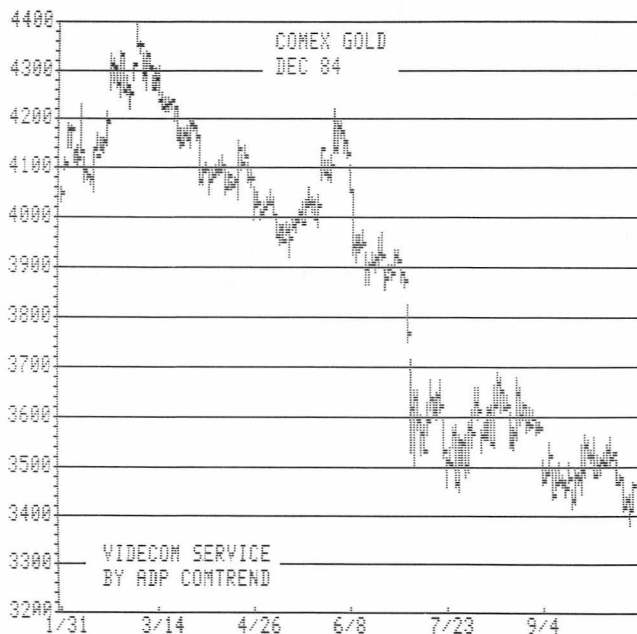
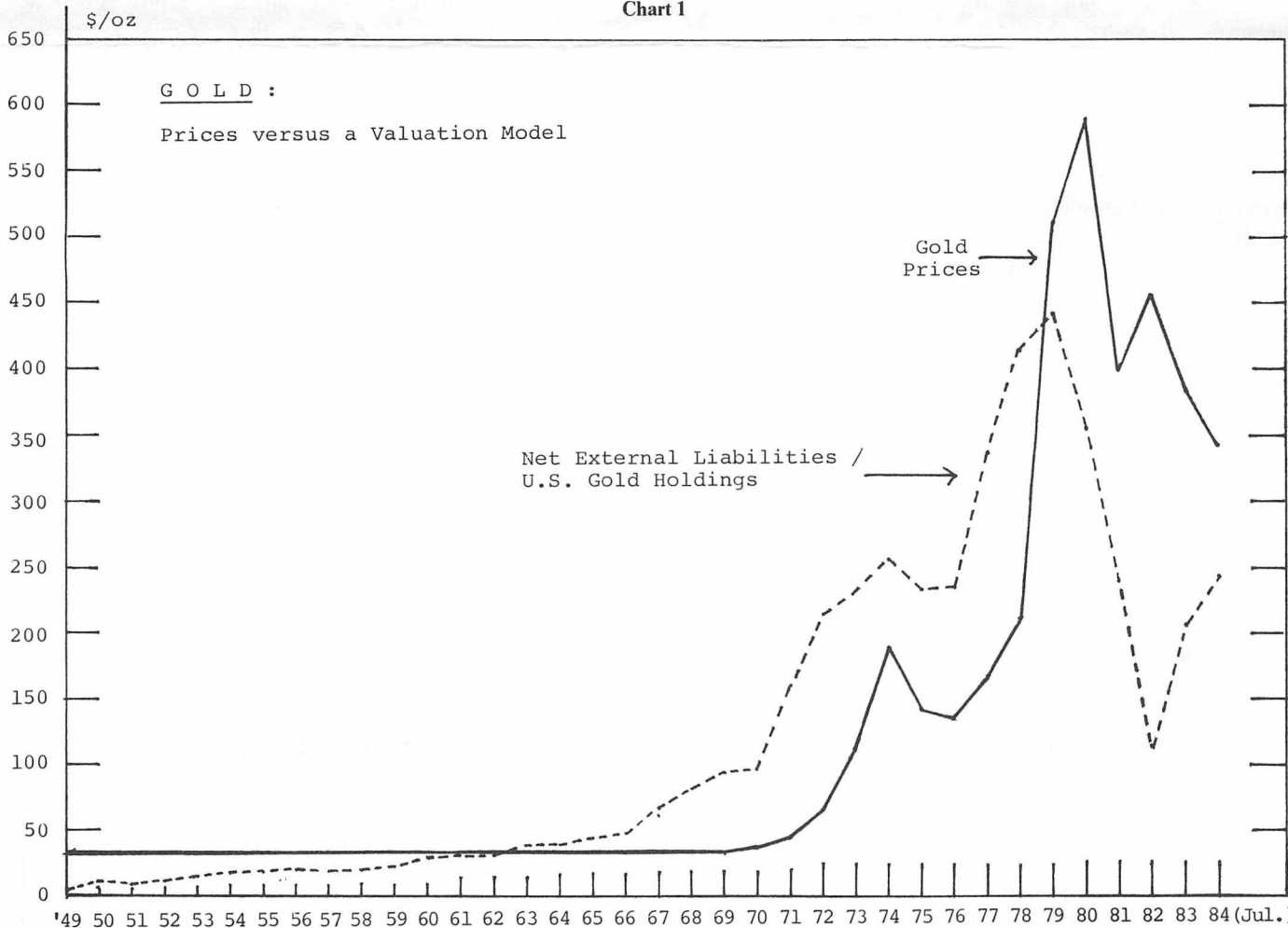


Chart 1



up from an equilibrium price of \$92.50/oz. to the present \$246/oz. This momentous change in direction, as well as the anticipation that US net external liabilities will continue to rise, are primarily responsible for the stubborn trading range around \$350/oz. It also helps solve two other valuation puzzles: a) the fact that gold, adjusted by wholesale prices and using 1914 as a base year, should not be trading above \$117/oz.; and b) assuming that free gold prices reached a sort of equilibrium in the 1972-1975 period — that is, allowing for a fairly prolonged adjustment period to 38 years of controls — and applying the increase in US M1 since, one obtains prices no higher than about \$225/oz.

We now rest our case. Statistics tell us that gold is still overpriced. However, we cannot be as unequivocal as in the 1980-1983 period, simply because the *dynamics* have

changed: The US seems to be living on borrowed time (and on borrowed money), and the market, in its infinite wisdom, may sense it. Still, our trader instinct tells us that another sizable shakeout is in the making, most probably associated with our much-expected US dollar upward spike. While odds are that the 1982 lows will be broken, one thing is certain to us: The recovery will be swift, and the average price for that year (1984? 1985?) will not differ significantly from the preceding one.

If healthy of mind and body, we vow to revisit King Midas in the not-too-distant future.

**STRATEGY:** For investors, remain sidelined; the opportunity cost of money is still too high. For traders, sell strength, placing prudent stops and looking for the "shakeout."

Chart 3

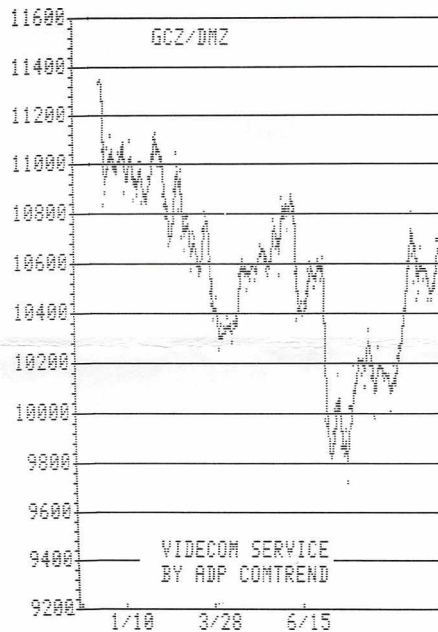
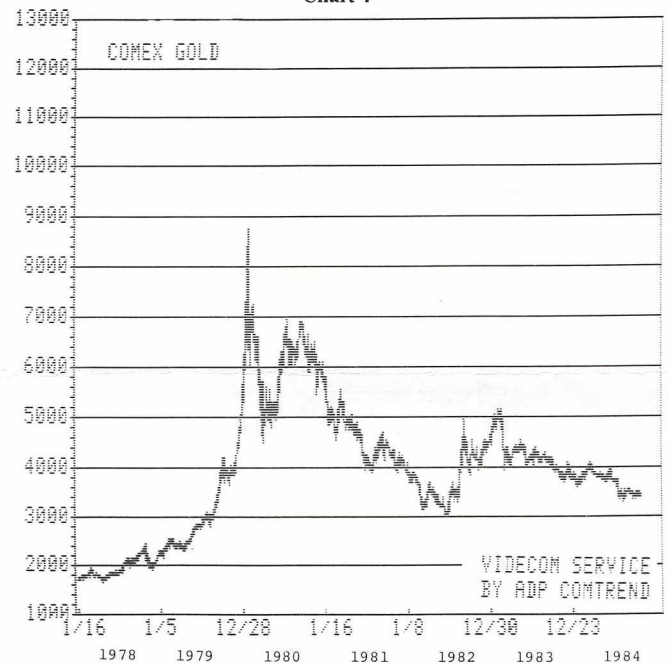


Chart 4



## Currencies

There is little to add except to reaffirm our intensely bullish outlook on the US dollar.

The trade deficit recorded last month for the US (well under \$10 billion) is par for the course and well below our danger level of \$16-\$17 billion for three months running. Contrary to earlier expectations, the Fed has not eased much, although for technical reasons, Fed funds have traded down to 10½%.

Heavy Bundesbank intervention, believed to have reached almost \$1 billion over three or more trading days, was significant only on day one, teaching flighty bulls a lesson in volatility. As the market adjusted to the initial shock, subsequent official dollar sales on the part of the Bundesbank were first shrugged off and then ridiculed as *having provided much needed liquidity to the big US dollar buyers*.

The Bundesbank is clearly wasting its valuable assets. The dollar will not weaken until the last nonbeliever has covered

— in the technical sense. Or, on a more fundamental basis, until private foreign capital is satiated (or saturated) with dollar assets or has become apprehensive about its safety or its profitable use. Neither of these conditions is as yet a reality, although the onset of the 1984-85 US recession will bring them closer to it.

**STRATEGY:** You have been kept current with our trading position in the currencies via the Hotline update, which we reproduce on the last page.

For those unable to call us, we advise retaining short positions in the Sterling as well as the Yen and Deutschemark, with stops at 126.00, 41.40, and 33.75, basis December '84, close only.

Remain short the weakly Canadian dollar, with stops at 76.25, basis December '84, close only. Talk in Ottawa is rife with of 65¢ dollar; a not improbable occurrence.

Chart 5

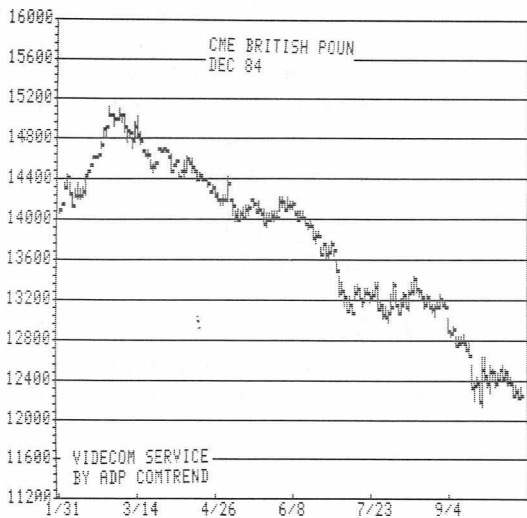


Chart 6

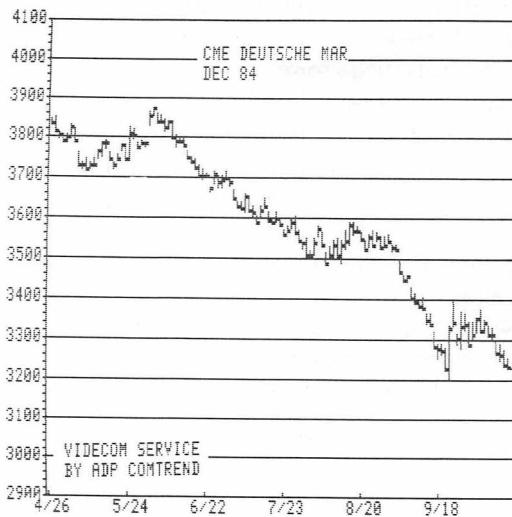


Chart 7

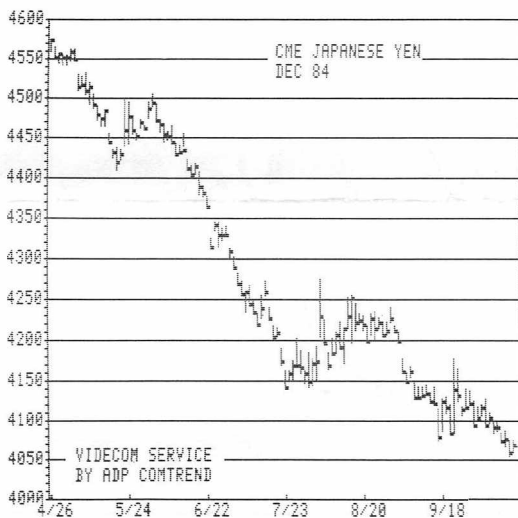


Chart 8

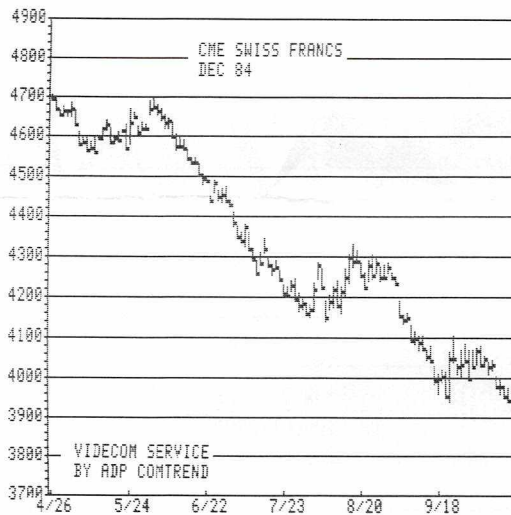


Chart 9

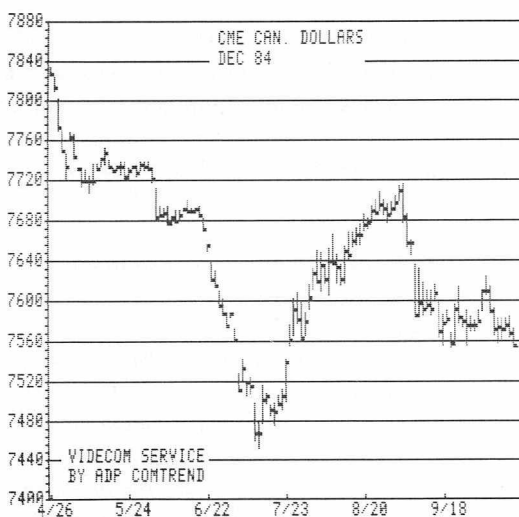
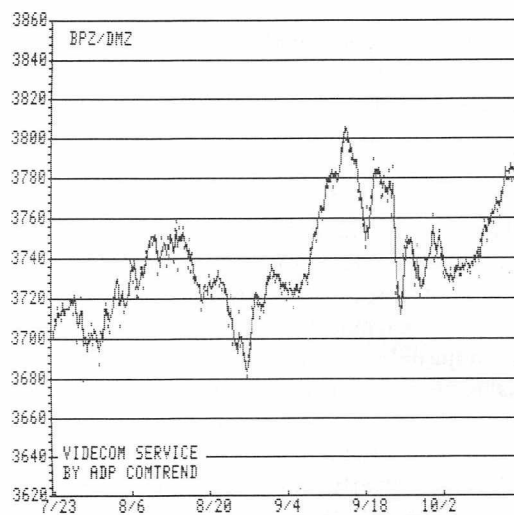


Chart 10



# Incredible rise of the dollar

*A well written and thought-provoking letter to the editor of The Financial Times of London has struck a responsive chord in our trading room, and we'd like to share it with you.*

*From Professor Ivor Pearce and Dr. S. H. Thomas*

Sir, — "Experts," writes Anthony Harris (September 20) "are baffled by... the incredible rise of the dollar." But not all experts are baffled just as those who are baffled are not all experts. The difficulty, we believe, lies in the fact that what is actually going on is very poorly documented, and scarcely ever thought about.

Few commentators remark on the extraordinary growth in foreign exchange transactions, which have multiplied themselves 25 times since 1970. Over the same period world trade and investment measured in U.S. dollars shows only a five-fold increase. It has been estimated that hardly 5 per cent of exchange transactions are today generated by trade and international investment.

The remaining 95 per cent are principally interbank transactions made necessary by the management of some \$3,000bn of international debt (including interbank debt) which, significantly, has multiplied itself 25 times since 1970.

There is, as Anthony Harris suspects, a world-wide shortage of dollars. If a bank borrows at three months and lends for 10 years it must, every three months, refinance its long term loan with new borrowing. Of course the original depositor might redeposit the dollars which have just been repaid to him but he might not be under any obligation to do so.

Indeed, if the depositor discovers, because of world-wide publicity, that his bank is lending to debtors likely to default, he will do all he can to get his money out and safely lodge it elsewhere. Nor will alternative depositors come forward.

Since the "crisis" of 1982 world banks participating in multi-currency international lending have been suffering from

just this problem. The demand for dollars to refinance doubtful bank lending is not like an ordinary demand. Banks have to have this money whatever the rate of interest and whatever the value of the dollar. They cannot decide not to pay this week because the price is too high. They have a contractual obligation to pay which they cannot escape.

Continental Illinois, which had to be assisted with a flow of dollars from semi-official sources at a rate by itself equal to the U.S. budget deficit, is simply one case that attracted attention.

It is possible to infer from published data that international banks taken together are currently having to find anything up to \$100bn per day just to meet their contractual obligations. Beside this, the U.S. budget deficit is insignificant.

Obviously a good proportion of the \$100bn can be covered by suitable operations in spot and forward markets based upon banks' own assets maturing, but part can not. Shortages have to be met by paying high rates of interest either on dollars or on other currencies which must then be used to buy dollars, thereby raising exchange rates.

As long as the banking system as a whole is suffering an overall mismatch in maturities of its assets and liabilities, together with a high proportion of suspected bad debts, just so long will it experience difficulty in refinancing. The dollar and the dollar interest rate will remain high. Those who believe that present problems will go away after the U.S. Presidential election are due for a disappointment.

Ivor Pearce

(Professor Emeritus).

S. H. Thomas.

*Department of Economics,*

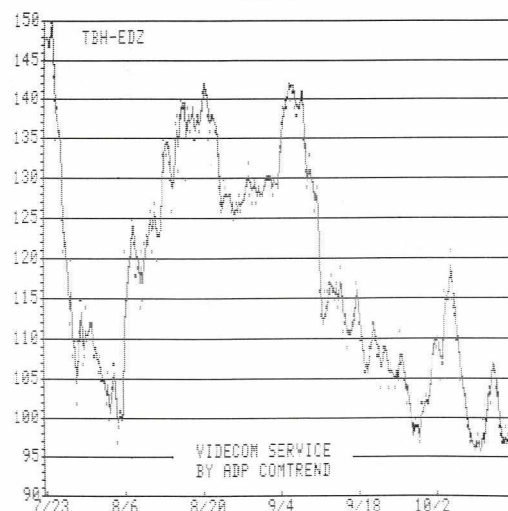
*The University, Southampton.*

*(Reprinted from The Financial Times of London.)*

## Interest Rate Futures

**STRATEGY:** Retain long March '85 T-bill/short Dec. '84 Eurodollar; now at 97 points, T-bill under. We expect the spread to widen to 150 points.

Chart 11



# Stock Index Futures

Weakness in the industrial and glamor sectors of the market was quickly reversed this week as volume failed to follow through on the downside and transports and utilities gave an exceedingly good account of themselves. Utilities, being interest-sensitive, are following the bond market on the upside, while transports may be sensing an important break in crude oil prices.

Strangely, and perhaps refuting this argument, the oil sector has moved to new recovery highs in contempt of weakening spot prices (see Energy Futures), or perhaps one could attribute the strength to Mesa Petroleum and its indomitable chairman who are, once again, on the loose; another major oil company may soon fall prey to his insatiable appetite. The

timing, to our mind, could not be worse.

Breadth continues weak (see Chart 13), and the new highs list has time and again failed to expand, with Friday's showing of only 51 the best yet in many weeks. The slow and thorough process of distribution (stock moving from strong to weak hands) augurs ominously for the stock market. When completed, it will produce a waterfall decline of extraordinary magnitude.

**STRATEGY:** *Remain short one half of original position, (one-half was stopped out) and place stops at 174.50, basis Dec. '84. Closes below 160.00, basis the cash S&P index, will cause us to reinstate full short positions.*

Chart 12

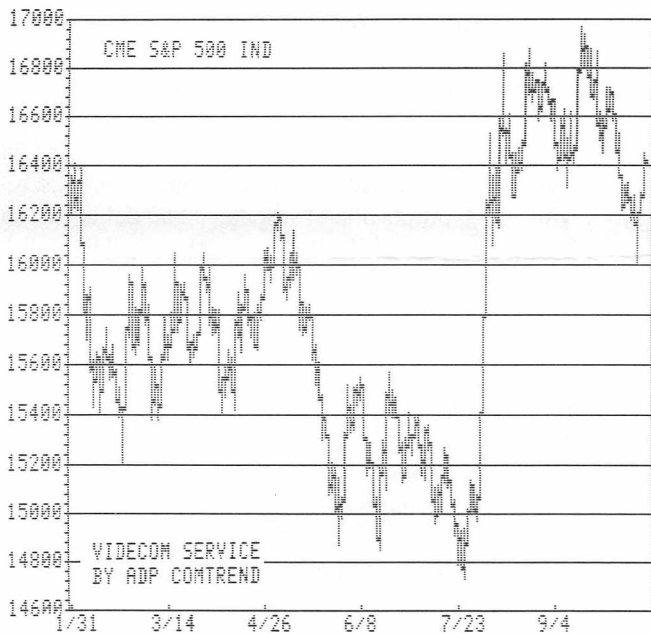
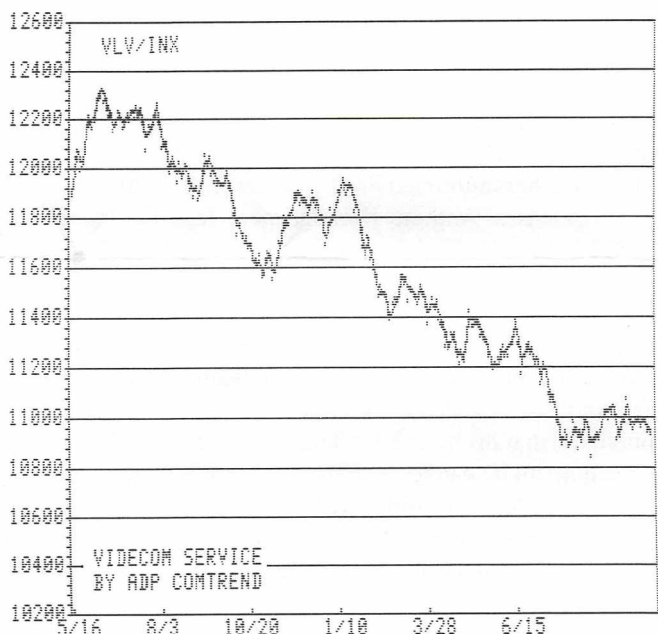


Chart 13



# Energy Futures

Two weeks into the fourth quarter of 1984, and the demand for Opec oil seems to be evaporating. As recently as Sept. 26, United Arab Emirates Oil Minister Mana Said Al-Oteiba stated that demand for Opec oil in the final quarter of the year would average 18.8-19 million barrels per day (mb/d). Major oil companies estimate Opec oil production at barely 17 mb/d, and free market prices are falling again. Hardly a sign of excess demand.

Rumors continue to circulate in the trade that Iran has sold 6 million barrels of oil to Japanese refineries, filling almost entirely their November requirements. If true, pressure would mount on UAE, unable to even come close to its 1.1

mb/d allocation. French oil sources have already indicated that UAE is considering a two-step price adjustment: a 50¢ cut in the official price and a \$1/barrel boost in marginal profits allowed to partner companies. Meanwhile, neighboring Qatar, with a cartel-organized quota of 250,000 b/d, is producing 450,000 b/d and offering as much as 250,000 b/d on the spot market at substantial discount from official prices. Even the Saudis are reported to have sold 1.5 million barrels of light crude at as low as \$28.06/barrel. North Sea Brent has been particularly weak, with deals being done at \$28.32/barrel, well down from the \$30 official quote.

At the November 6 meeting in Geneva, the Monitoring

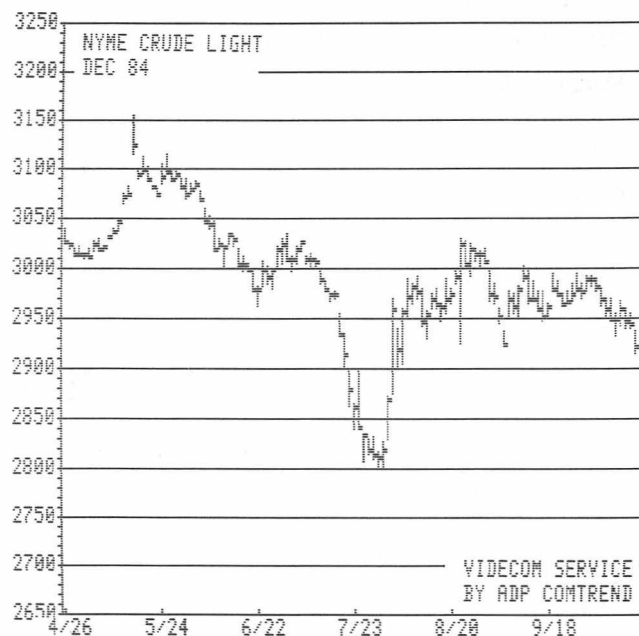
Committee will be facing a crucial question: Should they recommend a cut in Opec production to 15 mb/d or less, or should they attempt to weather the storm by mainly doing nothing and hoping that the problem goes away? Since, as we pointed out last month and as has come to light since, the Saudis are producing less than 4 mb/d, there is little or no room left for a Saudi solo cutback.

Opec's absolute inability to reduce quotas further without entirely losing the market share to the likes of Mexico, the UK, and the USSR, will in our opinion erode prices until spot discounts reach \$3-\$4/barrel. At that point, official price cuts will be announced by individual members and a process of leapfrogging will take oil down, first to \$20/barrel and later to as low as \$8/barrel.

The second leg of this momentous bear market has begun.

**STRATEGY:** Continue to sell January '85 and new deferred contracts of New York crude oil at market. Place stops at 30.40, basis nearby, close only.

Chart 14



## Exotica

### Friedberg offers you all the money in the world

Because we're always looking for ways to serve you just a little bit better, you'll notice that we've made a few changes in this issue. For example, you've told us that you're more interested in currencies than in grains and livestock. So beginning with this issue, we introduce an important new service, and we drop our grain/livestock coverage (we'll still trade them — we just won't write about them as often).

Building on our area of greatest expertise, we now offer trading in and regular reporting on several dozen *additional* currencies — that's over and above what we already trade for you on the International Monetary Market in Chicago. We call these the "exotics." And they represent virtually all the currencies of the interbank market — a vast, around-the-clock trading system with a volume many times larger than the IMM.

By way of introduction, here are some important facts about our new currency trading arrangements:

- **Minimum size:** Normally, transactions of \$1 million (US) and multiples thereof.
- **Margin Requirements** will vary between 5% and 10%.
- **Positions** will be brokered and cleared by E.F. Hutton in New York.
- **Contracts:** We have established "contract sizes" for each currency, often roughly US \$50,000. The expiry date can be any date you wish for up to 12 months, although typically, a speculator will simply ask for an unspecified date 3, 6, 9 or 12 months in the future. At expiry, an offsetting transaction in the cash market will be made.
- **Offsetting** futures transactions can be made any time, but both the original and offsetting positions will continue to be shown on account statements until expiry. However, no margin is required. Additionally, profits or losses on positions which have been offset before expiry will not be reflected in the credit balance until both positions become due.
- **Withdrawals.** Profits, if more than the credit balance in the account, cannot ordinarily be withdrawn early for either open positions or positions offset in advance. The credit balance, however, can be withdrawn if there are sufficient profits.
- **Commissions:** \$100 per contract, charged at maturity.
- **Execution of orders:** The interbank market is a dealer market, unlike the IMM, which is an auction market. Banks quote buying and selling rates and trade among each other.

Some of the most exotic currencies have few market makers in this time zone, and the best prices are sometimes obtainable in the middle of the night. Getting the best possible price is difficult and complicated at times. We have experience and expertise in this area.

- **Margin Calls.** If a currency position moves adversely, accounts will become undermargined and a margin call will result.
- **Some currencies you can trade** with Friedberg Mercantile Group:

Australian dollar

Mexican peso

New Zealand dollar  
 Indonesian rupa  
 Singapore dollar  
 Malaysian ringgit  
 All Western European currencies

Kuwaiti dinar  
 Saudi riyal  
 UAE dirham  
 Venezuelan bolivar  
 South African rand

If you have questions about currency trading, please call Danny Gordon, Gari Brick, or Rick Zauderer, 364-2700, Bill Burt, 864-1580, or Abe Goldreich, 864-9421. And each month, we'll keep you up to date with late-breaking news and recommendations on all the exotics. This month, we'll start with the currencies of Saudi Arabia, Kuwait, Malaysia, and South Africa.

## Saudi Arabia – riyal

### Exchange Rate Adjusted by Relative CPI's

YEAR	RIYAL'S PFR U.S. DOLLAR (end of period)	U.S.		JAPAN		U.S.		JAPAN	
		1978=1.00	1978=1.00	1969/1970	1969/1970	1967/1968	1967/1968		
				=1.00	=1.00	=1.00	=1.00		
1967	4,5000	2,1812	0,9124	0,9314	0,9033	0,9877	0,9763		
1968	4,5000	2,2458	0,9567	0,9586	0,9872	1,0123	1,0237		
1969	4,5000	2,2857	0,9726	0,9716	0,9630	1,0303	1,0408		
1970	4,5000	2,4193	1,0473	1,0284	1,0370	1,0905	1,1207		
1971	4,1500	2,2272	1,1154	0,9467	1,1043	1,0039	1,1935		
1972	4,1500	2,2041	1,1616	0,9369	1,1502	0,9935	1,2430		
1973	3,5500	1,7168	1,0277	0,7298	1,0175	0,7739	1,0987		
1974	3,5500	1,5691	0,9800	0,6670	0,9703	0,7073	1,0487		
1975	3,5300	1,2674	0,7994	0,5388	0,7915	0,5713	0,8554		
1976	3,5300	1,0183	0,6915	0,4329	0,6847	0,4590	0,7400		
1977	3,5050	0,9672	0,8128	0,4111	0,8088	0,4360	0,8697		
1978	3,3150	1,0000	1,0000	0,4251	0,9901	0,4508	1,0701		
1979	3,3650	1,1092	0,8385	0,4715	0,8303	0,5060	0,8973		
1980	3,3250	1,1993	1,0185	0,5098	1,0085	0,5406	1,0899		
1981	3,4150	1,3241	0,9864	0,5629	0,9766	0,5969	1,0555		
1982	3,4350	1,3077	0,9431	0,5941	0,9338	0,6300	1,0092		
1983	3,0950	1,0541	0,9788	0,6182	0,9652	0,6555	1,0474		
1984 (1Q)	3,5150	1,5187	1,0441	0,6456	1,0358	0,6846	1,1172		
1984 (2Q)	3,5050								

Above 1.00 = undervalued;  
 Under 1.00 = overvalued.

#### Hard Currency Cover

(in millions of US dollars)

Reserves\* + previous 12-month current account\*\*\* = \$6,116

(Reserves + 12 month C/A) / M1\*\* = \$6,116 / \$25,027 = 24.43%

(Reserves + 12 month C/A) / broad money\*\*  
 = \$6,116 / \$36,870 = 16.58%

\*As at July 84.    \*\*Dec. 31st, 1983    \*\*\*Jan.-Dec. 1983

	Period	Relative to	
		U.S.	Japan
M1 growth	1973-1983	903%	826%
Broad money growth	1973-1983	781%	706%
Nominal currency Appreciation (depreciation)	1973-1983	7.29%	(16.07%)

(A) 1983 imports as percentage of GNP	=	30.2%
(B) 1974-1983 imports as percentage of GNP	=	24.4%
1973 / (1974-1983 average)	= A / B	= 123.77%

Charts based on IFS data.

Year	Foreign Assets (Mln US\$)	Current Account	Cumulative 12 Qtr.
		As % of GNP	Current Account
		%	(Mln US\$)
1970	957	2.30	-107
1971	1,627	25.30	957
1972	3,158	42.00	3,129
1973	4,867	31.00	5,581
1974	22,230	78.80	27,634
1975	39,330	40.40	39,930
1976	52,250	30.60	51,770
1977	61,050	20.30	40,736
1978	60,100	-3.30	24,139
1979	64,900	14.60	20,946
1980	94,330	34.90	49,996
1981	143,130	24.30	90,558
1982	157,330	-0.07	78,291
1983	150,620	-16.60	18,817

Rates	Spot				
	1-month	3-month	6-month	12-month	
3.5620—	3.5645—	3.5630—	3.5595—	3.5580—	
3.5630	3.5680	3.5715	3.5730	3.5750	

**Outlook & recommendation:** Purchasing power parity comparisons are likely to understate the true degree of the riyal's overvaluation, as a great number of products are and have been subsidized and a number of other items such as real estate prices have not been given the proper weight. Terms of trade aside, the current account is showing signs of strain, which is likely to be aggravated if and when oil prices fall.

The continuous misalignment of the riyal vis-à-vis the DM & JY almost guarantee a profit on short sales, provided the dollar remains firm as we fully expect. Selling forward riyal is a gift from heaven, as forward quotes contain almost no discounts.

# Kuwait – dinar

## Exchange Rate Adjusted by Relative CPI's

	DINAR PER U.S. DOLLAR	U.S.	JAPAN	U.S.	JAPAN
	(end of period)	1972=1.00	1972=1.00	1977=1.00	1977=1.00
1967	0.3571				
1968	0.3571				
1969	0.3571				
1970	0.3571				
1971	0.3289				
1972	0.3278	1.0000	1.0000	1.2393	0.7772
1973	0.2967	0.8861	1.0064	1.0981	0.7822
1974	0.2896	0.8504	1.0078	1.0539	0.7833
1975	0.2942	0.8698	1.0409	1.0779	0.8090
1976	0.2870	0.8537	1.1000	1.0579	0.8550
1977	0.2801	0.8069	1.2866	1.0000	1.0000
1978	0.2718	0.7751	1.4708	0.9606	1.1431
1979	0.2731	0.8099	1.1617	1.0037	0.9029
1980	0.2713	0.8538	1.3758	1.0581	1.0693
1981	0.2814	0.9104	1.2868	1.1282	1.0001
1982	0.2887	0.9196	1.1773	1.1396	0.9150
1983	0.2926	0.9185	1.1730	1.1382	0.9117
1984 (1Q)	0.2926	0.9358	1.2207	1.1597	0.9488
1984 (2Q)	0.2943	0.9375	1.1564	1.1617	0.8988

Above 1.00 = undervalued; Under 1.00 = overvalued.

### Hard Currency Cover

(in millions of US dollars)

Reserves\* + previous 12-month current account\*\*\* = \$9,880

(Reserves + 12 month C/A) / M1\*\* = \$9,880 / \$3,780 = 264.87%

(Reserves + 12 month C/A) / broad money\*\*  
= \$9,880 / \$14,488 = 68.19%

\*As at July 1984. \*\*March 31st, 1984 \*\*\*Jan.-Dec. 1983

	Period	Relative to	
		U.S.	Japan
M1 growth	1973-1Q1984	370%	330%
Broad money growth	1973-1Q1984	333%	304%
Nominal currency Appreciation (depreciation)	1973-1Q1984	1.25%	(22.87%)

(A) 1983 imports as percentage of GDP = 32.73%

(B) 1975-1983 imports as percentage of GDP = 27.84%

1983 / (1975-1983 average) = (A / B) = 117.56%

YEAR	FOREIGN ASSETS (Mln US\$)	CURRENT ACCOUNT AS % OF GDP %	CUMULATIVE 12 QTR CURRENT ACCOUNT (Mln US\$)
1970	1,110		
1971	1,424		
1972	1,615		
1973	1,656		
1974	2,807		
1975	3,154	49.29	
1976	3,128	52.75	
1977	3,372	32.25	17,414
1978	4,866	39.55	17,616
1979	5,191	58.08	24,719
1980	6,744	55.43	35,433
1981	7,625	56.68	42,376
1982	8,468	23.20	33,590
1983	7,820	21.48	22,902
1984 1Q	7,742		
1984 2Q	7,080		

	Spot	1-month	3-month	6-month	12-month
Rates	.30070— .30100	.30040— .30100	.29950— .30080	.29850— .30080	.29600— .29940

Charts based on IFS data.

**Outlook & recommendation:** Although some of the comments applicable to Saudi Arabia are also applicable to Kuwait, it is probably true that Kuwait is in a relatively stronger financial position as evidenced by the above statistics; for example, substantially smaller increases in money supply, persistent current account surpluses albeit at diminishing rates. The riyal remains a better sale than the dinar. Still, 6- or 12-month forward sales are enticing, as they can be made at a slight premium.

# Malaysia ringitt

## Exchange Rate Adjusted by Relative CPI's

YEAR	RINGGIT PER U.S. DOLLAR (end of period)		JAPAN		U.S.		JAPAN	
	1970=1.00	1970=1.00	1970=1.00	1973=1.00	1973=1.00	1973=1.00	1978=1.00	1978=1.00
1967	3.0563	0.8647	0.8317	1.0997	0.7609	1.1511	0.4793	
1968	3.0650	0.9052	0.8907	1.1512	0.8192	1.2050	0.5123	
1969	3.0750	0.9611	0.9447	1.2223	0.8689	1.2794	0.5444	
1970	3.0775	1.0000	1.0000	1.2718	0.9198	1.3312	0.5763	
1971	2.8840	0.9622	1.1131	1.2227	1.0229	1.2810	0.6015	
1972	2.8170	0.9406	1.1451	1.1962	1.0532	1.2521	0.6599	
1973	2.4520	0.7863	1.0872	1.0000	1.0000	1.0468	0.6266	
1974	2.3128	0.7007	1.0109	0.8911	0.9299	0.9328	0.5826	
1975	2.5883	0.8200	1.1947	1.0029	1.0989	1.0916	0.6885	
1976	2.5350	0.8282	1.2992	1.0522	1.1949	1.1025	0.7087	
1977	2.3655	0.7859	1.5255	0.9995	1.4031	1.0462	0.8791	
1978	2.2060	0.7512	1.7352	0.9553	1.5960	1.0000	1.0000	
1979	2.1890	0.8008	1.2985	1.0185	1.2863	1.0661	0.8059	
1980	2.2224	0.8647	1.6964	1.0997	1.5603	1.1512	0.9776	
1981	2.2425	0.8780	1.5109	1.1167	1.3897	1.1689	0.8707	
1982	2.3213	0.9110	1.4199	1.1586	1.3060	1.2128	0.8183	
1983	2.3383	0.9136	1.4204	1.1619	1.3065	1.2162	0.8184	
1984 (1Q)	2.2935	0.8846	1.4047	1.1250	1.2921	1.1776	0.8096	
1984 (2Q)	2.3195							

Above 1.00 = undervalued; Under 1.00 = overvalued.

### Hard Currency Cover (in millions of US dollars)

Reserves\* + previous 12-month current account\*\*\* = \$1,709  
 (Reserves + 12 month C/A) / M1\*\* = \$1,709 / \$5,855 = 29.18%  
 (Reserves + 12 month C/A) / broad money\*\* = \$1,709 / \$18,395 = 9.29%

\*As at June 1984. \*\*March 31st, 1984 \*\*\*Jan.-Dec. 1983

Period	Relative to	
	U.S.	Japan
M1 growth 1973-1Q1984	202%	180%
Broad money growth 1973-1Q1984	229%	210%
Nominal currency 1973-1Q1984		
Appreciation (depreciation)	6.91%	(10.27%)

(A) 1983 imports as percentage of GNP	=	48.71%
(B) 1974-1983 imports as percentage of GNP	=	44.12%
1983 / (1974-1983 average)	= (A / B)	= 109.18%

Charts based on IFS data.

YEAR	FOREIGN ASSETS (Mln US\$)	CURRENT ACCOUNT AS % of GNP		CUMULATIVE 12 QTR. CURRENT ACCOUNT (Mln US\$)
		%	%	
1970	2,101	+0.02		279
1971	2,296	-2.61		139
1972	2,760	-5.05		-348
1973	3,078	+1.42		-251
1974	3,462	-5.97		-686
1975	3,745	-5.49		-932
1976	5,723	+5.46		-447
1977	6,290	+3.45		522
1978	6,678	+0.07		1,124
1979	9,114	+4.71		1,473
1980	9,357	-1.23		762
1981	7,701	-10.37		-1,801
1982	7,651	-14.54		-6,158
1983	7,128	-10.34		-8,720
1984 1Q	6,121			
1984 2Q				

	Spot	1-month	3-month	6-month	12-month
Rates	2.3900—	2.3800—	2.3800—	2.3800—	2.3800—
	2.4000	2.4400	2.4700	2.5100	2.5400

**Outlook & recommendation:** In recent years the gnawing current account deficit has only partly been compensated by favorable capital flows. Recent disclosures of malpractice and corruption in the country's banking system is intensifying a recent flight of short-term capital. While not extremely overvalued in real terms, we feel there is a good potential for a 15%-20% devaluation in the coming months, especially in view of the weakening trend in the price of its main exports.

Forwards should be treated with caution in view of the thinness of the market and the steepening of the discounts.

# South Africa — rand

## Exchange Rate Adjusted by Relative CPI's

YEAR	U.S. DOLLAR PER RAND (end of period)	U.S.		JAPAN	
		1968=1.00	1977=1.00	1968=1.00	1977=1.00
1967	1.4018	0.9715	0.9495	0.9557	0.4736
1968	1.3858	1.0000	1.0000	0.9838	0.4987
1969	1.3988	1.0149	1.0137	0.9984	0.5056
1970	1.3943	1.0335	1.0502	1.0167	0.5238
1971	1.3068	1.0899	1.2813	1.0722	0.6390
1972	1.2773	1.0835	1.3405	1.0660	0.6685
1973	1.4900	0.9001	1.2648	0.8855	0.6308
1974	1.4501	0.9180	1.3459	0.9031	0.6712
1975	1.1500	1.1155	1.6515	1.0974	0.8236
1976	1.1500	1.0612	1.6918	1.0440	0.8437
1977	1.1500	1.0165	2.0051	1.0000	1.0000
1978	1.1500	0.9925	2.3298	0.9764	1.1619
1979	1.2094	0.9280	1.6467	0.9129	0.8213
1980	1.3402	0.8355	1.6656	0.8219	0.8307
1981	1.0454	1.0265	1.7950	1.0098	0.8952
1982	0.9314	1.0657	1.6879	1.0484	0.8418
1983	0.8185	1.1145	1.7609	1.0964	0.8782
1984 (1Q)	0.8093	1.0902	1.7594	1.0725	0.8774
1984 (2Q)	0.7380	1.1661	1.7795	1.1471	0.8875

Above 1.00 = undervalued; Under 1.00 = overvalued.

### Hard Currency Cover

(in millions of US dollars)

Reserves\* + previous 12-month current account\*\*\* = \$3,656

(Reserves + 12 month C/A) / M1\*\* = \$3,656 / \$14,890 = 24.53%

(Reserves + 12 month C/A) / broad money\*\*  
= \$3,656 / \$27,543 = 13.27%

\*As at July 1984. \*\*March 31st, 1984 \*\*\*Jan.-Dec. 1983

	Period	Relative to	
		U.S.	Japan
M1 growth	1973-1Q1984	306%	272%
Broad money growth	1973-1Q1984	186%	170%
Nominal currency Appreciation (depreciation)	1973-1Q1984	(49.53%)	(43.61%)

(A) 1983 imports as percentage of GNP	=	18.90%
(B) 1974-1983 imports as percentage of GNP	=	23.31%
1983 / (1974-1983 average)	= (A / B)	= 81.00%

YEAR	FOREIGN ASSETS (Mln US\$)	CURRENT ACCOUNT	CUMULATIVE 12 QTR
		AS % OF GNP	CURRENT ACCOUNT
1970	917	-7.65	-1,545
1971	554	-7.70	-3,090
1972	1,158	-0.60	-2,816
1973	1,199	-0.30	-1,685
1974	945	-4.19	-1,662
1975	287	-6.65	-4,107
1976	-700	-5.55	-5,897
1977	-655	1.43	-3,906
1978	1,549	3.51	190
1979	4,758	6.34	5,479
1980	7,475	4.65	8,450
1981	2,302	-5.76	2,541
1982	1,640	-4.41	-3,933
1983	911	-0.42	-7,119
1984 1Q	469		

	Spot	1-month	3-month	6-month	12-month
Rates	3.5620—	3.5645—	3.5630—	3.5595—	3.5580—
	3.5630	3.5680	3.5715	3.5730	3.5750

**Outlook & recommendation:** Looking undervalued at least on a purchasing power basis. Very tight monetary policy has caused interest rates to skyrocket and forwards to move to a sizable discount. Likely to follow the course of gold prices in the near term but could become a good recovery candidate in the medium term.

## Hotline Update

**September 21:** Despite today's sharp reactions, the US dollar is bound to make new highs in weeks and months ahead and reach much higher levels. However, to protect against adverse intermediate moves, we favor (as you know) playing the market with relatively tight stops. We now review and update the September 16 market letter with regards to currency positions and stops.

1. The December Japanese yen crossed its 10-day moving average and completed a weekly upside reversal today. Therefore, you should be stopped out of this position profitably.
2. Lower stops in the December Deutschemarks short position to 33.96, close only.
3. Lower stops in the December British pound short positions to 127.80, close only.

**September 26:** We are revising downwards our buy-stops on the short currency positions:

1. For the December Deutschemark, lower buy stops to 33.49, close only.
2. For the December British pound, lower buy stops to 127.30, close only.
3. For the December Canadian dollar, lower buy stops to 76.25, close only.
4. Please note that you have covered the yen position and have switched it to December British pound.

**October 1:** We are revising once again our stops in the short currency positions:

1. For the December Deutschemark, maintain buy stops at 33.49, close only.
  2. For the December British pound, lower buy stops to 126.50, close only.
  3. For the December Canadian dollar, maintain buy stops 76.25, close only.
- Please note that we are not adhering solely to the 10-day moving average rule as suggested in our market letter and previous updates, as we feel that other technical factors have taken priority.

**October 5:** At this time, our principal speculative short currency position is in the British pound. Please note that we have been stopped out of the Deutschemark and Japanese yen.

We want to reinstate short positions in the Deutschemark and Japanese yen, but we emphasize that these are for commercial hedgers.

Speculators should continue to favor the short side of the British pound.

1. For the December British pound, maintain buy stops at 126.50, close only.
2. For the December Canadian dollar, maintain buy stops at 76.25, close only.
3. For hedgers, as suggested earlier, we recommend selling December Deutschemark and December Japanese yen at the market with protective stops at 33.75 and 41.40 respectively, close only.

For those who have maintained their half position in the S&P and who have rolled over to December, place buy stops at 174.50, close only.

**October 10:** The updates on our stops in currency short positions are as follows:

1. For the December British pound, lower stops to 126.00, close only.
2. For the December Canadian dollar, maintain stops at 76.25, close only.
3. For the hedgers, maintain stops at 33.75 and 41.40 for December Deutschemark and December Japanese yen, close only.

Friedberg's Commodity & Currency Comments (ISSN 0229-4559) is published monthly by Friedberg Commodity Management Inc., 347 Bay Street, Toronto, Ontario, M5H 2R7. Contents copyright © 1984 by Friedberg Commodity Management Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited. Brief extracts may be made with due acknowledgement.

**Subscription Enquiries**  
Friedberg's Commodity & Currency Comments  
347 Bay Street  
2nd Floor  
Toronto, Ontario, Canada  
M5H 2R7  
(416) 364-1171

**Trading Accounts**  
All enquiries concerning trading accounts should be directed to Friedberg Mercantile Group  
347 Bay Street  
Toronto, Ontario M5H 2R7  
(416) 364-2700  
Cable: Friedco Toronto. Telex: 06-23446.

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