FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc. Volume 5, No. 11 November 11, 1984

Why Opec does not have a chance

Chart 1

It is facing a sharp drop in demand.

It is unable to coordinate a substantial cut in output.

Its swing producer, Saudi Arabia, has neither room nor willingness left to cut below the August/October output rate.

Opec estimates that average demand for its crude oil in November/December '84 could run as high as 18.5-19.0 million barrels per day (mb/d), up from 16.5-17.2 mb/d levels in the August/October period. These projections imply a shortfall of close to 3 mb/d for the last two months of the year — assuming strict adherence to the new quotas. Strangely enough, the International Energy Agency (IEA), a 21-member Paris-based *consumer* organization, agrees with these numbers, postulating a seasonal increase in demand for the fourth quarter of as much as 2-2.5 mb/d.

As reported in the press, the IEA believes that the oil stock rundown will strengthen the market and bolster Opec's price structure in the near term. In view of the fact that the July/September '84 period saw a total destocking process of about 200,000 b/d, we ask what purpose is served by the IEA in talking up the market and possibly reversing stocking activity? Unless, of course, one understands that the IEA's raison d'être is predicated upon a continuing "oil crisis."

We take strong issue with these fourth quarter forecasts of 18.5-19.0 mb/d demand for Opec crude and believe that 16.0-16.5 mb/d level may be a far more reasonable outcome. We rely principally on a quarter-to-quarter, year-over-year comparison and on indications that growth of consumption in the US has turned negative. Whereas demand for Opec crude in the first quarter of 1984 was as much as 2.5 mb/d higher than last year's first quarter, these gains narrowed to 1.4 mb/d in the second quarter *and turned negative to the tune of 2.5 mb/d* in the third quarter. In our opinion two factors have influenced this behavior: 1) the substantial economic slowdown experienced in the US and the UK towards the third quarter of the year; 2) the extraordinary rise in the price of oil denominated in all non-dollar currencies. The cutting effects of income and price elasticities are still observable in the fourth quarter and may even have become more pronounced, leading us to believe that fourth quarter demand for Opec crude may fall short of last year's 18.9 mb/d by at least 2.5 mb/d.

Which brings us back to the agreed-upon quota reductions and the grand total of 16.0 mb/d. Adding up the known cheaters (Ecuador, Qatar, Iran, and Nigeria) and dismissing Saudi Arabia's offer of accepting an additional cut of 150,000 b/d to make up for Nigeria's overproduction, it is difficult to see Opec output falling below 16.5 mb/d. Since the first quarter of the year is traditionally the slowest period of consumption, Opec members may begin to wonder how long they will hold out. More importantly, oil traders, seeing weaknesses, may begin to anticipate it by drawing down stocks further, cutting November/December demand even more.

It should be remembered that the 1983 Opec crisis that saw a $5/barrel reduction in prices and a production ceiling

In this issue

A deep and painful bear move is in the cards for the stock market, but not before another rally. We go short Sterling and the Deutschemark again. Good news on the "whammy." We look at four more exotics in our continuing series. Contributions by Albert D. Friedberg and Daniel A. Gordon.

New Friedberg company to seek TSE listing

Tanglewood Consolidated Resources Inc. announced November 5 that it has entered into an agreement with Friedberg Mercantile Group of Toronto and interests associated with Albert D. Friedberg. The name of the corporation will be changed to FCMI Financial Corporation, which will apply to have its shares listed on The Toronto Stock Exchange's industrial list. Tanglewood's present resource exploration and development business will be phased out with the assistance of present management.

Under the agreement, Tanglewood will purchase from the Friedberg interests four apartment buildings in Metropolitan Toronto, and the commodity management and advisory business carried on by Friedberg Commodity Management Inc. ("FCMI"), valued collectively at about $6 million. FCMI publishes *Friedberg's Commodity & Currency Comments* and manages funds in several public commodity pools in the United States. *The commodity futures brokerage business of Friedberg Mercantile Group is not included in this transaction.*

Tanglewood will issue about 52 million shares in purchase of the assets, which together with approximately 2.5 million shares outstanding and about 1.3 million shares to be issued for cash at closing, will bring the total shares of Tanglewood to be outstanding to about 56 million common shares. If the transaction is completed, the Friedberg interests and associates will control about 95% of outstanding Tanglewood shares.

Albert D. Friedberg will become president and chairman of the company. It is intended that the present board of Tanglewood will resign and be replaced by nominees of the Friedberg interests. The Friedberg interests are committed to make certain additional amounts available to the corporation should they be required to finance its future operations.

The transaction will be subject to approval at a general meeting of the shareholders of Tanglewood scheduled to be held in December 1984 and to receipt of all necessary regulatory approvals.

of 17.5 mb/d took place at the very end of the first quarter. As a result, seasonal strength came to the rescue of the cartel. Furthermore, unlike the fourth quarter of 1984, the worldwide economic recovery was just blooming, adding further impetus to the increases in consumption.

Saudi Arabia's agreed quota reduction to 4.2-4.4 mb/d leaves it essentially unchanged from actual production levels in August through October. Nevertheless, the Saudis are reportedly *producing* more oil than their new quota and storing it in wait for better prices. In recent days, shipping sources have indicated that Norbec, the Saudi state trading arm, has chartered 10 vessels that would lift nearly two million tons of crude oil over November, in addition to nearly one million tons lifted in the first week of the month. The resulting "artificial" shortage has helped the marker Arab light trade up to $28.40/bbl. this past week, although lights of other origins are being offered at much more substantial discounts and are unlikely to give the Saudis the opportunity to claim victory.

The very fact that the Saudis are continuing to produce at a higher rate than the agreed-upon allocations (although temporarily withholding supplies from the market) makes us believe that they are both unable and unwilling to go below 4.0 mb/d for any reasonable period of time, a speculation already offered in our previous comments (see the September *Comments*.)

It is of more than passing interest to note that the West Texas Intermediate crude, America's most heavily traded oil and the principal deliverable material on the New York Mercantile Exchange's crude oil contract, is currently trading at no more than a 60¢/barrel premium to the Saudi light compared with a $3/barrel premium in August 1983. For one thing, the unmanipulated price shows a great deal more weakness than the near-mythological and emotionally charged marker. For another, it is tipping us off to the weakening state of the US market, until now the main contributor to worldwide growth in consumption of refined products.

The Saudis probably have one more tactical move left before a free-for-all destroys the cartel: Accept almost immediately a new price cut, perhaps to $25/barrel, and adjust quotas downwards to an average of 15 mb/d. This strategic concession *may* be successful in at least deferring the moment of truth for a few more months. It may, however, be too hard to sell to the rest of the membership. As a result, market pressure will disorganize the cartel and with discounts of $4-5/barrel, we will begin to see widespread cheating. Eventually, prices will slide to find a natural equilibrium.

The question has been repeatedly asked of us: If present production levels are not excessively out of line with demand levels, and free market prices are only showing discounts of

Chart 2

OPEC's agreed quota reductions, with total previous output for the 13 OPEC nations are as follows:

Algeria	63,000	725,000
Ecuador	17,000	200,000
Gabon	13,000	150,000
Indonesia	111,000	1,300,000
Iran	100,000	2,400,000
Iraq	Nil	1,200,000
Kuwait	150,000	1,050,000
Libya	110,000	1,100,000
Nigeria	Nil	1,300,000
Qatar	20,000	300,000
UAE	150,000	1,100,000
Venezuela	120,000	1,675,000

Saudi Arabia, whose effective maximum output is five Mln BPD, will take the 647,000 bpd balance of the agreed 1.5 mln BPD cut.

up to $3/barrel, why should we forecast eventual prices of under $10/barrel? The answer is that producers will *step up their production* as prices recede in order to maintain revenues unchanged. Therefore, our forecast of $10/barrel and lower is not based on Opec's producing 16 or 17 mb/d; rather, they are likely to be producing close to full capacity: 32-36 mb/d.

There are few speculations as attractive as selling crude oil short: Risks are practically nil (a just-in-case stop of 30.00, basis January '85), and rewards are staggering.

STRATEGY: *Add to present short positions with impunity, particularly February through April '85 NY crude oil.*

Stock Index Futures

While sentiment and participation indicators and fundamental factors point to a full-blown bear market ahead, chart and monetary considerations tell us that yet another rally, perhaps of significance, is in store.

Let's review the evidence. In the sentiment area, the consensus of market advisers gathered by *Investors Intelligence* shows an unusually high 54.4% as bullish and only 22.8% bearish. As well, the put/call ratio of listed stock options points to an overly relaxed bullish mood. What dims this conclusion a little is the fact that odd-lotters are shorting stocks at a fair clip (reaching a high 5,245 shares on Thursday, November 8). Specialists and other members have not been loading up on the short side, at least up to the end of October. Since, as good contrarians, we believe that too many bulls are bearish and vice versa, we must admit that sentiment indicators, which generally have a good lead time (4-8 weeks?) and an almost perfect score, are telling us that a *top*, at least in terms of time, *is near, although not immediate*.

Participating indicators are extremely negative. They measure the overall market action rather than the weighted and leading indices. They also measure the activity of the more speculative sector of the market, for example, the American Stock Exchange. As we have been pointing out continuously for the past few months, the list of new highs refuses to expand regardless of how close the popular indices come to the old highs. On a 10-day moving average, they peaked out around 68 issues and now stand in the 50s, mainly attributable to still-growing merger and leveraged buyout activity.

Fast market declines, on the other hand, fail to reduce the list by any significant margin, while *new lows* fail to expand beyond 10-13 issues, a strange holding action. The NYSE advance-decline line remains in a very narrow range but still well below its own *May levels* when both the Dow Jones Industrial Index and the S&P 500 were at least 5% lower than they are at present. Even more ominous is the total rout of the American Stock Exchange advance-decline line, now making new two-year lows, and the virtual collapse of the Value Line Index premium over its more senior S&P 500 counterpart (see Chart 3). *A very similar* type of action preceded the 1973-1974 bear market and is symptomatic of a flight to quality when economic visibility turns turbulent. Our guess is that these indicators also point to serious deterioration, although the small and very slim NYSE advance-decline line advance and the standoffish new high/new low list may be compatible with some more upside progress in the market in the next few weeks.

Chart considerations are of two kinds. The main indices are well above long-term moving averages and more importantly have spent *too much time* under a nearly perfect resistance level (see Charts 4 and 5). This rather unusual formation tends to influence negatively the majority of market traders, who at the predetermined level (i.e., 1245 on the Dow Industrials) initiate selling programs. Again, as contrarians, we would have to concede that the "top" is too obvious and a penetration of these levels becomes almost a prerequisite for final distribution. It is also noteworthy that the main indices have recorded multiple upside weekly reversals in the past two months and *not a single downside weekly reversal* (though they came quite close last week). Here again, the evidence points to higher levels, at least in the short term, and an eventual reversal.

Finally, monetary factors point to some substantial easing in weeks ahead as both the base and M_1 have shown virtual stagnation for the past four to five months. If so, the Fed's action should influence stock prices favorably, at least until the easing process is out of the way.

The main long-term negative on the stock market is the extremely poor outlook for corporate profits and the extraordinary and growing financial vulnerability of industrial and financial firms. In previous issues, we dealt at length with this matter and therefore omit further discussion except to say that these fundamental considerations are, and continue to be, extremely serious, especially now that a fourth quarter of 1984 (yes, 1984) recession is a virtual certainty, and may last well into 1986.

In short, an upside penetration of the past trading range seems to be in store, although the advance may be short in duration.

STRATEGY: *Short positions should have been covered (as per Hotline update). A good-sized rally may be in the offing.* ***Investors*** *would be very well advised to use any rallies to lighten up on all positions.* ***The eventual bear move will be extremely deep and painful.***

Chart 3

Chart 4

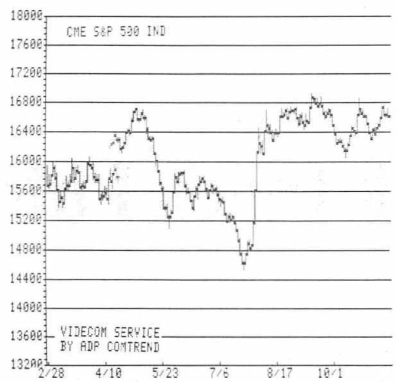


Chart 5

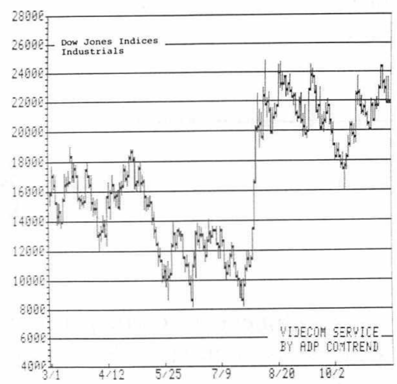
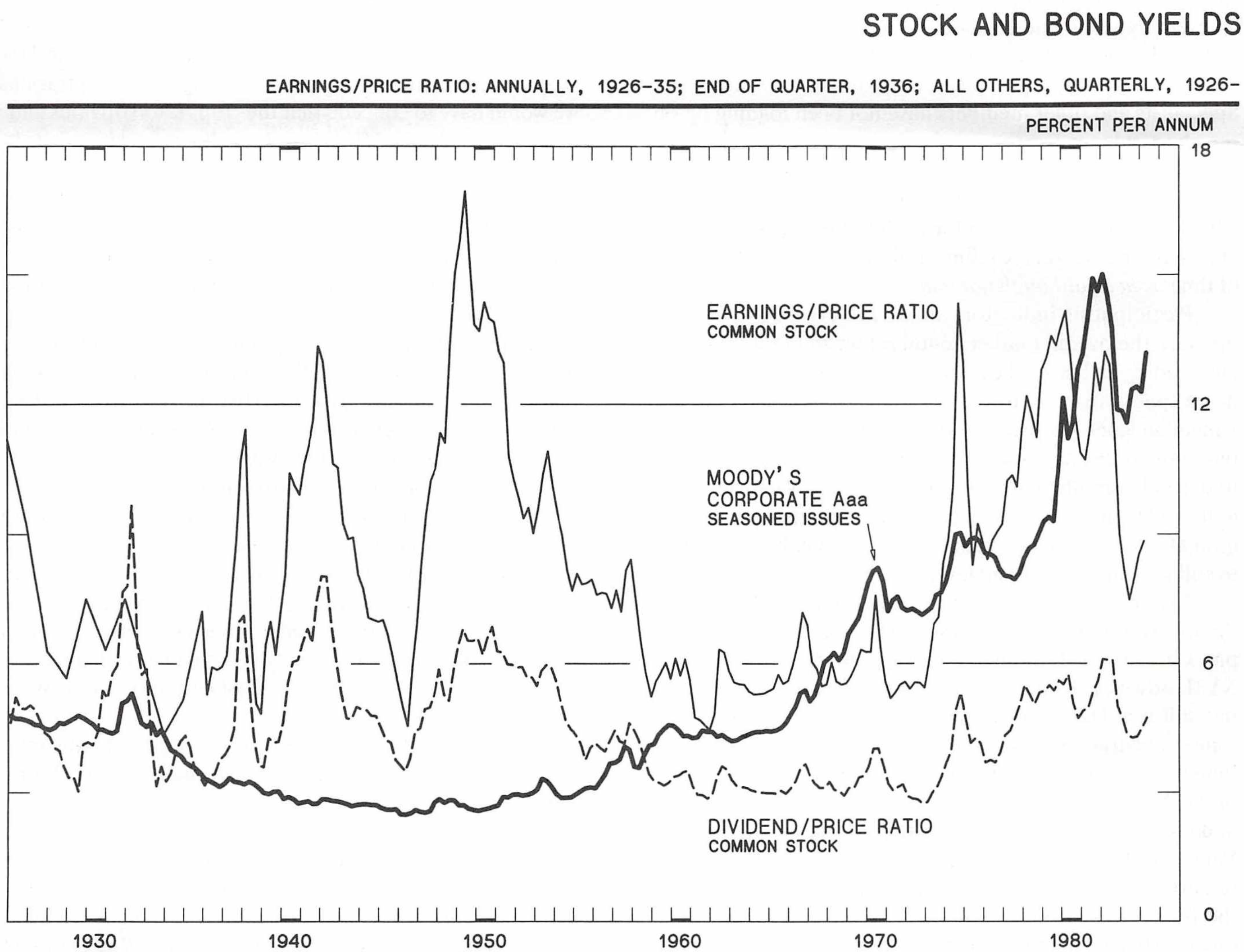
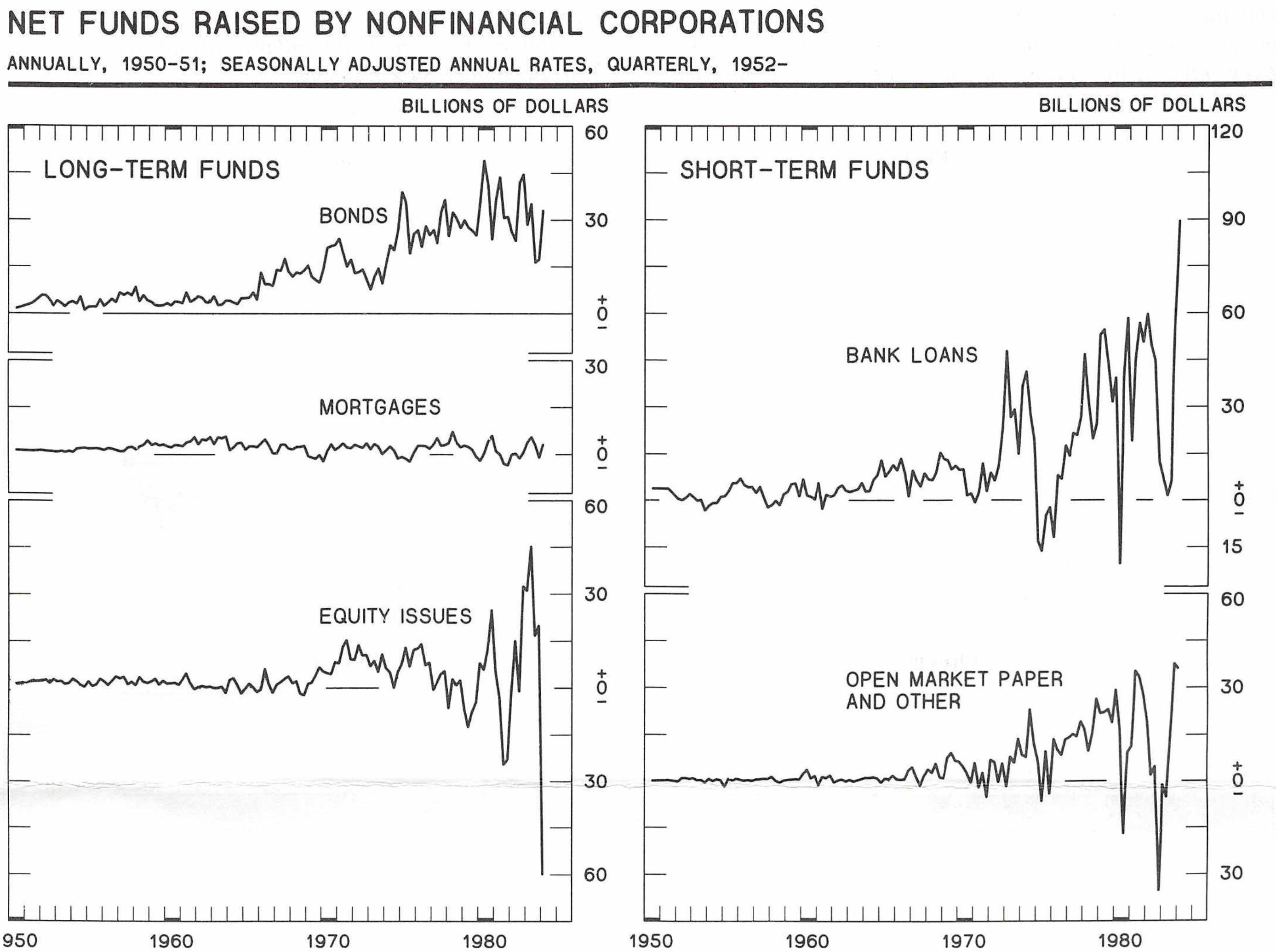


Chart 6



Board of Governors of Federal Reserve System

Chart 7



Board of Governors of Federal Reserve System

Currencies

Repeated Bundesbank intervention, carried even at the lower end of the recent trading range (3.05-3.07), forced an unwinding of traders' long dollar positions. Once the 3.00 DM level broke, the market moved rapidly but very unevenly to the next resistance point, i.e., 2.90, before turning back. In the background short- and long-term US interest rates continued their vertiginous but unaided decline, and the US monthly trade deficit climbed once again above $12 billion.

It is interesting to note that the Eurodollar-Euromark differential has narrowed to 3.75% from 6.50% a few weeks ago and 5.25% in April of this year, when the DM was trading around 2.65. Obviously, favorable interest differentials (just like balance of trade figures) do not tell the whole story.

As mentioned last month, the biggest question mark over this market is, when will the Fed ease? If, as is possible, the Fed begins to ease once the election is out of the way (last week the adjusted monetary base rose $3 billion!), the dollar could see further weakness. On the other hand, with the onset of the recession, the demand for money may increase rather substantially as happened in 1982, and the money supply increases may not pose a threat to the dollar bull market.

We are inclined to take a near-term cautious stance and prefer to remain short the currencies but not to risk more than the recent highs.

After hitting a recent low, the Sterling/DM cross rate recovered somewhat, perhaps because of the waning concern over oil prices. A sharply deteriorating balance of trade, soon to be aggravated by falling oil prices, should once again put downward pressure on Sterling. Moreover, gathering evidence of economic weakness (a stagnant manufacturing sector, rising joblessness) will soon force the Bank of England into a sharply accommodative position, causing a reversal of capital flows. In all, we believe that the Sterling/DM cross rate will move closer to 3.25-3.30 DM from the present 3.70-3.73 level. This represents a low-risk approach to long positions in US dollars.

STRATEGY: *Having reentered the short side of Sterling, speculators should risk recent highs of 128.00, basis December '84, good anytime. Commercial accounts have also been advised to reenter the short side of the DM, risking 34.58, good anytime (see Hotline update for both currencies).*

Retain short Canadian dollar positions, risking 76.25, basis December '84, close only.

Chart 8

Chart 9

Chart 10

Chart 11

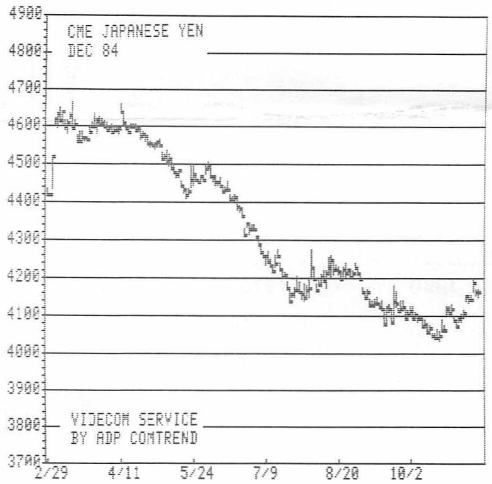


Chart 12

Chart 13

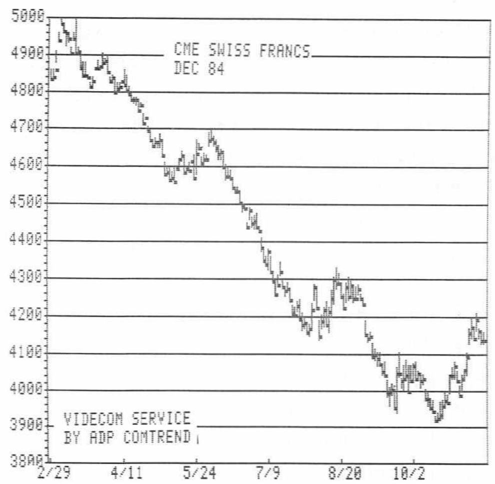
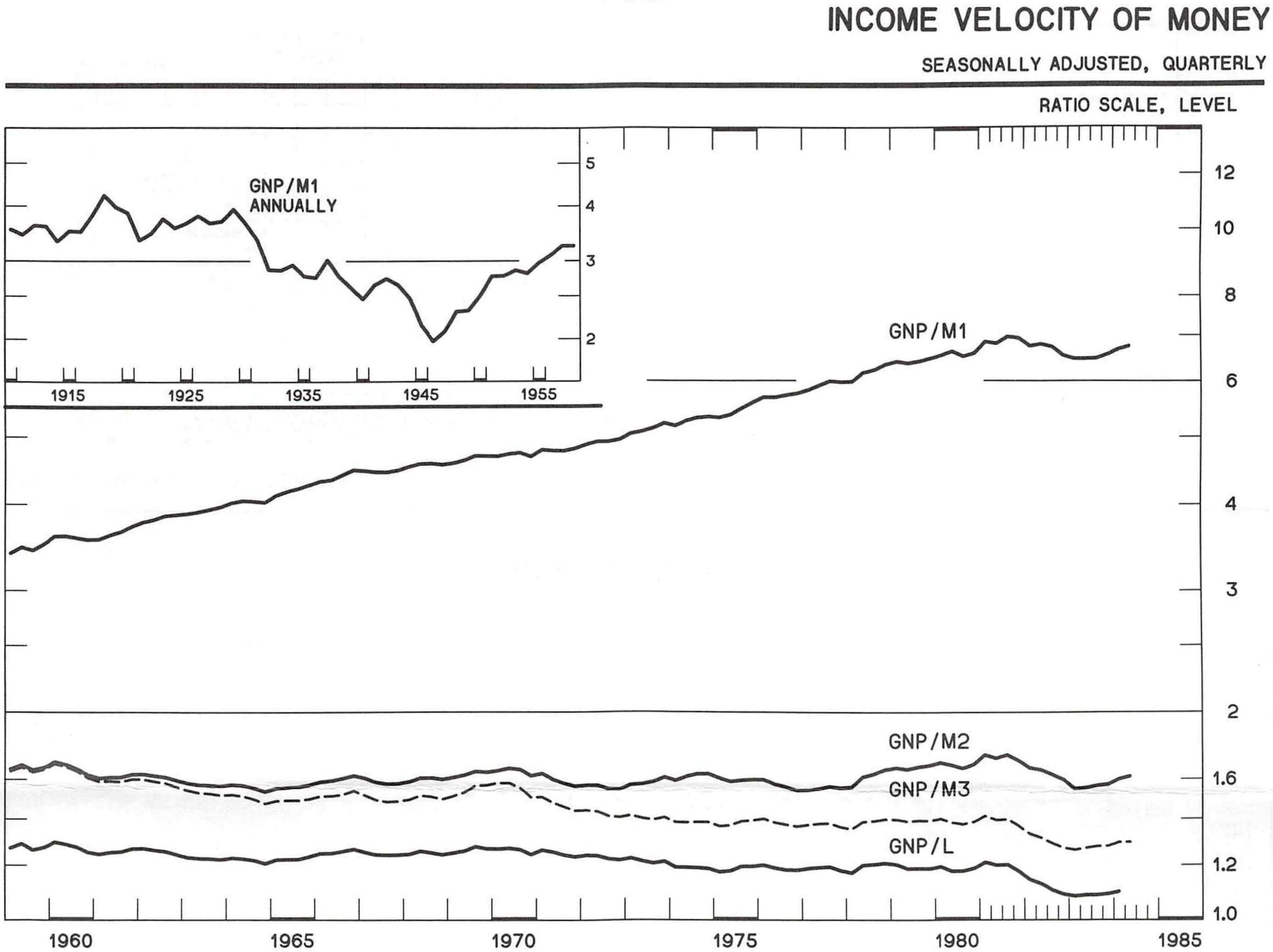


Chart 14



Board of Governors of Federal Reserve System

Interest Rate Futures

Attesting to the theoretically proven perversity of debt instruments, bonds and bills have recently completed one of the most spectacular rallies in history in the five short months since late May of this year *while money supply remained relatively flat.*

Now that the Fed is easing, or is about to ease, it would behoove bonds and bills, but particularly the former, to turn down. Of course, as we pointed out in the currency comments, the Fed's stimulative policy may be, in view of a large increase in the demand for money, too niggardly. If so, debt instruments would continue to rise.

STRATEGY: *Sell March '85 T-bonds, risking 71½, close only.*

The poor performance of the "whammy" (long March T-bill versus short December Eurodollar) is due primarily to the widening of the yield curve rather than the deterioration of the Ted spread. With the latter improving and the former bottoming out, we advise retention of the "whammy," but we now lower our sights to 115 points for the spread.

Chart 15

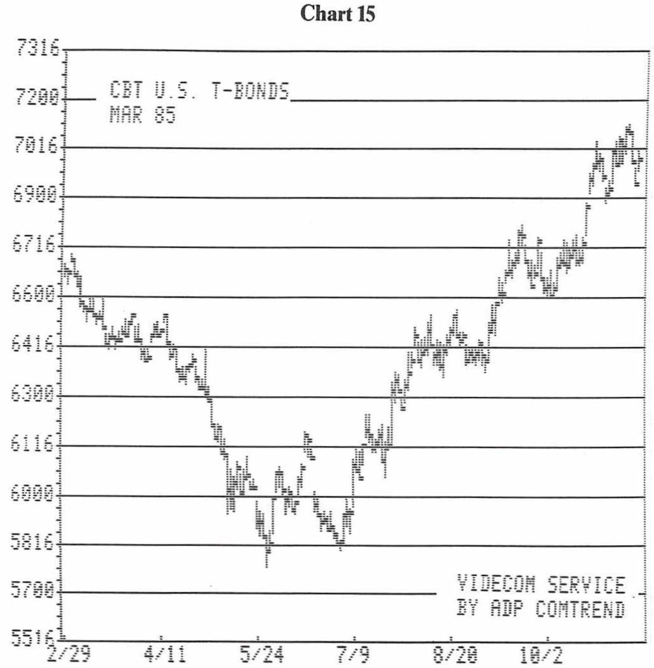


Chart 16

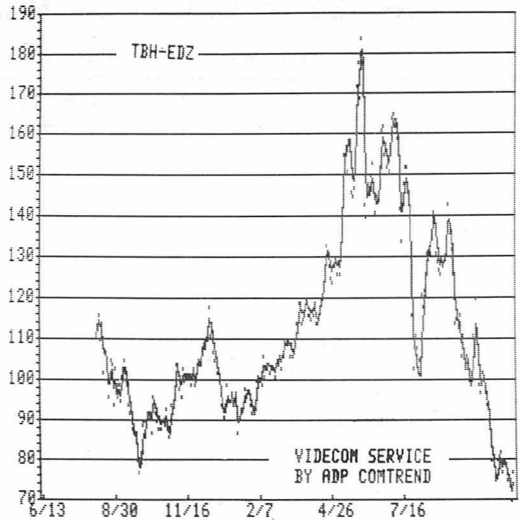
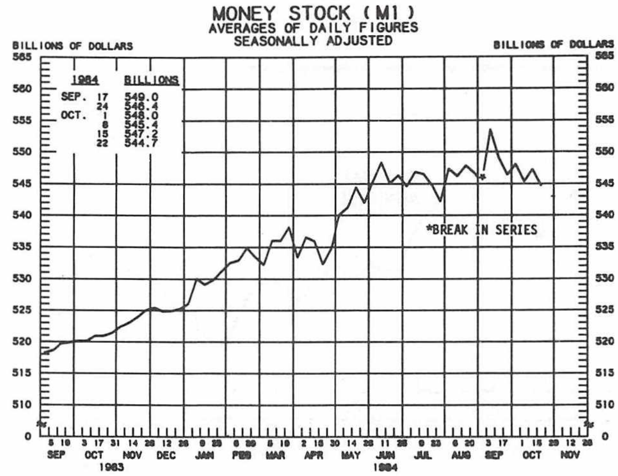


Chart 17



Prepared by Federal Reserve Bank of St. Louis

Portugal — escudo

Exchange Rate Adjusted by Relative CPIs

YEAR	ESCUDOS PER U.S. DOLLAR (end of period)	U.S. 1972=1.00	GERMANY 1972=1.00	U.S. 1979=1.00	GERMANY 1979=1.00	BASKET (US @ 26%, GERMANY 28%, FRANCE 23%, U.K. 23%) 1972=1.00	BASKET 1979=1.00
1967	28.8600	1.3019	1.0988	1.5861	0.8957	1.2311	1.1610
1968	28.7700	1.2728	1.0471	1.5506	0.8536	1.1967	1.1285
1969	28.6500	1.2245	1.0552	1.4918	0.8602	1.1566	1.0907
1970	28.7500	1.2271	1.0466	1.4950	0.8531	1.1577	1.0917
1971	27.5600	1.0962	1.0518	1.3355	0.8574	1.1111	1.0477
1972	27.0000	1.0000	1.0000	1.2183	0.8152	1.0000	0.9430
1973	25.8450	0.9010	1.0756	1.0976	0.8768	0.9400	0.8865
1974	24.5960	0.7610	0.9821	0.9271	0.8006	0.8283	0.7810
1975	27.4720	0.7694	0.8851	0.9373	0.7215	0.8144	0.7680
1976	31.5490	0.7858	0.9898	0.9573	0.8069	0.8144	0.7680
1977	39.8550	0.8327	1.1453	1.0145	0.9336	0.9621	0.9072
1978	46.0100	0.8434	1.2749	1.0275	1.0393	1.0332	0.9743
1979	49.7810	0.82[illegible]	1.2267	1.0000	1.0000	1.0604	1.0000
1980	53.0400	0.8[illegible]07	1.0433	1.0364	0.8504	1.1201	1.0562
1981	65.2490	0.9628	0.9877	1.1730	0.8052	1.0945	1.0321
1982	89.0640	1.1357	1.0970	1.3836	0.8943	1.1857	1.1181
1983	131.4500	1.3831	1.1664	1.6850	0.9508	1.3456	1.2689
1984(1Q)	131.6740	1.1935	1.0499	1.4541	0.8559	1.1678	1.1012
1984(2Q)	143.7140	1.2486	1.0155	1.5211	0.8278	1.1953	1.1272

Above 1.00 = undervalued
Under 1.00 = overvalued

Year	Foreign Assets (Mln US$)	CURRENT ACCOUNT As % of GNP %	CUMULATIVE 12 QTR. Current Account (Mln US$)
1970	1,730	-	-
1971	2,119	-	-
1972	2,540	4.13	-
1973	2,937	2.96	
1974	2,520	-6.17	-135
1975	1,412	-5.13	-1,244
1976	285	-8.36	-2,867
1977	-1,426	-5.93	-2,994
1978	-1,912	-2.65	-2,702
1979	1,608	-0.27	-1,474
1980	2,324	-4.59	-1,581
1981	1,132	-11.24	-3,723
1982	1,118	-14.46	-6,919
1983	994	-	-6,860
1984 (1)	796	-	-
1984 (2)	-	-	-

Hard Currency Cover (in millions of US Dollars)

Reserves* + previous 12-month Current Account*** = 7,217

(Reserves + 12-month C/A) / M1** = 7,217 / 5,091 = 141.76%

(Reserves + 12-month C/A) / Broad money** = 7,217 / 15,659 = 46.08%

* As at Jul.1984 ** March 31st,1984 *** 1984 estimate

Spot	Rates	162.00-163.00
1 month	Rates	160.00-166.00
3 month	Rates	164.00-176.00
6 month	Rates	168.00-190.00
12 month	Rates	178.00-210.00

	Period	Relative to U.S.	Relative to Germany
M1 growth	1973 - 1Q1984	227%	208%
Broad Money growth	1973 - 1Q1984	281%	347%
Nominal currency Appreciation (depreciation)	1973 - 1Q1984	(81.48%)	(80.67%)

(A) 1982 imports as percentage of GNP = 39.98%

(B) 1973-1982 imports as percentage of GNP = 31.84%

1982/(1973-1982 average) = A/B = 125.56%

Charts based on IFS data

Outlook: Relatively undervalued, although the current account continues to be negative and foreign debt, as a result, continues to mount. Inefficient state enterprises bloat the public sector deficit, which in turn borrows and then borrows again merely to pay interest. A vicious circle.

High domestic interest rates have pushed forward rates to attractive levels although bid-ask spreads are unusually high. Although we believe it will weaken against the US unit, the same cannot be said vis à vis the DM.

Denmark — kroner

Exchange Rate Adjusted by Relative CPIs

YEAR	KRONER PER U.S.DOLLAR (end of period)	U.S. 1972=1.00	GERMANY 1972=1.00	U.S. 1978=1.00	GERMANY 1978=1.00	BASKET (U.S. @ 13%, GERMANY 38%, SWEDEN 24%, U.K. 25%) 1972=1.00	BASKET 1978=1.00
1967	7.4620	1.1682	0.9859	1.8559	1.0362	1.0531	1.3114
1968	7.5015	1.1306	0.9301	1.7962	0.9775	1.0121	1.2602
1969	7.4920	1.1518	0.9925	1.8299	1.0431	1.0676	1.3293
1970	7.4890	1.1438	0.9755	1.8171	1.0252	1.0585	1.3180
1971	7.0620	1.0619	1.0189	1.6870	1.0709	1.0763	1.3402
1972	6.8470	1.0000	1.0000	1.5887	1.0510	1.0000	1.2452
1973	6.2900	0.8900	1.0624	1.4139	1.1166	0.9395	1.1699
1974	5.6500	0.7705	0.9942	1.2240	1.0449	0.8587	1.0692
1975	6.1775	0.8398	0.9661	1.3342	1.0154	0.8966	1.1165
1976	5.7875	0.7636	0.9619	1.2131	1.0109	0.8087	1.0071
1977	5.7775	0.7305	1.0048	1.1606	1.0560	0.8700	1.0834
1978	5.0900	0.6295	0.9515	1.0000	1.0000	0.8031	1.0000
1979	5.3650	0.6733	1.0063	1.0697	1.0576	0.9089	1.1318
1980	6.0150	0.7626	0.9352	1.2116	0.9829	1.0464	1.3030
1981	7.3250	0.9179	0.9416	1.4583	0.9896	1.0585	1.3180
1982	8.3840	1.0120	0.9776	1.6077	1.0274	1.0478	1.3047
1983	9.8750	1.1511	0.9707	1.8287	1.0202	1.0975	1.3666
1984(1Q)	9.5400	1.0973	0.9653	1.7432	1.0145	1.0548	1.3134
1984(2Q)	10.2125	1.1674	0.9495	1.8546	0.9979	1.0908	1.3583

Above 1.00 = undervalued
Under 1.00 = overvalued

Hard Currency Cover (in millions of US Dollars)

Reserves* + previous 12-month Current Account*** = 3,005

(Reserves + 12-month C/A) / M1** = 3,005/13,275 = 22.63%

(Reserves + 12-month C/A) / Broad money** = 3,005/27,532 = 10.91%

* As at Aug.1984 ** Apr.30th,1984 *** 4Q1983 - 3Q1984

	Period	Relative to U.S.	Relative to Germany
M1 growth	1973 - 1Q1984	189%	173%
Broad Money growth	1973 - 1Q1984	141%	175%
Nominal currency Appreciation (depreciation)	1973 - 1Q1984	(29.42%)	(26.34%)

(A) 1983 imports as percentage of GNP = 29.32%

(B) 1974-1983 imports as percentage of GNP = 28.60%

1983 / (1974-1983 average) = A/B = 102.51%

Charts based on IFS data

Reserves as at August 1984 , 4,177.3
Gold 1,629

Year	Foreign Assets (Mln US$)	CURRENT ACCOUNT As % of GNP	CUMULATIVE 12 QTR. Current Account (Mln US$)
1970	446	- 3.44	- 1170
1971	618	- 2.40	- 1379
1972	1.180	- 0.03	- 1032
1973	1,229	- 1.67	- 964
1974	1,258	- 3.10	- 1519
1975	994	- 1.31	- 1946
1976	1,135	- 4.64	- 3384
1977	2,274	- 3.74	- 4126
1978	3,428	- 2.70	- 5138
1979	3,631	- 4.58	- 6189
1980	3,857	- 3.81	- 6933
1981	3,159	- 3.36	- 7306
1982	2,842	- 4.18	- 6600
1983	3,573	- 2.15	- 5310
1984 (1)	-	-	- 5272
1984 (2)	-	-	- 5444

	Spot	1 month	3 month	6 month	12 month
Rates	10.63-10.64	10.66-10.67	10.70-10.71	10.72-10.76	10.75-10.85

Outlook & recommendation: Persistent current account deficits are being aggravated by the inordinately large and growing foreign debt, now equal to over 35% of GNP. Government deficits remain burdensome and rank among the highest in the world as a percentage of GNP.

We like the short side of the Kroner although forwards do not provide us with the premiums available in the DM or SF. An EMS realignment of 8-10% is almost inevitable in the coming months. Represents a slightly better short than the DM.

Mexico – peso

Exchange Rate Adjusted by Relative CPIs

YEAR	PESOS PER U.S. DOLLAR (end of period)	U.S. 1970=1.00	JAPAN 1970=100	U.S. 1977=100	JAPAN 1977=100
1967	12.5000	0.9574	0.9208	0.8889	0.4404
1968	12.5000	0.9725	0.9570	0.9029	0.4577
1969	12.5000	0.9907	0.9738	0.9198	0.4658
1970	12.5000	1.0000	1.0000	0.9285	0.4783
1971	12.5000	0.9876	1.1425	0.9169	0.5465
1972	12.5000	0.9748	1.1867	0.9050	0.5676
1973	12.5000	0.9223	1.2753	0.8563	0.6100
1974	12.5000	0.8285	1.1954	0.7692	0.5717
1975	12.5000	0.7839	1.1421	0.7279	0.5463
1976	19.9500	1.1443	1.7950	1.0624	0.8586
1977	22.7360	1.0771	2.0907	1.0000	1.0000
1978	22.7240	0.9855	2.2765	0.9150	1.0889
1979	22.8030	0.9318	1.6271	0.8651	0.7783
1980	23.2560	0.8532	1.6738	0.7922	0.8006
1981	26.2290	0.8306	1.4293	0.7712	0.6836
1982	96.4800	2.0388	3.1777	1.8930	1.5199
1983	143.8000	1.5542	2.4164	1.4430	1.1558
1984(1Q)	155.6300	1.2366	1.9638	1.1481	0.9393
1984(2Q)	167.4600	1.1926	1.7910	1.1073	0.8567

Above 1.00 = undervalued
Under 1.00 = overvalued

Hard Currency Cover (in millions of US Dollars)

Reserves* + previous 12-month Current Account*** = 14,712

(Reserves + 12-month C/A) / M1** = 14,712/9,335 = 157.60%

(Reserves + 12-month C/A) / Broad money** = 14,712/19,062 = 77.18%

* As at Aug.1984 ** As at May31,84 *** 1984 Government estimate

	Period	Relative to U.S.
M1 growth	1973 - 1Q1984	341 %
Broad Money growth	1973 - 1Q1984	293 %
Nominal currency Appreciation (depreciation)	1973 - 1Q1984	(42.66)

(A) 1983 imports as percentage of GNP = 10.57%

(B) 1974-1983 imports as percentage of GNP = 19.66%

1983 / (1974-1983 average) = A/B = 53.76%

Charts based on IFS data

Year	Foreign Assets (Mln US$)	CURRENT ACCOUNT As % of GDP %	CUMULATIVE 12 QTR. Current Account (Mln US$)
1970	912	- 3.00	- 2403
1971	1,112	- 2.13	- 2495
1972	1,400	- 2.02	- 2819
1973	1,464	- 2.56	- 3166
1974	1,504	- 3.99	- 5207
1975	1,664	- 4.59	- 8333
1976	1,107	- 3.85	-10327
1977	1,781	- 2.26	- 9305
1978	2,433	- 3.08	- 8434
1979	3,661	- 4.05	-10484
1980	5,319	- 4.38	-16792
1981	6,004	- 5.80	-27520
1982	1,538	- 2.88	-26873
1983	4,407	+ 3.59	-13499
1984 (1)	4,960	-	-
1984 (2)	5,653	-	-

	Spot	1 month	3 month	6 month	12 month
Rates	210-212	217-221	227-237	250-262	293-313

Outlook & recommendation: From being truly overvalued in 1979-82, the peso became grossly undervalued in late 1982 and is now swinging back rather quickly as the daily 13 centavos' devaluation fails to keep up with the 3-4% monthly CPI increase (which, at any rate is doctored by numerous price controls).

Unlike Venezuela, Mexico can gain some short-term benefits from a devaluation in case of a substantial drop in the price of oil, primarily because of its non-oil exports and tourist trade. To regain the 1982 levels, Mexico would, *at the present time*, have to devalue to 400 pesos per dollar, an event that would only take place in case of a sharp drop in oil prices. (This is so if one considers that a $6/barrel drop in the price of oil would wipe out their current account surplus.) Otherwise, an acceleration of the crawling peg to a level close to 4% per month would bring the free controlled market rate (see explanation of exchange) to 300 by the end of next year, approximately equal to the present one-year forward. Therefore, a sale at these levels represent an almost no-risk play on oil prices and is strongly recommended.

Explanation of exchange rate system: There are two official exchange markets.

1. The controlled market, which is used primarily for a) essential imports and b) principal and interest payments.
2. The free market, which is used for all other transactions, although at present the amount of foreign exchange sold by Mexican banks is subject to certain limits.

   Both of the above markets are currently intervened in by the bank of Mexico and are adjusted downwards by 13 centavos per day.

   Present quotas are:

	Bid	*Offer*	
Controlled market	184.70	184.80	pesos per dollar
Free market	201.42	202.92	pesos per dollar

3. In addition, all speculative and other financial transactions take place in the "uncontrolled" market, traded primarily in New York City, Los Angeles, and San Francisco, and on the IMM.

   At this time, this market trades at 209-211 pesos per US dollar and is obviously forecasting a faster acceleration of the official crawling peg.

Venezuela – bolivar

Exchange Rate Adjusted by Relative CPIs

YEAR	BOLIVARES PER U.S. DOLLAR (end of period)	U.S. 1972=1.00	U.S. 1978=1.00
1967	4.4500	0.9204	0.9239
1968	4.4500	0.9478	0.9514
1969	4.4500	0.9742	0.9779
1970	4.4500	1.0058	1.0096
1971	4.3500	0.9938	0.9976
1972	4.3500	1.0000	1.0038
1973	4.2850	1.0029	1.0067
1974	4.2850	1.0274	1.0313
1975	4.2850	1.0190	1.0229
1976	4.2925	1.0035	1.0073
1977	4.2925	0.9907	0.9945
1978	4.2925	0.9962	1.0000
1979	4.2925	0.9856	0.9894
1980	4.2925	0.9207	0.9242
1981	4.2925	0.8763	0.8796
1982	4.2925	0.8470	0.8502
1983	4.3000	0.8242	0.8273
1984(1Q)	7.5000	1.3855	1.3907
1984(MAY)	7.5000	1.3605	1.3657

Above 1.00 = undervalued
Below 1.00 = overvalued

Hard Currency Cover (in millions of US Dollars)

Reserves* + previous 12-month Current Account*** = 12,902

(Reserves + 12-month C/A) / M1** = 12,902/9584 = 134%

(Reserves + 12-month C/A) / Broad money** = 12,902/41707
= 30.93%

* As at June 1984 ** June 30,1984 *** 4Q1983-3Q1984 Estimated

	Period	Relative to U.S.	Relative to Japan
M1 growth	1973 - 2Q1984	1058%	989%
Broad Money growth	1973 - 2Q1984	2439%	2276%
Nominal currency Appreciation (depreciation)	1973 - 2Q1984	(99.25%)	(93.47%)

(A) 1983 imports as percentage of GDP = 5.32%
(B) 1974-1983 imports as percentage of GDP = 8.32%
1983/(1974-1983Average) = A/B = 63.94%

Charts based on IFS data

Year	Foreign Assets (Mln US$)	CURRENT ACCOUNT As % of GNP %	CUMULATIVE 12 QTR. Current Account (Mln US$)
1970	899	-0.09	- 518
1971	1,389	0.00	- 335
1972	1,612	-0.07	- 216
1973	2,387	5.34	+ 756
1974	6,413	22.53	+6536
1975	8,807	7.85	+8808
1976	7,961	0.08	+8185
1977	8,081	-8.78	- 754
1978	6,701	-14.61	-8660
1979	8,124	0.07	-8564
1980	7,383	7.94	- 657
1981	8,870	5.97	+9078
1982	9,708	-6.40	+4482
1983	11,887	5.78	+3461
1984 (1)	7,745	-	-
1984 (2)	8,568	-	-

	Spot	1 month	3 month	6 month	12 month
Rates	12.50-12.90	12.50-12.90	12.60-13.05	12.75-13.50	13.05-14.35

Outlook & recommendation: Present exchange rate levels, particularly the free rate, indicate a substantial real undervaluation. This should remain a permanent feature as Venezuela is practically a mono-exporter. Let us explain: If and when oil prices drop as we expect by at least $10/barrel, Venezuela's current account will be negatively affected by at least $4 billion. In the short term, no amount of devaluation will compensate this loss from the terms-of-trade. Only over the medium- to long-term can the country expect to create new exports. Imports, on the other hand, cannot be "squeezed" much more as they are currently almost half of their 10-year average. More likely, in such an event, Venezuela will attempt to devalue by realigning its multiple-exchange rate and produce a rate closer to the present free rate.

In conclusion, speculators are not likely to find the bolivar an interesting devaluation play, although short-term crisis scenes are certainly expected to affect volatility in the free rate.

Explanation of exchange rate system: Venezuela maintains a three-tier exchange rate system.

In the first tier the Central Bank provides funds at Bs 4.30 = US $1. This rate is provided primarily for a) oil and mining companies b) certain public entities c) essential imports d) some principal and interest.

In the second tier the Central Bank provides funds at Bs 6.00 = US $1. This rate is provided primarily for a) certain public entities b) certain nonessential imports.

The third tier is a freely fluctuating rate for speculative and other financial transactions, and at this time trades at 12.5-12.9 bolivares per US dollar.

Forex rates & Update

A typographical error crept into our last issue. The quotes on the South African rand were incorrect. Here are updated quotes for currencies discussed in the last issue.

Currency	*Spot*	*6 month*	*12 month*	*Comments*
South African rand	.5650-.5660	.5310-.5410	.5150-.5250	Remain neutral
Kuwaiti dinar	.30020-.30050	.29850-.30050	.29825-.30125	Remain short
Saudi Arabian riyal	3.5600-3.5625	3.5475-3.5750	3.5450-3.5800	Remain short
Malaysian ringgit	2.3925-2.4000	2.4000-2.4300	2.4000-2.4500	Remain short

Hotline Update

Monday, October 15: A repeat of Friday's message, as there is no change.

Friday, November 2: As of the close today, you were stopped out of the December Deutschemark and the December Japanese yen. Stops on the December British pound should be changed to 126.00, good anytime, instead of basis the close only. Retain previously suggested stop on the Canadian dollar of 7625, close only.

Since we believe that the US has not topped out and is only undergoing a temporary correction, stay posted for reentry suggestions.

Monday, November 5: Flash bulletin: For those who have retained 50% of their short positions of the December S&P, cover immediately at the market.

Thursday, November 8, a.m.: Flash update: Reinstate December British pound short positions at the market, using a 12815 stop, good anytime.

Retain Canadian dollar short position with the same stop on close of 7625. Stay posted for further updates.

Thursday, November 8, p.m.: A repeat of this morning's messages.

1. Reinstate short December British pound positions using a stop of 12815 stop, good anytime.
2. Retain Canadian dollar short positions with the same stop on close of 7625.
3. As an addendum to this morning's recorded message, we suggest for commercial accounts to sell December Deutschemark at market, risking 3458, good anytime.

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