

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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Fantastic Voyage

On the surface it seemed like a perfectly normal occurrence. After all, the US economy had given credible signs of retaking the high road, inflation was no longer a fashionable topic of conversation, interest rates (at least nominal rates) had returned from stratospheric heights, and the international debt bomb, so *Fortune* magazine proclaimed, had been defused. We refer of course to the sensational runup in stock prices between early January and last week.

Luckily, we had gotten off the tracks before the train began this fantastic voyage. Our November 11 issue warned that "chart and monetary considerations tell us that yet another rally, perhaps of significance, is in store." Having listed over the preceding months a litany of bearish fundamental factors, we proceeded to hang our hat on minor technical details: "The main indices are well above long-term moving averages and more importantly have spent *too much time* under a nearly perfect resistance level . . . This rather unusual formation tends to influence negatively the majority of market traders, who at the predetermined level (i.e., 1245 on the Dow Industrial) 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* (italics added). 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* . . . Here again, the evidence points to higher levels . . ."

On the monetary front, we posited that the Fed would have to reflate in the coming months to nudge upwards the below-target rate of growth of M_1 and monetary base. The Fed, as we all know, obliged in spades. We did point out that sentiment indicators were split, and we resolved the anomaly by leaning towards a short-term bullish and a longer-term bearish interpretation. In all, we suggested that the short position be covered as "a good sized rally may be in the offing."

Eighty Dow Jones points later, we are forced to review the weight of the evidence, and we now find little room to cheer. But, of course, before we move to read the entrails of our beast and provide you with a less-than-intellectual divination, we must go back to the ignored fundamentals.

We say that the US is in, or is about to enter, a recession.

The "facts" don't seem to support it; GNP was running at an annual 3.9% rate of growth in the fourth quarter 1984 and unemployment remains stable at the lower levels. However, it is also a fact that corporate profits peaked in the *second quarter of 1984*, and since then, unexpected surprises have nearly always been on the negative side. No less a luminary than Data General, a stock that went from 39 in late July 1984 to 73 last week, announced that profits might be down the quarter. In the words of DG president, Edson D. Castro, "All I know for sure is that orders were pretty weak for the last month. It came on us very, very rapidly." Pointing out that the weakness was across the board in the US, he added: "Orders have been very slow in closing. There's been a lot of talk and consumer interest, but little action." Not to be left behind, Digital Equipment, the number one factor in the business, let it be known that their US business has been "lackluster to date through this quarter. We think our customers are holding back, maybe have lost a bit of confidence in the economy." Strange observations from a leading quarter in Corporate America, if indeed we are still in a robust and healthy recovery.

What concerns us most, however, is the continual, unabated buildup of private debt. Starting from March 1984, businesses and consumers added to debt at an incredible 16%-17% clip *despite the fact that the economy had already begun its slowdown* and that retail sales had shown very meager gains. With every passing month, it becomes clearer that income gains were being achieved by increasingly disproportionate increases in debt — a process that must ultimately give way to debt liquidation. The US farming community is one of the first sectors to experience this painful adjustment. It has already managed to involve the good credit of the US Treasury, which feels impelled to intervene to save imprudent lenders. Will the rest of the economy follow as *its* earnings begin to

In this issue

We remain extremely bearish (and short) in energy futures; we believe the US has already entered a recession, making the dollar vulnerable; and we look again to outstanding reward potential in the good old Mexican peso. Contributions by Albert D. Friedberg and Daniel A. Gordon.

falter, forcing the Treasury to become the "bailer of last resort"?

The extraordinary complacency surrounding the international debt crisis has now been officially broken. The IMF failed to give Brazil the green light needed to proceed with the massive debt rescheduling operation agreed with its creditor banks. In fact, the IMF withheld a \$400 million draw and threatened to cut off the full \$1.5 billion due in 1985 for failure to comply with domestic monetary targets. In an exquisitely diplomatic phrase, the IMF expressed concern about the acceleration of inflation, "which has not come down as expected owing in part to deviations in the monetary area."

What are the Brazilian facts? Inflation soared to an annual rate of 300% in January '85 and for all of 1984 was double the IMF's tentative target of 120%. Of course, these numbers are well up from the expected 50% levels signed in the first letter of intent. Brazil had violated six letters of intent and was in the process of signing a seventh one. Money supply targets were never observed; in December alone, the monetary base rose a spectacular 38%, almost as much as the IMF had prescribed, not too much earlier, *for the entire year!*

Why did the IMF tolerate these flagrant violations? Clearly, because the creditor banks were satisfied with Brazil's external performance. Having piled up a stunning surplus of \$13 billion in 1984, up from a record-shattering surplus of \$6.5 billion in 1983, Brazil surprised even the most optimistic bankers and financial policymakers. In the fortunate words of *Fortune* magazine, "Brazil's economic resurgence probably did the most to bolster confidence that measures prescribed by the IMF would work . . . The Brazilian government set out with a vengeance to boost exports. It kept the cruzeiro undervalued against the dollar, adjusting the currency almost weekly. As the US economic boom roared along, so did Brazilian sales of soybeans, coffee, grains, steel, and a host of manufactured goods." Displaying a complete lack of understanding of what *really* went on, the magazine adds, "Brazil missed critical IMF targets, most notably on inflation," as if the trade surplus had nothing to do with missing the inflation targets.

The truth of the Brazilian trade surplus miracle is much less attractive than commonly believed. Direct and indirect export grants by way of loans carrying hugely negative interest rates were provided *primarily* by the official semi-central bank, Banco do Brazil, helping Brazil to increase exports by 30% in one year. At the same time, a nightmarish battery of import controls, licenses, and quotes pushed imports down 15% from 1983 and brought them down to 1977 (!) levels. It would appear that the *only* IMF measure Brazil did follow was the one to devalue the cruzeiro rapidly enough to avoid an increasing overvaluation.

Delfin Netto's (Brazil's economic czar) brilliant strategy would inevitably backfire — but perhaps long (enough) after a multi-year agreement was signed with the creditors and long (enough) after the military handed over the government to the democratic forces. The extraordinary monetary expansion needed to subsidize the export sector removed real resources from the rest of the economy, impoverishing the masses further. This magic act began to show serious cracks towards

the end of 1984. Monetary inflation accelerated (as it must), culminating in the explosive 38% rise in the monetary base during December. The trade surplus began to narrow: export levels were diminishing as *real* transfer of resources to this sector fell, and imports began to rise with the lifting of *some* restrictions. The January surplus of \$570 million was half recent levels. The miracle was fizzling before the finalization of the \$50 billion rescheduling agreement and before the mandated transfer of power. The gambit had failed.

Brazil is well on its way to hyperinflation, like Argentina, Peru, and Uruguay. If military governments could not impose the necessary adjustment, democratic ones will surely fail. The IMF *must* give up its role as the arbiter for the creditors; one-sided adjustments of excessive debts lead to debtor impoverishment through either hyperinflation or depression.

It has been said that bull markets climb a wall of worry. There are those in our profession who, watching the spectacular global bull market now in progress, argue that indeed, that *is* the proof the bull is alive and well. Unfortunately, the consensus view is that the US economy will grow 3.7% in 1985, that stocks are reasonably priced in relation to earnings, and that the international debt crisis is a thing of the past. The markets are, in fact, climbing a wall of complacency. The wall, however, is about to crumble.

And now, the promised look at the entrails of the beast. On the bullish side is the extraordinary series of consecutive up days, particularly breadth numbers. Historically, markets have continued to rise after this display of strength for at least 4-6 months.

On the bearish side, we find a very high bullish consensus typified by two weekly readings of around 90% bullish, an extremely low put-call ratio, and a continuing expansion of bullish advisers in the *Investor's Intelligence* poll, with the ratio now standing at 66% bullish and 17% bearish (see the change from November). The sentiment indicators are extreme, and signal *at the very least* a significant reaction. Also, specialist short sales have risen in recent weeks with the latest ratio at 43%, a bearish development. While recent new highs have advanced into the 200-220 area (on a 10-day moving average basis), a solid achievement, the overall level is significantly below the 320-330 levels seen in late 1982 and even the 230 levels seen in April/May 1983. The advance/decline line has as yet failed to confirm the new highs made by the averages, in spite of the sustained and dramatic improvement. Finally, the senior averages have failed to hold new highs and in the process last week recorded downside reversals.

None of this is to say that *the* crash or *a* crash is imminent. All we can certainly say, at this time, is that it is *inevitable*. Having been fortunate enough to escape unscathed from the most recent explosion, we are willing to *probe* the short side of the market with tight protective stops in the knowledge that ultimately, the rewards will be great.

STRATEGY: Sell June S&P at market; place stops at this week's highs (188.75), good anytime. Alternatively, buy June '85 S&P 500 puts at present levels; risk is limited to the cost of the option (about \$1,750).

Chart 1

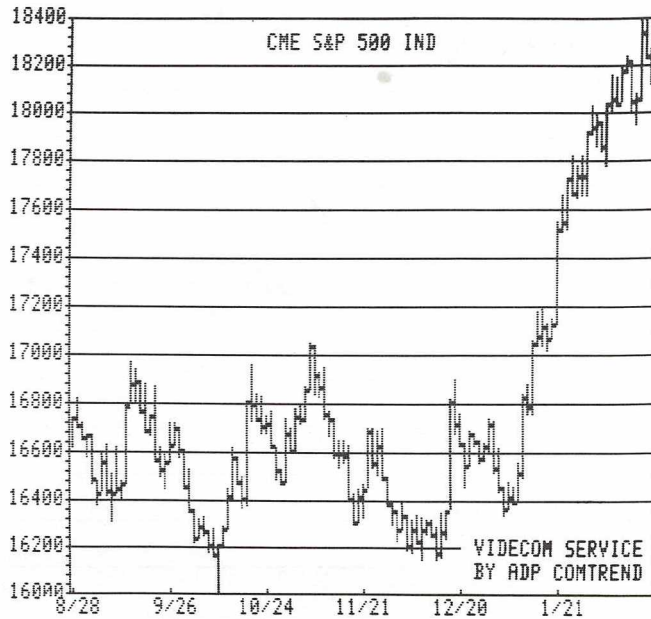
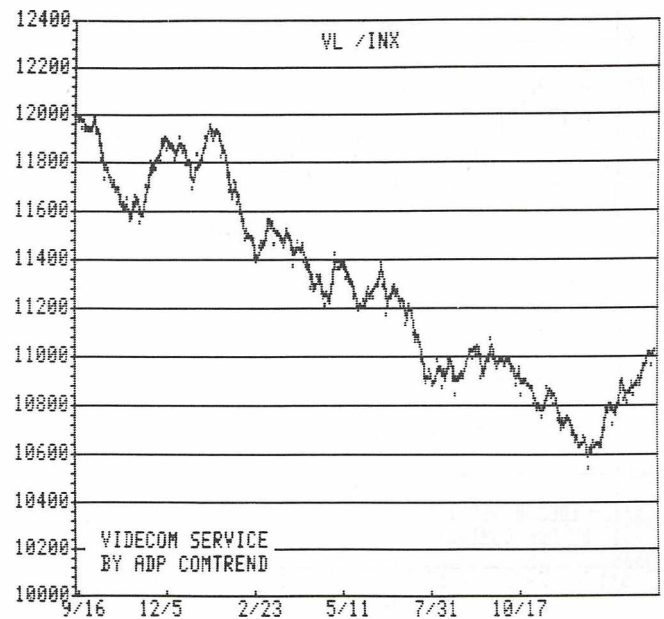


Chart 2



Energy Futures

The slight realignment of oil prices achieved by Opec at the end of January (see Chart 3) had little effect on the market. By then, North Sea Brent had recovered a full \$1 per barrel from the early January lows and was on its way to \$29/barrel, a remarkable recovery in five short weeks. Immediate delivery was squeezed by two factors: an unusually severe freeze over much of Western Europe and heavy short covering by sellers who anticipated a BNOc-induced price war. At the same time, Arab Light was falling gently below its new official \$28/barrel price. Belatedly, our West Texas Intermediate (WTI) responded by rising as much as \$3/barrel from its extreme lows. Currently, April and forward deliveries of WTI and Brent trade at parity but at substantial discounts from spot prices.

During the past week, BNOc reiterated its \$28.65/barrel price for January and February and committed to maintain this purchase price for the near future in an attempt to ingratiate itself with other Opec members. Since BNOc will again be facing weak markets over the next three months, it has once again painted itself into an impossible corner. As a gesture of goodwill, it would have been sufficient to confirm the January and February purchase price and then to have used the opportunity to unhook itself from OPEC by moving in the future to market levels.

Continuous Iraqi attacks on shipping using Kharg Island contributed to a significant drop in Iranian oil exports: 900,000 barrels per day in January and 1 million barrels per day (mb/d) in February, down from a normal level of about 1.7 mb/d. With Iranian international reserves dropping to \$4 billion or

less, a bare minimum to maintain its war economy, it is believed that the Iranians will once again be offering significant discounts to buyers of its crude.

As a start, they have again lowered prices to the levels prevailing late last year. Moreover, they have recently started to shuttle oil south from Kharg to Sirri Island, near the mouth of the Gulf, allowing some customers to load off Sirri from tankers acting as floating berths. Iran hopes thus to attract more buyers by removing the risks of an Iraqi air attack near Kharg Island.

There continues to be no sign of non-Opec restraint (Mexico is now back to producing at full capacity, having rescinded a 100,000 b/d cutback). Odds are that the smaller Opec members will follow Ecuador and raise output to compensate for the lower prices, thus putting increasing pressure on Saudi Arabia. The next few weeks will be crucial as more information is released on consumption and possible destocking. Preliminary estimates put destocking activity at no more than 700,000 b/d, a far cry from Sheikh Yamani's hopes of seeing a stock reduction of 3-4 mb/d. If true, the Saudi's patience will be severely tested.

We remain extremely bearish.

STRATEGY: In the Hotline update (see page 12), we suggested trading against the short position. This resulted in modest profits. We now feel that at these levels (around 27.50, basis April) there is little or no upside scope to attempt another trade and, as a result, advise maintaining a full short position.

Chart 3

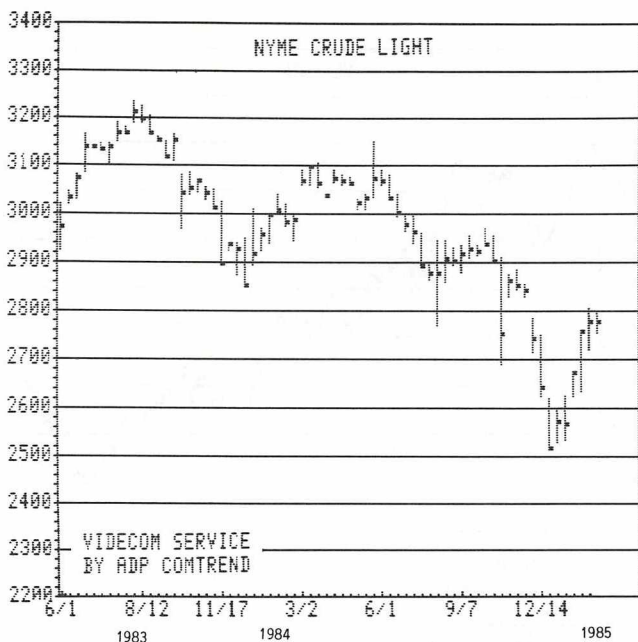


Chart 4

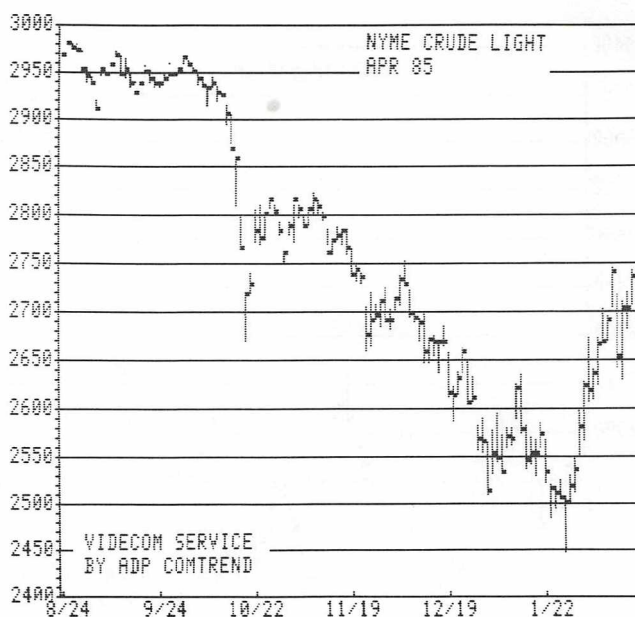


Chart 5

OIL PRICE CHANGES (\$ a barrel)			
	New price (from Feb 1)	Previous price (from Jan 1)	Price till end-December
Arabian Heavy (Saudi Arabia)	26.50	26.50	26.00
Arabian Medium "	27.65	27.65	27.40
Arabian Light "	28.00	29.00	29.00
Murban (UAE)	28.15	29.31	29.56
Bonny Light (Nigeria)*	28.65	28.00	28.00
BNOC †	-	-	28.65

* Official OPEC price \$30 since March 1983; Nigeria unilaterally cut to \$28 in October 1984.
 † No official price since end-December; price had been reduced from \$30 to \$28.65 in October 1984.

Financial Times

Currencies

Has the dollar peaked?

Maybe. We are wavering for the first time in four years because the consensus on the strength of the dollar has become overwhelming. *There is not a real bear in sight.* Curiously, the dollar bulls are so confident that they have dismissed the once much-feared threat of intervention as being a) ineffective, b) too small, and c) not likely to be joined by the US. These assumptions may be correct, but our instinct tells us that the concern of the G-5 has reached a climax and *that the US has begun to take this concern in earnest.* Commenting on last month's meeting of finance ministers, Mr. Baker, the new Treasury Secretary, said that the group had broadened ("liberal-

ized") its criteria for intervention: They would buy and sell currencies not only when markets turned disorderly but also to be "helpful." He added that the US, through the Fed and the Treasury, had moved into the market for purposes other than curbing disorderliness.

Intervention in a vulnerable market — and at this time the dollar may be vulnerable simply because many traders have jumped onto the bandwagon — can be extremely effective. Witness the Carter package of that fateful morning of November 1, 1978. Although it was later to establish slightly lower lows vis à vis the Deutschmark and the British pound, the dollar, for all practical purposes, bottomed out on that day.

While until recently we were confident that the spike

preceeding the top would be more climactic than what has already been witnessed, we now harbor serious doubts, mainly because the US may have been convinced of intervening, and because the market is quite vulnerable.

While until recently we were confident that a precondition for a top was a current account deficit equal to perhaps 4% or 5% of GNP (\$160-\$200 billion), we are willing to concede that a top can be made with a slightly smaller current account deficit. There is nothing magical about a current account deficit equal to 4% or 5% of GNP. And the US has for the first time in this century become a net debtor.

We also felt, quite confidently, that the international debt situation was underpinning the dollar both on the funding/lending side and on the repayment side and that therefore, it would take some outright defaults to release the pent-up pressure for dollar positions. While this argument cannot be dismissed lightly, we might not be too far from outright default from a number of quarters: Bolivia has not paid any interest since March 1984; Peru has fallen into increasing arrears and has moved its \$800 million of reserves out of New York as a precaution against lenders' seizing these funds; Nigeria has not nor is likely to accept an IMF-led economic plan, a short step away from outright repudiation; Brazil and Argentina

have entered the early stages of ruinous hyper-inflation, leaving little choice to the civilian governments but to force a settlement on their terms, and so on. In other words, defaults may begin to take place over the next few months, validating a possible reversal in the dollar.

Finally, in earlier Comments we have advanced the notion that currency peaks tend to coincide with, or follow by a few months, peaks in economic activity. Since we believe that for all practical purposes the US has already entered a recession, it would not be inconsistent to believe that a currency peak is imminent.

At this time, our main worry is the near unanimity of views regarding the dollar. The very strong bullish consensus has likely left the dollar in a very vulnerable technical position, lending success to any kind of concerted intervention.

STRATEGY: As per Hotline updates (see page 12), we have covered short Sterling and yen positions and lowered stops on the March Deutschemark to 31.20, close only. If stopped, we would now move to the sidelines, awaiting a significant reversal in sentiment. Lower stops on the March '85 Canadian dollar to 74.95, close only.

Chart 6



Chart 7



Chart 8

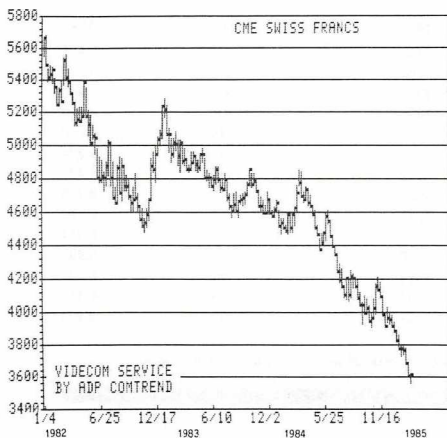


Chart 9

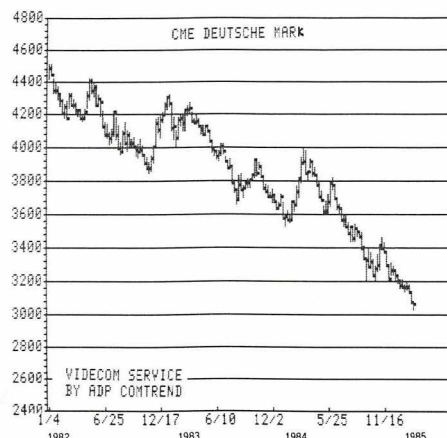
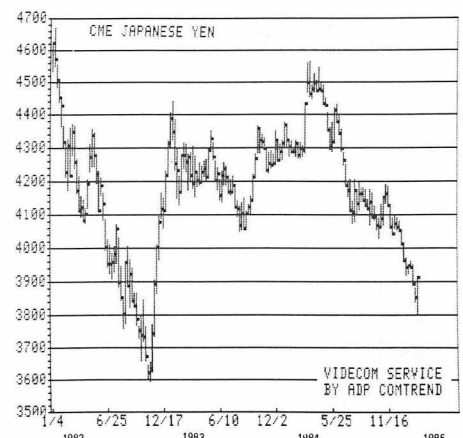


Chart 10



Mexico

A new run on the peso?

Here too, as in Brazil's case, appearances are deceiving. Mexico's great success (by creditor standards) was due almost entirely to three factors: a) a savage curtailment of imports, mostly by way of licenses and quotas, which took imports down in 1983 to *half of their 10-year average* (a fine way to promote economic growth!); b) a continuous rise in oil revenues (on the back of an austere Opec), particularly in local currency, which helped to narrow somewhat the fiscal deficit; and c) a large gain in non-oil exports, largely due to the extreme undervaluation of the peso throughout 1982, 1983, and early 1984.

The extraordinary lag in making available key economic statistics makes it difficult to provide an entirely accurate picture of the situation. It is known, however, that money supply grew in 1984 by 60%-65%, far in excess of IMF targets; that the fiscal deficit was closer to 9% of GNP than to 5.5% of GNP as promised in the letter of intent to the IMF; that the inflation rate soared to 60% in 1984, well above IMF expectations of 35% in spite of the "repressive" mechanism of using a lagging devaluation formula (at first, 13 centavos per day and now 17 centavos per day). For January, the CPI rose 7.4%, and of course, being Mexico, one can never be sure of how much "freedom" prices displayed (a large number of articles are price-controlled).

In an effort to regain some favorable momentum, the government announced a \$1.2 billion cut in the budget, of which \$465 million are in investment projects and \$700 million in government operating expenses. This minuscule 1.5% cut in the total 1985 budget (a budget that inevitably tends to drift upwards and goes through many revisions, even years later) is hardly credible in a year of important state, municipal, and congressional elections. As we already pointed out in our November 11 issue, the peso's rate of devaluation is much too slow. At this time, we are making the following assumptions: The peso is already slightly overvalued (and will affect non-oil exports and tourism); the rate of inflation for 1985 will easily exceed 1984's and may reach 80%-90% if labor unrest begins to spread. By February 1986, the peso would have to trade at between 390 and 400 pesos to the dollar rather than 279 pesos, which it would be if the government maintained its 17 centavos per day depreciation. This exercise *does not* take into account a restoration of the favorable real exchange rate of 1982-83 and a possible collapse in the price of oil. Using a moderate combination of these two worst case scenarios, the peso could trade at 700-1000 pesos to the dollar in 12 months, making it a very attractive short sale.

STRATEGY: *Forward rates (using, of course, the "financial peso", now at 235 p/\$), do not reflect the alarming deterioration in Mexico's finances. We believe that while risks are not excessive, the reward potential is outstanding.*

Chart 11



Chart 12

SCHEDULES OF PRINCIPAL PAYMENTS DUE ON THE PUBLIC DEBT BEFORE AND AFTER THE 1985-1990 RESCHEDULING (millions of U.S. dollars)

Year	Before	After
1985	9,758	1,911
1986	9,231	2,071
1987	14,137	1,937
1988	13,544	2,442
1989	12,165	3,772
1990	10,484	4,409
1991	1,000	5,290
1992	705	5,496
1993	468	5,760
1994	441	5,911
1995	359	5,896
1996	359	6,130
1997	359	6,410
1998	359	6,436

Source: Secretariat of Treasury and Public Credit.

Chart 13

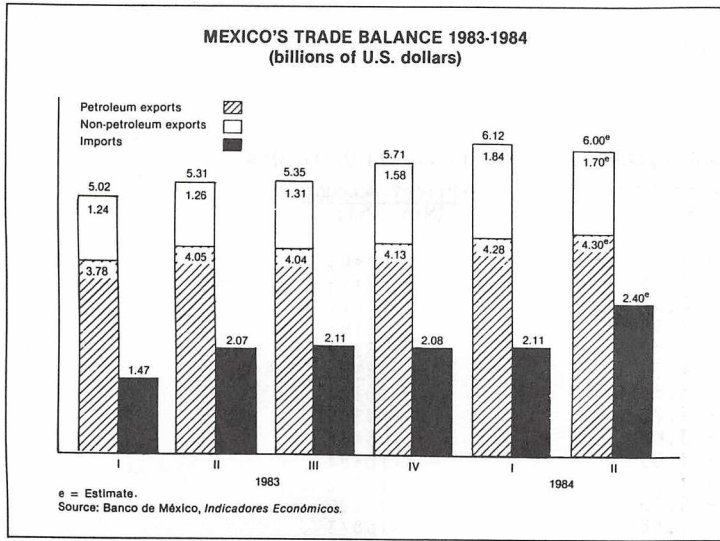


Chart 14

YEAR	MEXICAN PESOS Per U.S. dollar (Period End)	U.S. 1970=1.00	U.S. 1977-1.00
1967	12.5000	0.9574	0.8889
1968	12.5000	0.9725	0.9029
1969	12.5000	0.9907	0.9198
1970	12.5000	1.0000	0.9285
1971	12.5000	0.9876	0.9169
1972	12.5000	0.9748	0.9050
1973	12.5000	0.9223	0.8563
1974	12.5000	0.8285	0.7692
1975	12.5000	0.7839	0.7279
1976	19.9500	1.1443	1.0624
1977	22.7360	1.0771	1.0000
1978	22.7240	0.9855	0.9150
1979	22.8030	0.9318	0.8651
1980	23.2560	0.8532	0.7922
1981	26.2290	0.8306	0.7712
1982	96.4800	2.0388	1.8930
1983	143.8000	1.5542	1.4430
1984 (1Q)	155.6300	1.2366	1.1481
1984 (2Q)	167.4600	1.1926	1.1073
1984 (3Q)	179.2900	1.1740	1.0900

Above 1.00 = undervalued
Below 1.00 = overvalued

Chart 15

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

Reserves * Previous 12-months current account *** = 14186
 (Reserves + 12-Months C/A)/ M1** = 14186/9397=150.96%
 (Reserves + 12 Months C/A)/Broad Money ** =14186/41829=33.91%

* As at Sept.1984** July 1984*** 1983 3Q - 1984 2Q

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	6680	9208
1984 (July)	9397	41829
% Increase (decrease)	40.67%	354.26%
Corresponding % increase in the United States	100.36%	152.11%

- (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%

Source: IFS

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	232 -	239 -	255 -	279 -	332 -
	234	243	260	287	344

	BID	OFFER	
Controlled Market	217.04	218.54	Pesos per Dollar
Free Market	200.28	200.48	Pesos per Dollar

Chart 16

Year	Foreign Assets (Min US\$)	CURRENT ACCOUNT As % of GDP	CUMULATIVE 12 QTR. Current Account (Min 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	-	-10343
1984 (2)	5,653	-	- 4672

Precious Metals

The stubborn resistance to further downside progress may be the precursor of a worthwhile rally, especially if the dollar weakens in the weeks ahead.

STRATEGY: Traders may institute long positions at these levels, risking 299.00, basis April '85 Comex gold and 625, basis Comex July silver, all close only.

Chart 17

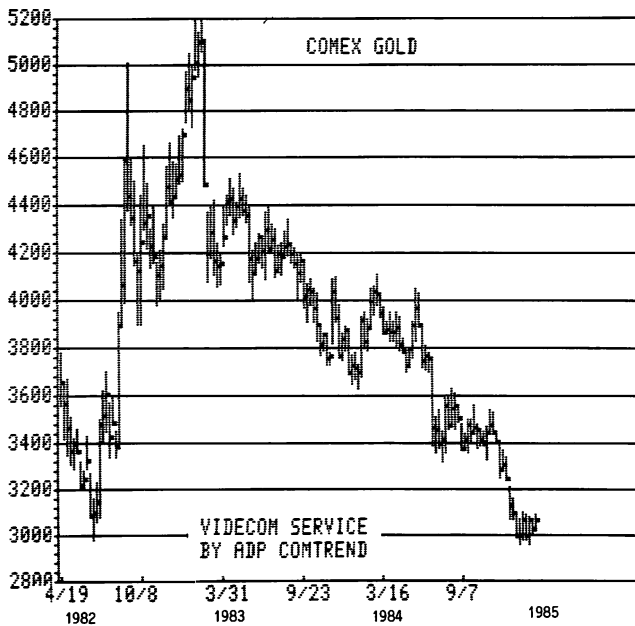


Chart 18



Interest Rate Futures

Unabated credit demands, prospects for a wider federal deficit than originally anticipated, and the possibility that the Fed may have ended its easing phase all conspired to lift interest rates, particularly at the short end. Unusually large dealer inventories (caused by bullish sentiment and favorable carrying charges) have weakened the technical underpinnings of this market and left it vulnerable to a severe bear raid.

We are still of the opinion that *nominal* rates, for the better part of 1985, will continue to fall. Not so real rates, which are likely to rise well past the initial months of the

recession. Nevertheless, for the near term, nominal rates are headed up.

STRATEGY: As per Hotline update (see page 12), we liquidated profitably our long March '85 T-bills position. We will wait for the markets to become far more oversold before we suggest reentering the long side. Maintain the much-maligned March '85 Ted spread; it has shown a remarkable recovery (see Chart 20), perhaps anticipating an unfavorable development in the international debt crisis.

Chart 19

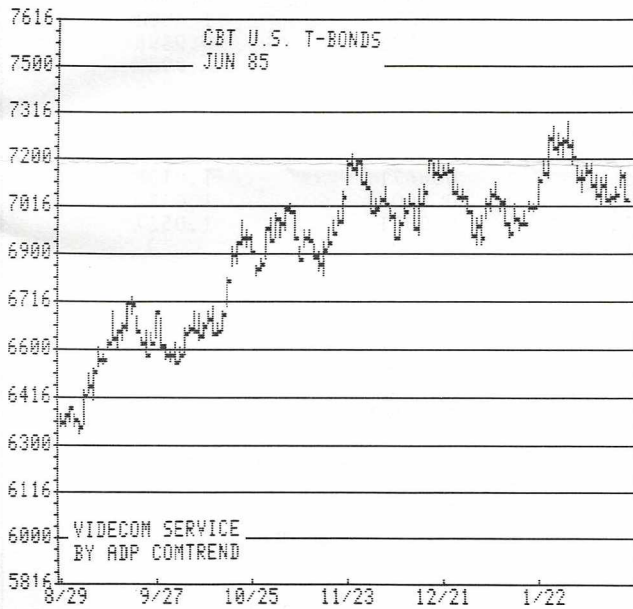
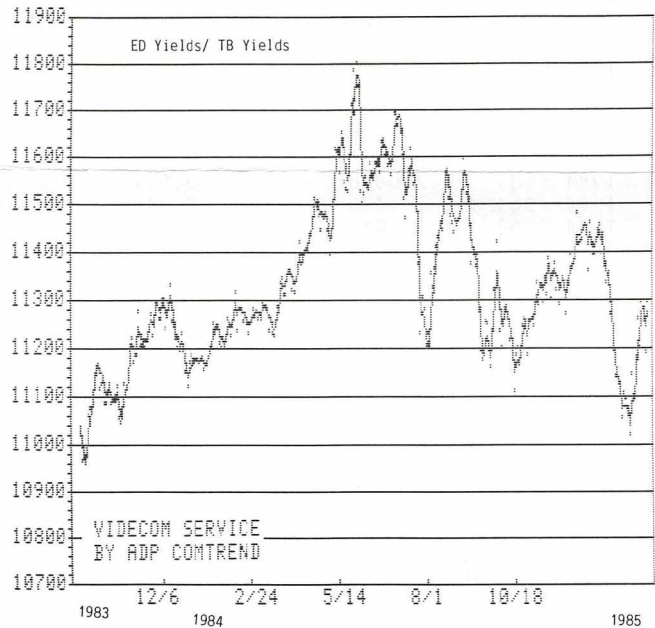


Chart 20



The Exotics

Singapore dollar

YEAR	SINGAPORE \$ per U.S.\$ (Period end)	B A S K E T			
		U.S. 1970=1.00	U.S. 1977=1.00	U.S. 1970=1.00	Japan 26% Saudi Arabia 13% Malaysia 30% 1977 = 1.00
1967	3.0700	0.8635	1.1509	0.9027	1.0575
1968	3.0800	0.8976	1.1964	0.9252	1.0839
1969	3.0900	0.9514	1.2681	0.9639	1.1292
1970	3.0800	1.0000	1.3328	1.0000	1.1715
1971	2.9000	0.9653	1.2866	0.9790	1.1470
1972	2.8200	0.9485	1.2642	0.9685	1.1346
1973	2.4861	0.7431	0.9905	0.8095	0.9484
1974	2.3120	0.6264	0.8349	0.7114	0.8334
1975	2.4895	0.7171	0.9558	0.7870	0.9220
1976	2.4555	0.7631	1.0171	0.8507	0.9966
1977	2.3385	0.7503	1.0000	0.8536	1.0000
1978	2.1635	0.7124	0.9495	0.8193	0.9598
1979	2.1590	0.7608	1.0140	0.8501	0.9959
1980	2.0935	0.7721	1.0290	0.8388	0.9826
1981	2.0478	0.7699	1.0261	0.8262	0.9679
1982	2.1085	0.8101	1.0797	0.8571	1.0042
1983	2.1270	0.8334	1.1107	0.8786	1.0293
1984 (1Q)	2.0880	0.8175	1.0895	0.8671	1.0158
1984 (2Q)	2.1325	0.8458	1.1272	0.8903	1.0430
1984 (3Q)	2.1630	0.8637	1.1512	0.9011	1.0557

Year	Foreign Assets (Min US\$)	CURRENT ACCOUNT		CUMULATIVE 12 QTR.
		As % of GNP	%	Current Account (Min US\$)
1970	1050	-30.2		- 896
1971	1329	-32.2		-1487
1972	1525	-17.1		-1791
1973	1841	-12.7		-1738
1974	2466	-20.3		-2035
1975	2770	-10.3		-2124
1976	2983	- 9.7		-2172
1977	3351	- 4.5		-1446
1978	3511	- 5.8		-1315
1979	5177	- 7.8		-1484
1980	5684	-14.3		-2753
1981	6197	-10.5		-3682
1982	6843	- 8.9		-4246
1983	6318	- 5.8		-3638
1984 (1)	6351			
1984 (2)	6328			

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

Reserves* + Previous 12-months current account *** = 9361
 (Reserves + 12-months C/A) M1** = 9361/5799 = 246.40%
 (Reserves + 12 months C/A) Broad Money ** = 9361/11916 = 78.85%

* As at Aug. 1984 ** Aug. 1984*** 1983 1Q-1983 4Q

Figures in millions of U.S. Dollars

	M1 (converted to U.S. dollars)	Broad Money (converted to U.S. dollars)
1973	1058.6	2454.4
1984 (Aug)	3799.2	11916.7
% Increase (decrease)	258.89%	385.52%

Corresponding %
increase in the
United States: 99.33% (R) 153.60% (R)
(R) Revised

(a) 1983 Imports as percentage of GNP = 160.33%
 (b) 1974 -1983 Imports as percentage of GNP = 171.23%
 1983/(1974-1983 average) = (a)/(b) = 93.63%

Source: IFS

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	2.2350 -	2.2307 -	2.2217 -	2.2110 -	2.1875 -
	2.2400	2.2367	2.2277	2.2180	2.2075

Outlook and recommendation: A classic case of huge capital inflows causing large domestic credit expansion and consequently an inordinately large current account deficit.

As the economy slows and Singapore's real estate and stock markets continue to slump, capital inflows will, no doubt, recede, leaving behind a difficult adjustment.

We expect the recent weakness in the Singapore dollar to continue.

Norwegian krone

YEAR	NORWEGIAN KRONER PER U.S.dollar (Period end)	B A S K E T			
		U.S. 1970=1.00	U.S. 1979=1.00	U.S. GERMANY NETHERLANDS 1970 = 1.00	10% 25% 21% SWEDEN U.K. 21% 36% 1979 = 1.00
1967	7.1500	1.0156	1.5898	1.0137	1.0676
1968	7.1500	1.0205	1.5975	1.0110	1.0648
1969	7.1500	1.0468	1.6387	1.0431	1.1038
1970	7.1400	1.0000	1.5654	1.0000	1.0532
1971	6.7100	0.9200	1.4402	1.0151	1.0690
1972	6.6400	0.8809	1.3789	0.9500	1.0005
1973	5.7275	0.7488	1.1722	0.8437	0.8886
1974	5.2050	0.6907	1.0812	0.8229	0.8667
1975	5.5850	0.7246	1.1343	0.8338	0.8782
1976	5.1850	0.6524	1.0212	0.7326	0.7715
1977	5.1395	0.6309	0.9875	0.8138	0.8570
1978	5.0225	0.6141	0.9613	0.8505	0.8957
1979	4.9260	0.6388	1.0000	0.9495	1.0000
1980	5.1800	0.6885	1.0778	1.0694	1.1262
1981	5.8075	0.7495	1.1733	0.9612	1.0123
1982	7.0540	0.8673	1.3576	0.9919	1.0446
1983	7.7425	0.9062	1.4186	0.9496	1.0001
1984 (1Q)	7.5110	0.8664	1.3563	0.9119	0.9604
1984 (2Q)	7.9915	0.9175	1.4362	0.9174	0.9662
1984 (3Q)	8.7620	1.0068	1.5760	0.9368	0.9866

Above 1.00 = undervalued
Under 1.00 = overvalued

Year	Foreign Assets (Min US\$)	CURRENT ACCOUNT As % of GNP %	CUMULATIVE 12 QTR. Current Account (Min US\$)
1970	893	-2.1	-106
1971	1061	-4.1	-640
1972	1248	-0.4	-827
1973	1514	-1.9	-950
1974	1769	-4.8	-1542
1975	2150	-8.8	-3961
1976	2042	-12.2	-7342
1977	1928	-14.3	-11258
1978	2785	-5.3	-10883
1979	3560	-2.3	-8181
1980	3909	1.9	-2049
1981	4725	3.9	2238
1982	5232	1.2	3957
1983	4751	4.1	5063
1984 (1)	4514		
1984 (2)	5094		
1984 (3)			

HARD CURRENCY COVER (In millions of U.S. Dollars)
Reserves * + Previous 12-months current account *** = 13310
(Reserves + 12-months C/A) M1** = 13310/8474 = 157.06%
(Reserves + 12-months C/A) Broad Money ** = 13310/28325 = 46.99%

* As at Nov.1984 ** Aug. 1984 *** 1984 1Q-1984 4Q (E)

Figures in millions of U.S. Dollars
M1 (Converted to U.S. Dollars) Broad Money (Converted to U.S. Dollars)

1973	4506	11,804
1984 (Aug.)	8474	28,325
% Increase	88.06%	139.96%
(decrease)		

Corresponding % increase in the United States 99.33% (R) 153.60% (R)

(R) Revised (E) Estimate

(a) 1983 Imports as percentage of GNP = 25.80%
(b) 1974-1983 Imports as percentage of GNP = 30.94%
1983/(1974-1983 average) = (a)/(b) = 83.38%

Source: IFS

Outlook and recommendation: A relatively well-managed petro-economy: Gains from the oil bonanza have gone to increase revenues and have pushed up the real value of its currency (on a basket basis) by approximately 15% since 1980. We could argue that the oil increase should have been spent to increase the standard of living through higher imports. This, however, has clearly not been the case, as imports have shown a steady decrease since 1980.

As a result, a collapse of oil prices will catch the Norwegians well prepared and we do not think that the krone will depreciate much vis à vis the basket.

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	9.3900 -	9.4150 -	9.4630 -	9.5150 -	9.5835 -
	9.3950	9.4250	9.5300	9.5300	9.6085

Forex Rates & Update

Currency	Spot	3-month	12-month	Comments
Australian Dollar	.7380-.7390	.7290-.7305	.7180-.7210	Oversold; Short-Term Buy
Danish Krone	11.71-11.72	11.75-11.77	11.75-11.78	Remain Short
Indonesian Rupiah	1089-1094	1114-1164	N/A	Remain Short
Kuwaiti Dinar	.30850-.30860	.30820-.30900	.30650-.30900	Remain Short
Malaysian Ringgit	2.5325-2.5375	2.5495-2.5595	2.5575-2.5925	Remain Short
New Zealand Dollar	.4565-.4575	.4440-.4460	.4190-.4300	Neutral
Portugese Escudo	179-182	185-197	204-222	Remain Long Against DM Short
Saudi Arabian Riyal	3.5820-3.5830	3.5905-3.5945	3.5850-3.5930	Remain Short
South African Rand	.5235-.5245	.5052-.5072	.4630-.4650	Neutral
Spanish Peseta	181-182	183-184	186-188	Forwards have narrowed: Sell
Swedish Krona	9.26-9.27	9.38-9.40	9.55-9.58	Neutral
Venezuelan Bolivar	13.25-13.45	13.38-13.68	13.95-14.85	Neutral

Hotline Update

Thursday, January 17, 1985: Our new market letter is in the mail. An additional recommendation is to sell the March Canadian dollar at the market with buy stop at 7595, close only.

Thursday, January 31, 1985: We have several new recommendations as of the close of today's trading. 1. Liquidate the long T-bond position at the market. 2. Speculators should cover profitable short British pound positions and sell short June Japanese yen at present levels. Commercial hedgers, however, may remain short British pound, lowering stops to 115, basis March, close only. 3. Lower stops on March crude oil to 2653, good anytime, and lower stops in April crude oil contracts to 26.50, close only.

Friday, February 1, 1985: A summary of the recommendations since our newsletter of January 15. 1. In the recording of January 31, you were told to cover March crude oil at 26.53, good anytime. This position was stopped today. 2. In the same recording, you were told to cover April crude oil at 26.50, close only. This recommendation has been changed to the following: Cover between one third and one half of your entire crude oil position should April crude close above 26.40. Make sure it is a stop on close only. 3. As of this morning, you are short the June Japanese yen at 39.35 with a stop at 39.30, close only. This recommendation was also made in the same recording. 4. As per yesterday's recording, you have liquidated the long March T-bond position at approx. 72.27. 5. Retain short March Deutschemark position and lower stops to 32.15, close only.

Flash message, Thursday, February 7, 1985: Cover another third of your April short crude oil position. With this operation, you should be out of at least 66% and as much as 83% of your original short position. Please keep in close contact for reentry trading advice.

Tuesday, February 12, 1985, 10:00 a.m.: Flash Bulletin. Reestablish *total* short position in crude oil futures at the market. **Flash Bulletin.** 1. Cover short Japanese yen position at the market. 2. Lower stops on short Deutschemark positions to 3081, basis March, close only. 3. Commercial hedgers who are short British pound should lower stops to 10960, basis March, close only. There will be a recap of this week's trading advice after the close of today.

Friday, February 15, 4:00 p.m.: We now give you a recap of the positions you presently hold as a result of Hotline changes made since our last issue: In the currency area: You are still short March Canadian dollar (as per January 17); lower stops to 74.95, close only. You are still short March Deutschemark; lower stops to 3120, close only; make sure to ignore this morning's stop advice of 30.81, close only, which was not triggered. You are out of the Japanese yen and the March British pound. In other areas, you liquidated T-bonds long positions as per January 31. You are now, once again, short crude oil futures after having traded a partial position for some modest profits.

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