

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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1984/1984: The years in review

Yup, there were two of them. There always are actually. From our point-of-view there is the year of the analyst. And then there is the year of the trader. The former is a rarefied one inhabited one Sunday every month when these *Comments* are carefully composed. The latter is inhabited five days a week, fifty-two weeks a year, and is filled with the sound and fury of ringing telephones and churning stomachs.

In previous years the atmospheric distinction was the only major difference between the two worlds. But 1984 was somewhat of an exception.

As analysts, we didn't change. We continued to forecast with originality and courage. We continued to fervently prophesy catastrophe, usually laying the blame upon Big Brother. (This, of course, was not occasioned by any thought of Orwell and his most famous novel. As long time readers know, we have been seeing either hyper-inflation, depression, the fall of England, or the failure of the banking system, and other little like goodies ever since these *Comments* were first published back in 1971.) And, although we weren't at our most prescient, the *Comments* did, on balance, pick more winners than losers.

No, it was in the traders' world that the climate seemed to have qualitatively altered. Sometime during the summer, around the time the S&P made its record-of-the-year advance, in addition to the ringing telephones and churning stomachs, brokers complained of a curiously droning patter that sounded like drops of blood falling upon the print-outs that listed customers' account balances. One day, when the print-outs had shrunk and there was less of a cushion to baffle the sound, an angry widow who happened to be paying us a visit remarked that the brokers had little drops of fluid slithering down their faces that bore a striking resemblance to tears.

In other words, during 1984, we did not always trade as well as we wrote. Sometimes we did not trade what we wrote. And many times we lost money. 1984 was two years in one. It was Orwellian not only because we very clearly saw the abyss out there in the world but also because the abyss occasionally came to visit us right in the office; 1984 was Dickens proclaiming the best of times and the worst of times; 1984 was, for us, the year of the yak — (fairly) good talk, poor performance.

Moment of the year: In August *Barron's* published the most laudatory article in praise of our analytical prowess. The article, headlined "Right On The Money," appeared within three days of our having suffered one of the most debilitating trades — short the S&P — in the existence of the firm. The irony perfectly expresses the sorry duality of 1984/1984.

Call of the year: Long the US dollar. Our first issue of 1984, dated January 8, was headlined "The US Steamroller." It advised as follows: "Remain short all currencies with particular emphasis on short sterling, French franc, and D-mark . . . the relative strength of the yen and the Swiss franc are illusory, for they cannot stop the steamrolling US dollar." Two weeks after the issue went to press, we were sorely tested — a taste of things to come generally — as the currency began a very sharp ascent. By early March, the D-mark had rallied 430 basis points, or \$5,375 per contract, and 92% of all analysts surveyed were predicting that the dollar had finally turned. Even Martin Feldstein, the president's chief economic adviser at the time, stated the dollar was due for a 20% fall. Nonetheless we stuck tenaciously to our steamroller. By the end of the year the D-mark had fallen to 31.68 from 36.66 at the beginning of the year; the yen had dropped from 43.18 to 39.70; the Swiss franc had fallen from 45.87 to 38.38 and Sterling had collapsed from 145.10 to 115.75. True to 1984/1984 form, we did admittedly trade rather tentatively at times, especially toward August and September. Nonetheless, speculative accounts profited handsomely. International businessmen who subscribe to these *Comments* saved fortunes and were that much more competitive than those who obeyed conventional advice. And *Barron's* was justified, at least in the particular, in writing that we were good little boys.

In this issue

A fearless forecast for 1985. Our outlook for the economy and how it affects energy futures (a pyramid strategy), stock indices (sell on weakness), interest rate futures, and currency futures. Contributions by Albert D. Friedberg, David B. Rothberg, and Daniel A. Gordon.



Albert D. Friedberg eats his typewriter . . . as promised.

Howl of the year: In our May *Comments*, we happened to notice a certain growth of the adjusted monetary base. This moved us, like bran, to expel the following: “The most volatile, yet most profitable, period for futures investors lies ahead: spectacular price rises in commodities that enjoy reasonable fundamentals such as cocoa, bean-oil, corn, juice, . . .” So convinced were we of the “virtual certainty of a spectacular rise” in cocoa, for example, that we recommended adding to the small investment-type long positions we’d held for over a year and neglected, for the first time since we’d established the positions, to offer a stop.

As we all know, the spectacular inflationary rebirth miscarried. Within 60 days the commodity index had fallen by 8.5%, its most precipitous drop during all of 1984. And our cocoa positions vanished without a trace or a whimper.

Herald of the year: Hark, in August we were the first to predict a slowdown in the US economy. Again, good advice for business people. It also helped us get back onto the bearish track we more or less adopted throughout '84 — the howl of the year being the one “spectacular” exception.

The consistency award: For the third consecutive year, we have proven ourselves impeccably wrong in forecasting interest rates. And for the third consecutive year, we have been wrong for the same reason: We thought they were headed higher.

In our April *Comments* we wrote, “. . . interest rates have begun a long ascent that may not end until a thorough process of debt liquidation begins. From the looks of it, we are

still a long way off.” We got short Eurodollars and established the infamous Ted spread. In our May *Comments* we foresaw “. . . a spectacular rise in rates” accompanying the “spectacular” rise in commodity prices, and we added T-bills to our portfolio of short debt instruments. In our June *Comments* (the one in which we forecast the imminent collapse of the banking system — catastrophic thinking being runner-up for this year’s consistency award), we re-emphasized the Ted spread and added a wrinkle that we ironically dubbed the “whammy spread.”

By September, the carnage had been wreaked. In our November *Comments*, we admitted witnessing “one of the most spectacular rallies in (the) history (of the debt instruments).” Undeterred, we advised selling March T-bonds, which were then trading at around 71.00, and promptly got stopped out at 71.16.

Years ago, when debt instruments were first introduced as futures contracts, we also predicted consistently that rates were headed higher. In fact we’ve been bullish on rates for about seven years now. That’s consistency. The difference between the first four years and the last three is that for the last three, we’ve been wrong.

Whisper of the year: precious metals. In our first newsletter of 1984/1984, we wrote of gold and silver: “All major trends remain down with ultimate objectives of \$250/oz. gold and \$4.50/oz. silver”. Not bad; even though by year end only 55% of the objective was reached — gold fell from 381.50 to 309.00, basis the p.m. fix during the year — the trend remains very

much intact. But true to 1984/1984 form, we did not trade either emphatically or consistently. We were stopped out in February with a small profit; stopped out again in June, at which time we actually went long (as per a very valuable study we published in our *Comments* of that month — one that will prove invaluable in 1985); stopped out, gratefully, of our long positions in the howl-of-the-year collapse in July, and remained bearish but without a position until October. This was 1984/1984 analysis/trading at its best/worst.

Nadir of the year. And scream of the year. And wail of the year: The stock market. It all started innocently enough. Despite stating, in February, “whether one labels it the beginning of a bear market or a mere 25%-40% bull market correction is academic . . . the key question is how far down . . . We expect the stock market to suffer a waterfall-type decline.” We were tentative in our trading advice. We specified technical bail-out signals as well as stops, and not only managed to get out but to get out with a profit.

We remained champing at the bit but without a position until June. Then, “the progressive crumbling of the banking system” staring us right in the face, we were unable to hold back. We got short at 154.50, basis the September S&P, with stops 200 basis points higher. By July, we were so enthusiastic, we wrote: “Being short the September '84 S&P is not merely an excellent trade . . . it may also be essential to financial survival in the months ahead.”

Financial survival was in the form of the 156.50 stop. By August, the stock market had rallied by 2000 basis points, basis September S&P futures, or \$10,000 per contract. And still we advised: “Think bearishly and stay short.” In September we wrote — we appealed — “it seems inconceivable but stock prices are still rising . . . should you be stopped out, sell . . . if and when a downside weekly reversal is recorded . . . it should be the final coup de grace to this *insane* market” (emphasis added). By November, the debacle was complete.

And to add insult to injury, the stock market ended 1984/1984 almost exactly where it began.

The justice award: Energy futures.

We came into the year heavily committed to the short side of oil. (You may recall that in the review issue of January '83, Al Friedberg committed to eat his typewriter if crude prices were not lower than \$20/barrel by year-end. Photographic evidence of Mr. Friedberg's honor is shown in this issue. Thanks, Mike.)

In January, a bitter cold snap propelled futures 12% higher in just four days. Realizing this was an aberration in a market that was fundamentally overvalued we, properly, tried our best to retain short positions: “Remain short, ignore stops,” we wrote in our January *Comments*. But events conspired against us. First there was a delivery squeeze on products supplied to New York harbor. We would have preferred to have been in crude oil contracts, but the open interest was as yet not quite large enough to accommodate our position. Then, in March, the insane war between Iran and Iraq threatened the market. By the end of March, our bad luck had cursed us out of the market. Through June, we remained consistently bearish but prudently without a position. Then, in July, the market collapsed and it appeared as though 1984/1984 was going to find another victim: We had been the most voracious bears, but at the time, our growling was only on paper.

Fortunately — given the nightmares of the stock market, the rates markets, and the failure of cocoa and the like to advance — we found the courage and the ammunition to adopt a trading strategy: “One cannot afford to be out of the short side of oil . . . any worthwhile rally (100 points in the crude), however, should be used to reinstate new short positions.” The nearest crude oil position was then listing at \$28.50. We managed to enter at around \$29.50, thus ending 1984/1984 on an extremely positive note and beginning 1985 with a, not groundless, view that 12 months from now, we will no longer be seeing double.

And now, another fearless forecast for 1985

- The ongoing US recession will worsen dramatically in the months ahead.
- The fiscal deficit will widen to unthinkable levels, well in excess of \$350 billion. Nevertheless, the deficit's fiscal thrust will remain neutral-negative, thus doing little or nothing to help the US out of its contraction.
- Oil prices will collapse, with spot prices reaching as low as \$5/barrel.
- Nominal interest rates will continue to move irregularly lower *at least until the Fed panics and reflates on a massive scale*. Real interest rates will continue to rise *until the worldwide debt mountain topples* — probably by default.
- The US dollar's rise will end in a most spectacular spike — *at much higher levels* than now prevail.
- There will be some very dramatic devaluations, particularly among the petrocountries.
- Stock prices will head south by anywhere between 25% and 40%, punctured by vanishing profits and debt-heavy balance sheets.
- In the interest of survival, we resolve to protect ourselves with prudent and reasonable stops. We should, however, make abundantly clear the very obvious: great fortunes were never built on timid financial investment decisions nor on uninspiring vision of the world. And while it is true that markets are *relatively efficient*, they are so only because, *after* the fact, they adjust pricing options, premiums, and forwards quite well in such a way as to eliminate potential profits in the new environment. Since major trend reversals occur very seldom, empirical evidence will find that markets are quite efficient most of the time. The few and solitary observations disproving this market theorem are always to be found around times in which dramatic changes in direction are taking place.

Horace would say, "to have begun is half the job: Be bold and be sensible!" And if, in search of that elusive fortune, you fail, remember Lord Tennyson: "'Tis better to have loved and lost than never to have loved at all."

The economy

The US recession is a fact, and any trader and/or corporate executive who ignores it, does so at his own peril. While last month we reviewed the evidence, in this issue we'd like to explain why the recent "slowdown" is a great deal more serious than commonly supposed.

There are four sectors in any advanced economy: the consumer sector; the business or corporate sector; the government sector; and the external sector. It is extremely unlikely that in 1985 the US economy will get any stimulus from any of these areas.

Let us see. The consumer, for the 12 months of 1984 and into early 1985, has shown little inclination to increase, in real terms, his purchases. With the exception of the 1.8% increase in November (and even here we are expecting a significant downward revision), real retail sales have remained relatively flat. What is ominous, however, is that consumer debt has skyrocketed during this period, indicating that the *level of retail sale was maintained at an enormous future cost*.

Charts 1 and 2 speak of dangerous levels of indebtedness. But there is more. If we measure consumer installment debt as a percent of wage and salary disbursements (Chart 3 courtesy of Edward S. Hyman Jr. of C.J. Lawrence), one notes that the average American consumer, as opposed to the well-to-do income (interest) receiving individual, has reached a new record in indebtedness. Furthermore, these figures do not include the sizeable 21% year-over-year increase in debt recorded in November nor the substantially higher *burden* of debt of 1984-85 compared with previous years due to the much higher real rate of interest now prevailing. In short, the consumer is so heavily indebted that some form of severe retrenchment is in order during the course of the next 12-24 months.

With corporate profits on the decline since the second quarter of 1984, it is highly unlikely that capital spending will show *any* increase in 1985. Recent surveys have tended to revise downwards capital spending plans, and the latest numbers, showing an extremely modest increase, have as yet not incorporated what will turn out to be a dismal fourth quarter profit picture. An example of this pattern was provided last week by Teledyne, an industrial and insurance giant, who announced

a 74% plunge in fourth quarter earnings due to weakness in the property and casualty insurance subsidiaries and by an "unexpected narrowing in profit margins in manufacturing operations."

Finally, we should point out that the oil and gas industry do almost *one quarter* of the total corporate spending in the US. It requires little imagination to appreciate the impact of sharply falling oil prices on total corporate capital spending. Here again, then, a negative rather than a positive contribution to growth.

The government sector is not likely to provide fresh stimulus to the economy in view of the fact that some spending *reductions* are being seriously contemplated, and no new tax cuts are being proposed. Moreover, Congressional sentiment is likely to force President Reagan to reconsider his opposition to tax increases with every upward revision of the deficit, now estimated to surge beyond \$200 billion even by the government's own admission. Hardly the makings of a positive fiscal thrust.

Finally, the external sector drag, a point conceded by nearly all economists, is not likely to go away or even diminish in a significant way during the coming year. The high-flying US dollar (forecast by us to go even higher this year, for technical reasons) will widen the trade deficit. Furthermore, while a recession is normally cushioned by an export surplus, the strong US dollar will tend to inhibit or even impede the adjustment process, aggravating the downturn.

Point by point, we have demonstrated how the various dynamic forces moving the US economy will be pulling, during 1985 and perhaps most of 1986, in the wrong direction. Money manipulation is not likely to affect these real variables; there are already signs — such as the persistent dollar strength and commodity weakness in the face of a reflationary Fed — that the "system" could use much larger monetary dosages than now contemplated. Should the Fed panic *later* this year in view of the alarming and unanticipated weakness shown by the economy, it will a) raise price inflation (and here gold would be expected to move up significantly) and b) raise nominal interest rates without changing the course of the recession.

We suspect that the panic level will be a rate of expansion of money supply equal to *at least* 20%-30% per annum for a number of months. Until it happens, one can safely count on a disinflationary-deflationary recession.

STRATEGY: *Our outlook affects stocks, bonds, commodities, and currencies. Read on.*

Chart 1

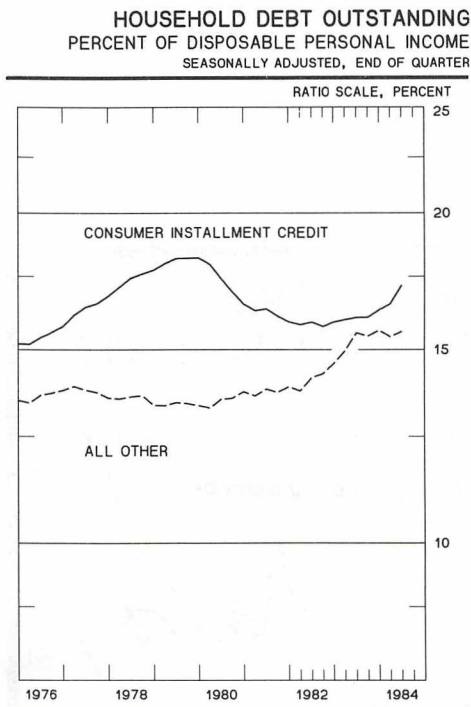


Chart 2

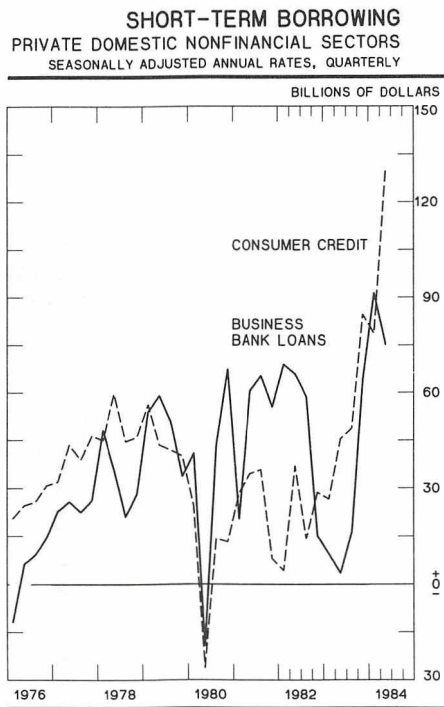
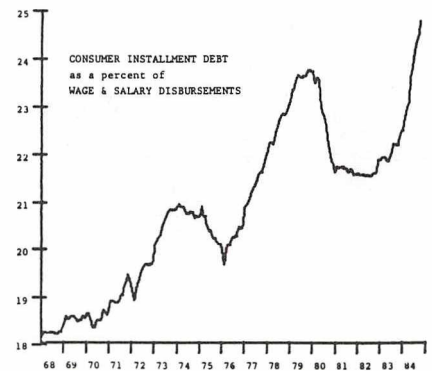


Chart 3



Reprinted from Cyrus J. Lawrence

Energy Futures

The relentless fall in oil prices was only temporarily halted last week when unusually cold weather hit Europe, causing a presumption that European demand for gasoil would lift energy markets from their doldrums. Meanwhile, in the US distillate stocks continue to accumulate and stood well above year-ago levels, easing any concern of a squeeze. Europeans faced a dilemma: increased production of gasoil would entail a simultaneous increase in gasoline supplies, which are already so excessive that refiners were not thought capable of surviving much longer.

Netback values in the Rotterdam and Houston markets have been dropping alarmingly: at an implied loss of \$3.28/barrel and \$4.68/barrel respectively for Saudi light and \$2.14/barrel and \$2.99/barrel for Bonny light at the new official selling price of \$28.65/barrel, these figures represent record losses and the most negative margins since early 1983 when Opec lowered its benchmark from \$34/barrel to \$29/barrel.

Saudi light prices have held remarkably steady at \$27.75-\$28/barrel no doubt due to *almost a complete absence* of Saudi selling. By their own admission, the Saudis have been moving "somewhere" around 3.5 million barrels per day (mb/d), although we surmise that moving means moving oil from Saudi wells to Saudi ports and to Norbec tankers. How much longer the Royal family will "sacrifice" itself to maintain the line is

still a moot point, though one doubts it can be more than a few days or weeks. Brent crudes, on the other hand, after trading down to \$26/barrel were buoyed by the cold European weather, back up to \$27/barrel and have now settled uneasily in the \$26.60/barrel range awaiting further meteorological developments. Quite clearly, oil has become a "weather market" in much the same way as corn and soybeans react in seasons of heat and drought. Oil has come of age.

Interestingly enough, the US market, as we have been pointing out in recent months, has become the weakest in the chain, with West Texas Intermediate selling at sizeable discounts to Brent as against a normal 50¢ premium. With US demand weakening, it is difficult to envision a region likely to take up the slack, let alone give us an increase in demand for 1985 — especially in view of the impact of the rising dollar on oil prices in the rest of the world (see Chart 5).

Barring the persistence of polar weather in Europe, spot oil prices will resume their gradual descent. From time to time, an aggressive member of the cartel, in an attempt to reintroduce order or simply to gain market share, will leapfrog current levels and thus establish new and lower plateaus. The declining price charts will then show gaps and a certain amount of discontinuity. Thus traders will be unable to "fine tune" their short positions and will risk — if they take tempo-

rary profits — losing a winning position.

It would be far more prudent to just sell all and any rallies of at least 50 points and “forget” the opportunity to cash in on “extreme” weakness. After all, it all depends on your definition of “extreme.” As for us, extreme is a great deal

closer to \$5/barrel than to \$10/barrel.

STRATEGY: Pyramid your short position on 50-point rallies, or more.

Chart 4

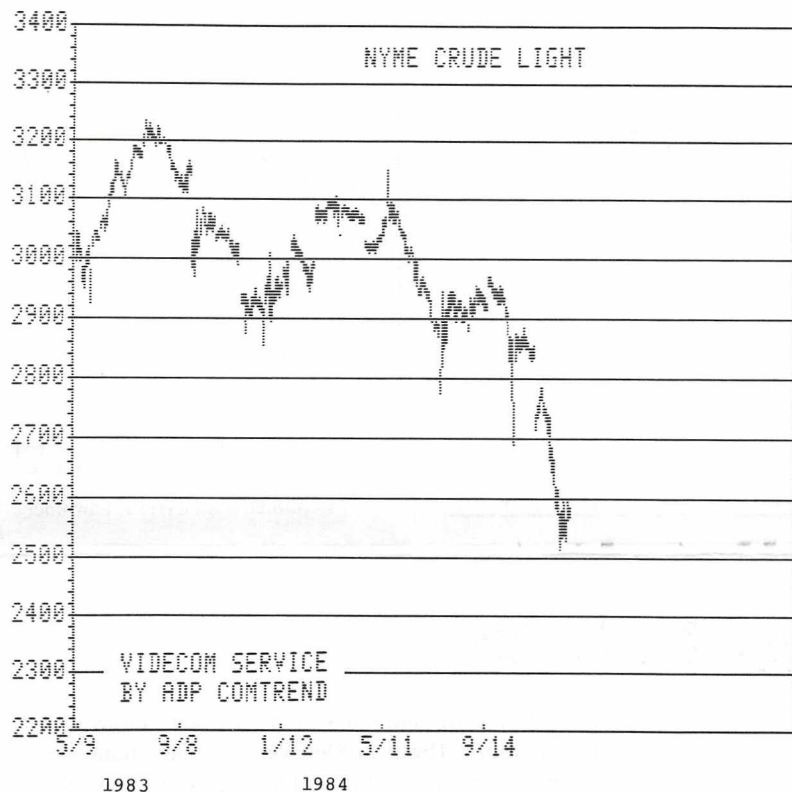
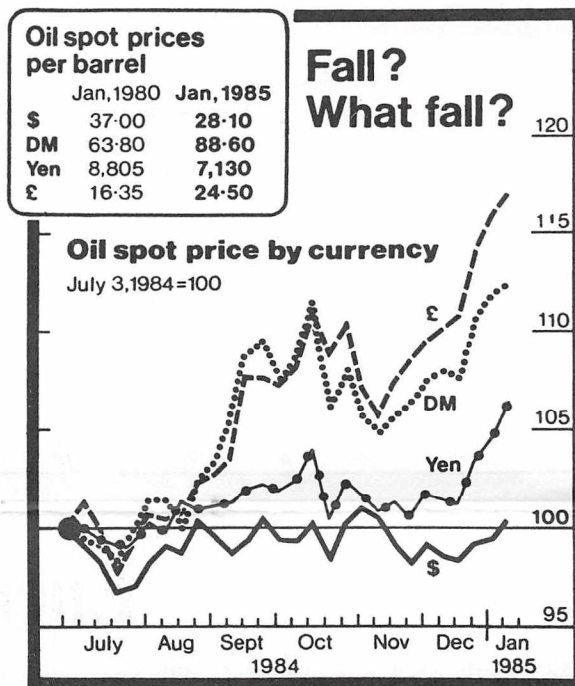


Chart 5



THE ECONOMIST JANUARY 12, 1985

Stock Indices

The market remains locked in a fairly broad trading range, bounded by the 1160-1245 levels in the Dow Industrials and the 161-171 level on the S&P 500. Market breadth continues to disappoint, while the new highs-new lows differential seems to be widening, *albeit very slightly*, in favor of the bulls. In the past two weeks, the broader-based Value Line has given a better account of itself relative to the blue-chip and narrow S&P 500 (see Chart 7), although it may just be another blip in a continuing decline. Sentiment indicators remain too bullish (and therefore, as good contrarians, we look at them bearishly) for comfort, and institutional cash is at a multi-year low

(another bearish omen).

Still, as we indicated in our November '84 issue, there is a good chance that the market will better the top end of the range so as to do what it knows best: Fool most of the people most of the time.

STRATEGY: We are quite anxious to reinstate short positions. Prudence being the better part of valor, we prefer selling on weakness. For the moment, sell March '85 S&P, should the cash index close below 160.00

Chart 6

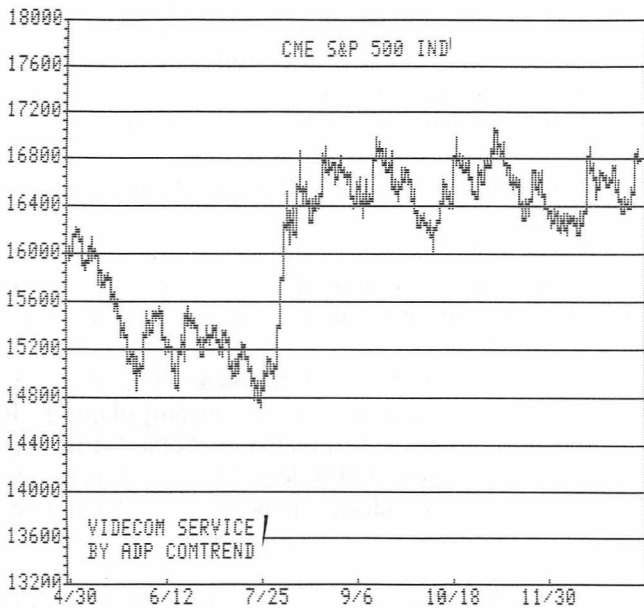
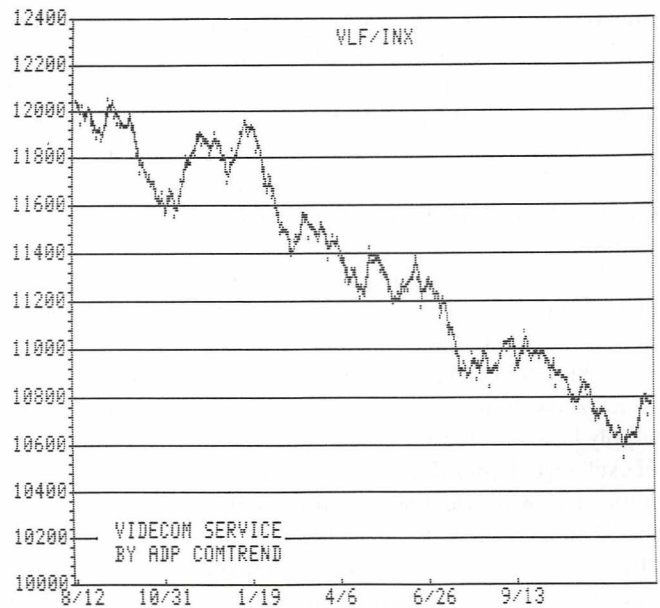


Chart 7



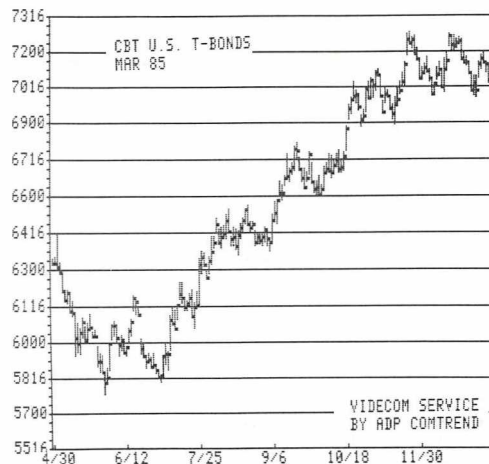
Interest Rate Futures

As indicated above, we expect nominal interest rates to move lower in coming months, primarily a result of the ongoing deflationary recession.

So long as the Fed does not reflate on a massive scale, bonds will rise.

STRATEGY: Remain long March '85 T-bonds, raising stops to 69.30, close only.

Chart 8



Currencies

The outstanding feature of the past four weeks is the continued strength of the dollar in spite of an adverse sharp narrowing of the interest rates differential vis à vis the Euro-Deutschemark, and the minor effect on the exchange rate of an acceleration in the growth of the US monetary base. Indeed, recent figures indicate that the growth in the adjusted monetary base has reaccelerated to a 9% pace over the past two months, with the bulk of the increase coming in the last two weeks.

Dollar buyers can be likened to drowning men who, for lack of air, strive desperately to reach the surface. Lenders must secure their dollar financing, while borrowers must raise the debt service. Chart 9, a chart we've presented in previous issues, shows how accelerations and decelerations of US money supply have a well-established effect on the US nominal rate of exchange: Upward spurts in money cause the US to weaken somewhat, while declines or even decelerations tend to firm the US unit. What is of interest *of late* is the rather pronounced effect a *mild* deceleration in the money supply has had on the rate of exchange: Unlike previous occasions where one would have expected only a slight strengthening of the US dollar, 1984 is characterized by a violent rise of the dollar, a sign that the "squeeze" has progressed to a new and more exciting level.

The British unit, has long been our main selling target (from the January 16, 1983, *Comments*: "One of the best trades of the year: Short Sterling with impunity. Look for the ridicu-

lously low target of \$1/£1 by year-end 1983." We were one year too early). Now it's finally given up the extraordinary real appreciation of the late '70s as a result of its becoming a petrocurrency. By one measure, such as the table prepared by the OECD (Chart 10), Sterling is grossly undervalued. Sterling, however, has as yet to bear the full brunt of the eventual fall of oil, which, we know, will take it at least to the lower teens or below.

The Brits must not lose their heads (as they have been doing to date) and must allow the freely floating exchange rate to find a grossly undervalued level (*not* its own level, because markets always overreact).

This is necessarily dictated by the Bank of England monetarist policies of merely controlling the quantity of money. It will probably become the first real-life test of a floating rate and how *it* copes — over a full cycle — with drastic changes in the terms of trade. We sincerely hope that the Bank of England follows through.

STRATEGY: On January 3 we reinstated short Sterling positions (see *Hotline Update*) having been previously stopped out. Lower stops to 117.75, basis March '85, close only. Lower stops on extremely profitable March '85 Deutschemark short positions to 32.40, close only. If short any other currency, such as Swiss franc and Japanese yen, use Deutschemark stops to exit these positions.

Chart 9

Nominal Rates of Growth of the U.S. Dollar and U.S.M1

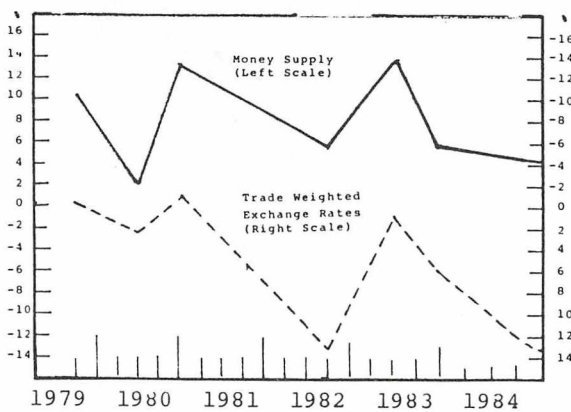


Chart 10

PARITY PURCHASING POWER EXCHANGE RATES					
	U.S.\$	£	DM	Yen	FFr
U.S.\$	1	0.549	2.330	209.0	4.740
£	1.821	1	4.244	380.7	12.28
DM	0.429	0.236	1	89.70	2.893
Yen	4.785	2.627	11.15	1,000	32.25
FFr	1.484	0.815	3.457	310.1	10
Lira 1,000	0.819	0.450	1.908	171.2	5.520

CURRENT EXCHANGE RATES					
	U.S.\$	£	DM	Yen	FFr
U.S.\$	1	0.866	3.168	253.1	9.693
£	1.155	1	3.655	292.0	11.17
DM	0.316	0.274	1	79.89	3.054
Yen	3.954	3.425	12.52	1,000	38.25
FFr	1.034	0.895	3.272	261.4	10
Lira 1,000	0.516	0.447	1.634	130.5	4.994

Source: OECD

Chart 11

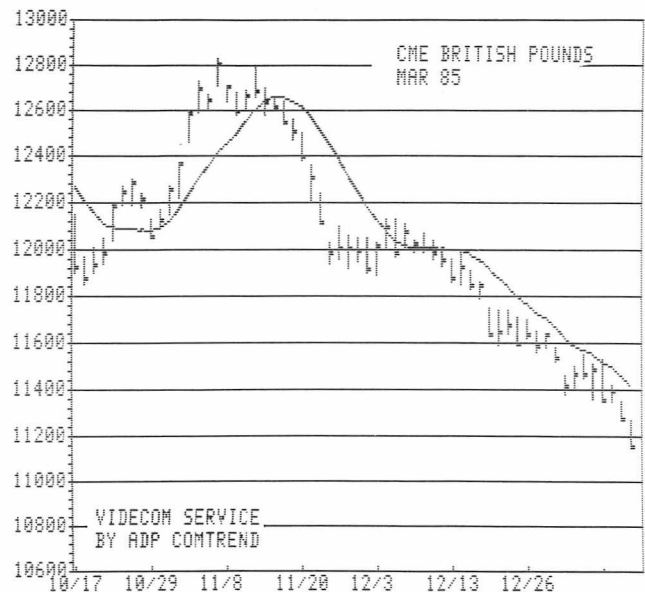


Chart 12

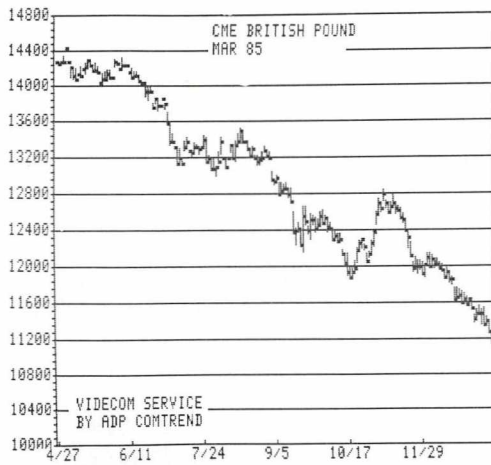


Chart 13

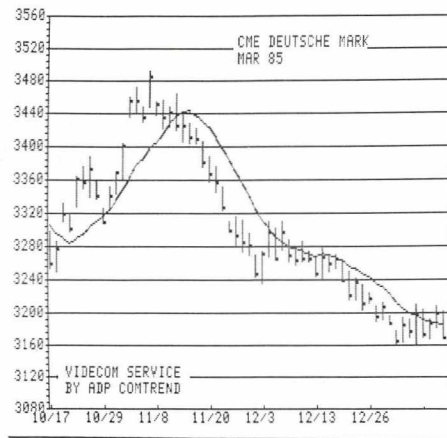


Chart 14

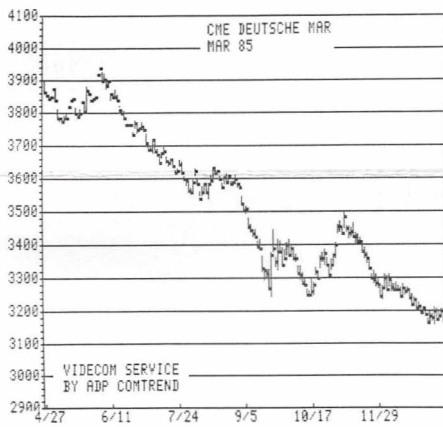


Chart 15

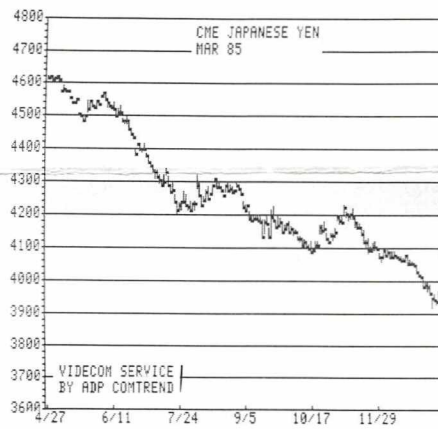


Chart 16

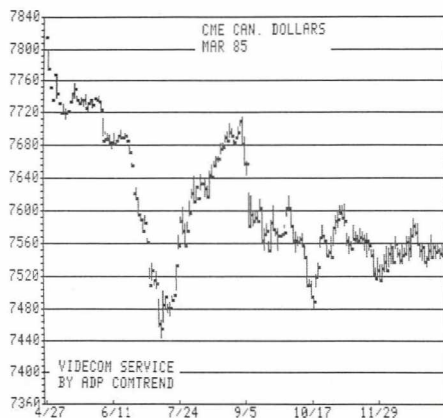
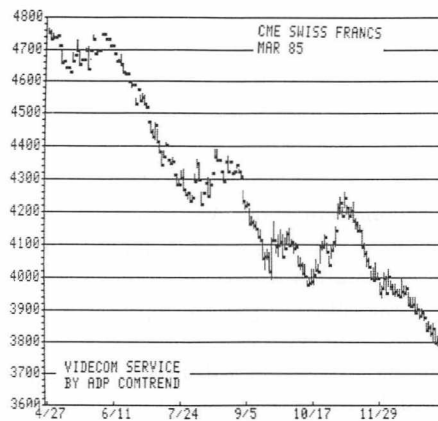


Chart 17



The Exotics

Spanish peseta

YEAR	PESETAS Per US\$ (Period End)	U.S. 1970 =1.00	U.S. 1978 =1.00	BASKET			
				U.S. Germany 1970 = 1.00	26% 26%	France U.K. 1978 =	30% 18% 1.00
1967	69.70	0.9740	1.7443	0.9788		1.3581	
1968	69.82	0.9678	1.7332	0.9672		1.3419	
1969	70.06	1.0022	1.7948	1.0032		1.3919	
1970	69.72	1.0000	1.7909	1.0000		1.3875	
1971	66.02	0.9132	1.6355	0.9761		1.3543	
1972	63.57	0.8376	1.5001	0.8870		1.2306	
1973	56.95	0.7148	1.2802	0.7912		1.0978	
1974	56.11	0.6766	1.2118	0.7805		1.0829	
1975	59.77	0.6733	1.2059	0.7562		1.0492	
1976	68.29	0.7070	1.2663	0.7801		1.0824	
1977	80.91	0.7167	1.2835	0.8729		1.2112	
1978	70.11	0.5584	1.0000	0.7207		1.0000	
1979	66.15	0.5068	0.9076	0.6857		0.9514	
1980	79.25	0.5961	1.0676	0.8129		1.1279	
1981	97.45	0.7061	1.2646	0.8319		1.1542	
1982	125.60	0.8438	1.5113	0.9253		1.2838	
1983	156.70	0.9694	1.7361	0.9926		1.3772	
1984 (1Q)	148.75	0.8755	1.5679	0.9031		1.2531	
1984 (2Q)	157.90	0.9235	1.6539	0.9181		1.2738	
1984 (3Q)	169.44	0.9735	1.7435	0.9209		1.2777	

Above 1.00 = undervalued
Under 1.00 = overvalued

Year	Foreign Assets (Mln US\$)	CURRENT ACCOUNT		CUMULATIVE 12 QTR.	
		As % of GNP	%	Current Account (Mln US\$)	%
1970	1520	0.2		- 510	
1971	2968	2.0		543	
1972	4436	1.1		1516	
1973	6110	0.8		2022	
1974	4402	-3.6		- 2067	
1975	2509	-3.3		- 6126	
1976	- 146	-4.0		-11039	
1977	- 395	-1.7		- 9939	
1978	3551	1.1		- 4791	
1979	5275	0.6		629	
1980	1097	-2.4		- 2411	
1981	595	-2.7		- 9034	
1982	- 4547	-2.3		-14402	
1983	4275	-1.6		-11709	
1984 (1)	5795				
1984 (2)	6960				

Hard Currency Cover (in millions of U.S. Dollars)
Reserves * 16,869
(Reserves / M1 ** 16,869/ 31,445 = 53.64%
(Reserves/Broad Money** = 16,869/115,254 = 14.63%

* As at Sept. 1984 ** Aug. 1984

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	24,758	65,144
1984 (2)	30,728	121,070
% increase (decrease)	24.11%	85.84%
Corresponding % increase in the United States	81%	146%

Outlook and recommendation: A still high inflation rate and a tragically high unemployment rate remain Spain's Achilles heel. Despite a dramatic turnaround in the current account, the peseta is vulnerable to purchasing power erosion and efforts to reflate. The peseta should weaken against the Deutschmark; however, forward discounts are already extremely steep, and quotes are too wide for reasonable speculative activity.

(a) 1983 Imports as percentage of GNP 18.05%
(b) 1974 - 1983 Imports as percentage of GNP 15.18%
1983/(1974-1983 average) = (a)/(b) 118.90%

Rates	Spot	1-Month	3-Month	6-Month	12-Month
	171- 173	173- 179	178- 190	183- 202	196- 210

Swedish kronor

YEAR	KRONOR per U.S.\$ (Period End)	U.S. 1970 =1.00	U.S. 1978 =1.00	B A S K E T		
				U.S. Germany Norway 1970 = 1.00	15% 25% 15%	U.K. Denmark Finland 1978 = 1.00
1967	5.1650	0.9612	1.3627	0.9571		0.9995
1968	5.1800	0.9858	1.3976	0.9776		1.0209
1969	5.1700	1.0107	1.4329	1.0115		1.0563
1970	5.1700	1.0000	1.4177	1.0000		1.0444
1971	4.8650	0.9126	1.2938	0.9906		1.0345
1972	4.7430	0.8697	1.2330	0.9304		0.9717
1973	4.5875	0.8358	1.1849	0.9426		0.9845
1974	4.0805	0.7502	1.0636	0.8918		0.9314
1975	4.3855	0.8021	1.1372	0.9207		0.9615
1976	4.1265	0.7246	1.0273	0.8240		0.8605
1977	4.6695	0.7832	1.1104	1.0001		1.0445
1978	4.2955	0.7054	1.0000	0.9575		1.0000
1979	4.1465	0.7066	1.0017	1.0117		1.0566
1980	4.3728	0.7434	1.0540	1.0885		1.1367
1981	5.5710	0.9328	1.3224	1.1576		1.2090
1982	7.2945	1.1933	1.6918	1.3479		1.4077
1983	8.0010	1.2403	1.7583	1.2985		1.3561
1984 (1Q)	7.7160	1.1654	1.6521	1.2289		1.2835
1984 (2Q)	8.1840	1.2271	1.7397	1.2371		1.2920
1984 (3Q)	8.5835	1.2868	1.8243	1.2186		1.2727

Above 1.00 = undervalued
Under 1.00 = overvalued

Year	Foreign Assets (Mln US\$)	CURRENT ACCOUNT	CUMULATIVE 12 QTR.
		As % of GNP	Current Account (Mln US\$)
1970	916	-0.8	-578
1971	1286	0.9	-110
1972	1950	1.3	654
1973	3267	2.7	2348
1974	3261	-0.9	1444
1975	4072	-0.4	535
1976	3443	-2.1	-2542
1977	3553	-2.6	-4171
1978	3263	-0.2	-4080
1979	369	-2.2	-4846
1980	-1221	-3.5	-7069
1981	-3119	-2.4	-9480
1982	-3748	-3.5	-10487
1983	-3717	-1.0	-7033
1984 (1)	-3661		-5477
1984 (2)	-3692		

HARD CURRENCY COVER (In millions of U.S. Dollars)

Reserves* + Previous 12-months current Account *** = 6300
(Reserves + 12-Months C/A) / M1 ** = 6300/7174 = 87.81%
(Reserves + 12-Months C/A) / Broad Money *** = 6300/44.823 = 14.05%

* As at Oct. 1984 ** Aug. 1984 *** 1984:1Q - 1984 4Q)

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	7,2937	19,1864
1984 (2)	11,8023	46,0618
% Increase (decrease)	61.81%	140.07%

Corresponding %
increase in the
United States 81% 146%

(a) 1983 Imports as percentage of GNP 28.57%
(b) 1974-1983 Imports as percentage of GNP 25.16%
1983/(1974-1983 average) = (a)/(b) = 113.55%

Outlook and recommendation: The twin effects of a 16% devaluation in October 1982 and the drastic fiscal measures taken since then have produced magic; the current account has moved to the plus side of the ledger after prolonged red ink, inflation has fallen, and Sweden is no longer "the sick man of Europe," boasting one of the lowest unemployment rates of the region. The currency remains undervalued, particularly vis à vis the Deutschemark and the other Scandinavian currencies.

Rates	Spot	1-Month	3-Month	6-Month	12-Months
	9.02-	9.04-	9.08-	9.12-	9.14-
	9.04	9.07	9.11	9.16	9.19

Forex Rates & Update

<i>Currency</i>	<i>Spot</i>	<i>3-month</i>	<i>12-month</i>	<i>Comments</i>
Australian Dollar	.8215-.8225	.8123-.8140	.7975-.8005	Neutral
Danish Kroner	11.33-11.34	11.43-11.45	11.52-11.58	Remain Short
Indonesian Rupiah	1078-1083	1115-1140	1225-1320	Remain Short
Kuwaiti Dinar	.30530-.30550	.30545-.30665	.30550-.30775	Remain Short
Malaysian Ringgit	2.4780-2.4800	2.4950-2.5020	2.5030-2.5350	Remain Short
Mexican Peso	225-227	246-254	320-333	Remain Short
New Zealand Dollar	.4715-.4725	.4620-.4645	.4390-.4500	Neutral
Portugese Escudo	1.71-1.72	1.78-1.86	1.84-2.00	Remain long against DM Short
Saudi Arabian Riyal	3.5810-3.5825	3.5845-3.5960	3.5850-3.5940	Remain Short
South African Rand	.4600-.4610	.4425-.4445	.4100-.4130	Neutral
Venezuelan Bolivar	12.60-12.80	12.80-13.15	13.50-14.10	Neutral

Hotline Update

Thursday, January 3, 1985: By now, having mortgaged your home, you are all firmly entrenched on the short side of crude oil futures. Our position remains adamant.

Reinstate short British pound positions with a stop at 11900 for March, close only.

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