FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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The Fed is at it, again...

Promises, promises. In February of this year, the Fed set monetary targets that, thus far, have been handily exceeded. Specifically, instead of a maximum 7% annual rate of growth for M1 and 9% for M2, money grew at a 10.5% and 12% respectively annual clip in the first quarter of 1985. For the past two months, the adjusted monetary base and adjusted Fed credit have grown at a 10.6% annual rate, thus supporting the view that Fed policy has been rather expansionary.

Of course, the Fed has had some justification. The economy, as we have been insisting for the past few months, is losing momentum quite rapidly and may indeed have already entered the third recession in five years. The evidence has been accumulating: First quarter GNP increased at a sluggish 1.3% annual rate; consumer spending fell 0.5% in March; State unemployment claims have once again risen above the 400,000 mark; Texas Instruments, a premier semi-conductor company, announced large layoffs and slumping earnings; and, finally, corporate after-tax profits have been revised downwards for the fourth quarter of 1984 to $141 billion from the original $142.3 billion and down from the $150.6 billion of the first quarter of 1984. As readers will recall, it is this squeeze in corporate margins that has given us advance warning of a slowdown; it is hardly likely to reverse itself before some hard blood-letting. This is so in view of the massive leveraging-up of corporate balance sheets that has occurred since 1979 and, more pronouncedly, since late 1982.

Sluggish economic growth, expresses itself in monetarist jargon as a slowdown, or fall, in velocity. As Mr. Preston Martin, vice-chairman of the Federal Reserve Board argued, the economy's performance in the first quarter indicated money velocity may be "flat or even slightly declining" during the year. This would provide the Fed with a justification for *abandoning its targets* and allowing the money supply to grow at rates above the target rates set in February.

Strangely enough, velocity, if measured by either the ratio of *debt accumulation to money* or by demand deposit turnover, does not seem to support the view that it is "flat or even slightly declining." Chart 1 shows the ratio of the increase in non-financial debt to the adjusted monetary base (high-powered money). Decreases in the ratio would point to a reliquification process (or falling velocity) as indeed occurred in the mid-1981 to end-of-1982 period; increases in the ratio point to rising velocity as the same dollar of money turns over via debt extension many times faster. This phenomenon (rising velocity) has prevailed since late 1982 and as recently as mid 1984 reached new post-war highs (with only a very minor change at end of 1984).

Is there something amiss? We think not. Large liquidity injections (the Fed has been fairly generous over the past few years) have gone to lubricate speculative deals that have added little or nothing to the process of wealth creation. The pace of takeovers and leveraged buyouts has mounted frantically and has now reached insanity; multibillion dollar deals are being offered and consummated with free access to easy credit: There seems to be no end to the silliness. Of course, the accelerated formation of debt implies a rising level of velocity — *of financial or speculative velocity*.

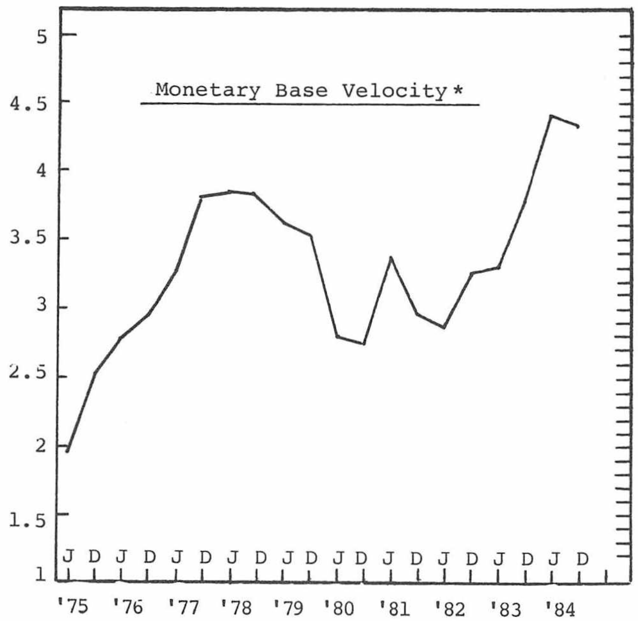
By suggesting a speed-up in monetary inflation to compensate for the fall in velocity observed in the *real sector*, Mr. Martin wants to douse the fire by pouring on more kerosene. It is all too clear that an acceleration in the rate of growth of money supply will lead to *more* speculation, more financial legerdemainship that degenerates into ESM, Financial Corporation of America, Beverly Hills Savings & Loan, and so on. Easy money, easy credit is no recipe for real economic growth. *Au contraire*, it will end up destabilizing the economy as one financial crisis after another will erode business and consumer confidence.

There are strong recessionary pressures building up in the US economy that cannot be stopped by pouring in more money. Further, little help can be expected from an already compromised fiscal position. The recession has to run its course. The sooner, the better.

In this issue

The stock market is due for a dose of reality, so we remain short; we're bearish on oil again, and still expect prices to drop a lot further; we look for an upleg in precious metals; and we believe the dollar will continue to weaken — for a while longer.

Chart 1



* Total Funds Raised (all Sectors)
Adj. Monetary Base

Source : Federal Reserve Bulletin

Stock Indexes

An extraordinary tug of war has developed: On one hand, corporate profits are vanishing, making inevitable the final downward readjustment of price-earning ratios; on the other, plentiful money has kept the takeover merry-go-round alive with as many as six to ten multibillion dollars deals on the burner. This dramatic standoff could yet climax into another run-up, although technical evidence seems to point the other way.

We list some of the most important negative technical factors:

1. The continued drop in the Value Line index relative to the narrow and more blue-chip weighted S&P 500. No genuine bull market can survive this narrowing leadership (Chart 2).

2. While on April 25 both the NY Stock Exchange Composite Index and the S&P 500 recorded new all-time highs, only 140 individual stocks made new highs that day, compared with 309 that did so on January 30, the previous peak. Prominently displayed in the new highs list were takeover targets and preferred stocks. In fact, it was hard to find a stock that made a new 12-month high because of favorable earnings prospects. The infatuation with assets and the total disregard for earnings is the distinguishing mark of this "bubble."

3. A respectable number of initial public offerings (IPO's) in the past two weeks have fallen below issue price, a sign that perhaps the appetite for equities has been satiated (see Chart 3).

Chart 3 **SELECTED NEW ISSUES**

	Initial Offer Price	IOP Date	Most Recent Bid
Exposaic Industries (EXPO)	$13⅞	4/25	12½
Bush Industries (BSH)	13	4/24	12⅞
Modulaire Industries (MODX)	9½	4/23	8¾
Best Buy (BBUY)	13½	4/18	12½
Bridge Communications (BLAN)	12	4/18	12¼
Sierra Health Services (SIE)	12½	4/12	13¾
Rainier Realty Investors (RRETS)	10	4/12	10⅛
Grubb & Ellis Realty Income (units)(GRB)	20	4/10	16½
Encore Computer (ENCC)	5	4/10	5⅛

Barron's April 29, 1985

4. The downside penetration of GM's 1982-1984 uptrend, signalling an important trend reversal.

On a more positive note is the relatively high level of odd-lot short sales and the market's refusal to break below recent lows despite highly negative earnings reports.

The market cannot continue to be divorced from reality for very much longer, and the reality is that the economy is softening seriously in the face of rising indebtedness. Stock values are headed considerably lower in the 1985-1986 period.

STRATEGY: *Remain short the June S&P 1985 with stops at 186.00, close only. Also, retain June '85 S&P 500 put options, 180 strike, as they represent excellent value.*

Chart 2

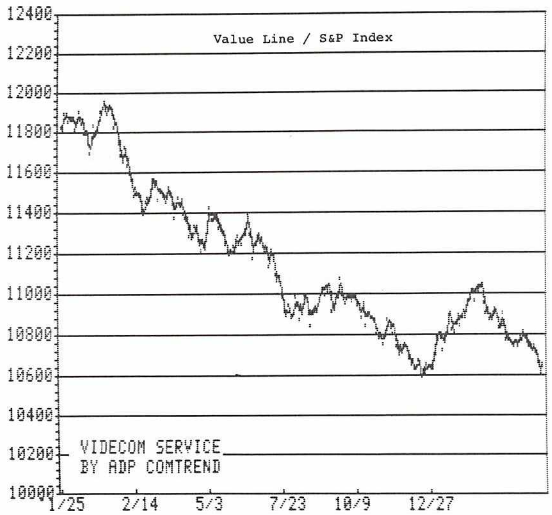
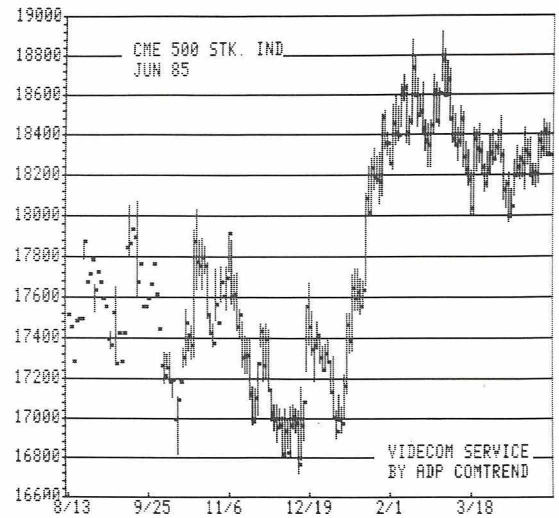


Chart 4



Energy Futures

In recent weeks, crude prices have come under renewed pressure, particularly in Europe. North Sea Brent has traded down to the low 27's, while Arab Light has been quoted as much as 50 cents off the new official price of $28/barrel.

In the US, strong product markets, particularly gasoline, have supported the West Texas Intermediate crude (WTI), forcing it to a substantial premium above North Sea Brent. Only Nigerian crude, such as Bonny Light and Brass River, are as gasoline-rich as the WTI, and they have been offered at $29.00-$29.25 CIF US Gulf for May delivery, making them competitive with WTI at Cushing. Furthermore, the more accessible crudes (to Gulf refiners) have commanded strong premiums over Cushing. This is why Midland has traded at $29.45 and Light Louisiana Sweet, normally 35¢ over WTI, traded at 75-80 cents premiums. While it is therefore not surprising to have witnessed a strong May expiration at the N.Y., it is fair to say that the contract did not reflect accurately the weakening world conditions. It remains to be seen to what extent firm US prices will attract foreign gasoline and crude. The upcoming API reports should be quite revealing.

In the world market, Egypt cut its crude prices by 75¢/barrel as of May 1. The Soviets are expected to cut their prices, too, as sales of heavy crude have stagnated in recent weeks. Once again, it is apparent that the door is too narrow for everyone to go out: Someone is being left behind. The overall production numbers are instructive. According to Sheikh Yamani, Opec is producing between 15.2-15.3 million barrels per day (mb/d), a figure probably obtained from the Dutch auditors. At the same time, Saudi production has dropped to 3.0-3.5 mb/d, probably as a concession to Nigeria, which has upped its production — now very much in demand in the US — to 1.7 mb/d from the quota of 1.3 mb/d.

Opec remains unable to persuade oil users to rebuild inventories (see Chart 7). The market knows that the end of the UK miners' strike is releasing the equivalent of 350,000 b/d of oil, that the US will stop accumulating 150,000 b/d as of this September for the strategic stockpile, that the Saudi Jubail refinery is about to start operations with a stated capacity of 250,000 b/d, and that a 220,000 b/d refinery is finally coming on stream at Ras Lanuf, Libya. Naturally, refined products will be marketed outside of crude production quotas.

As the US recession cuts into gasoline usage, Opec's only prop will disappear. The cartel will be forced to lower production by perhaps as much as 2 mb/d. The further reallocation of these quotas, in view of Saudi Arabia's rock-bottom production levels, will become an interesting, if not impossible, exercise.

On Monday April 15 (via the Hotline update), we reentered the short side of the crude market, using, as suggested in the occasion, the July and forward positions. Our reentry level was approximately 80 points above the March 13 cover suggestion.

STRATEGY: *We remain as bearish as ever and still expect, ultimately, prices to tumble to the low teens. Place stops at 28.05, basis July '85, close only.*

Chart 5

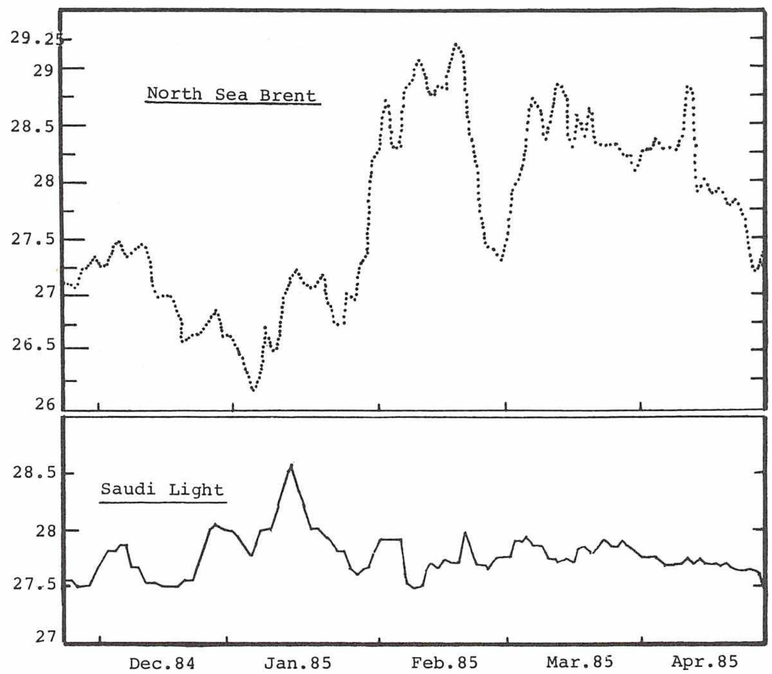


Chart 6

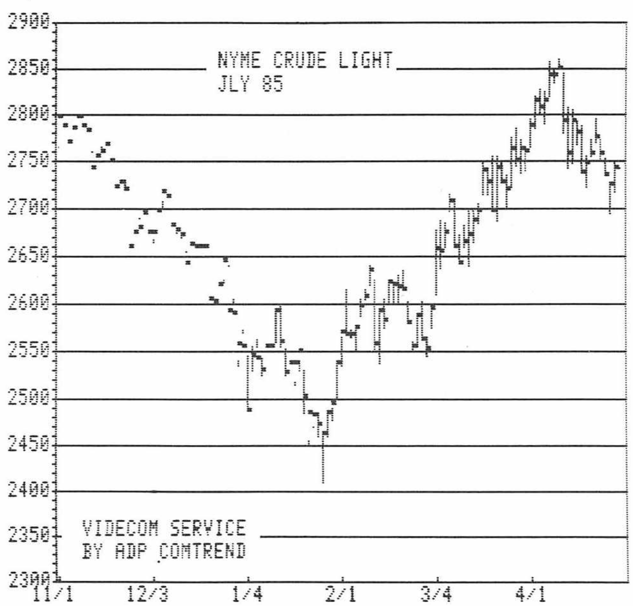
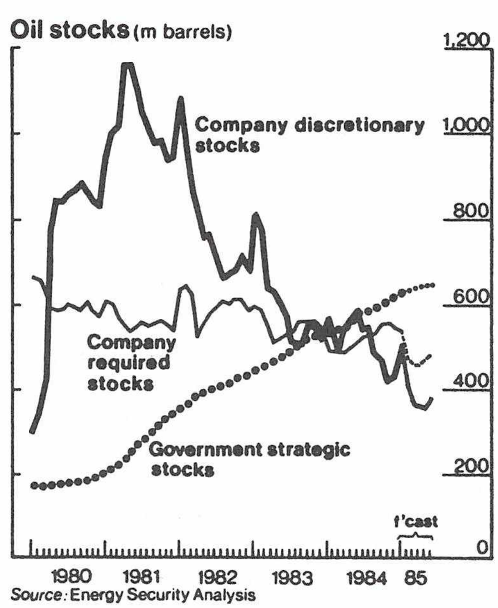


Chart 7



Gold/silver/platinum

These have begun to act almost independently of the hard currencies. The bullish consensus remains relatively low, while the open interest gives no sign of distribution. The market appears to be technically healthy and capable of supporting *at least* another sizable upleg.

We are also impressed by platinum and advise light buying.

STRATEGY: *In our "Hotline Update," we raised stops on our long June '85 Comex gold to 316, close only. Retain 610 stop on July '85 Comex silver, close only. Place stops on new long positions in July '85 platinum at 265, close only.*

Chart 8

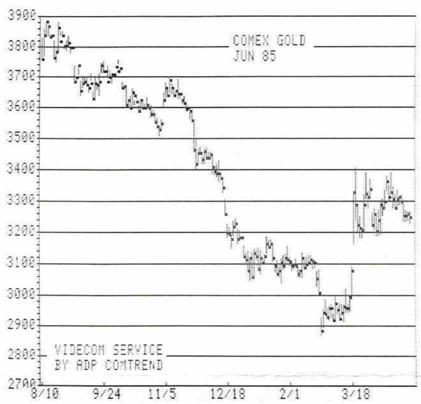


Chart 9

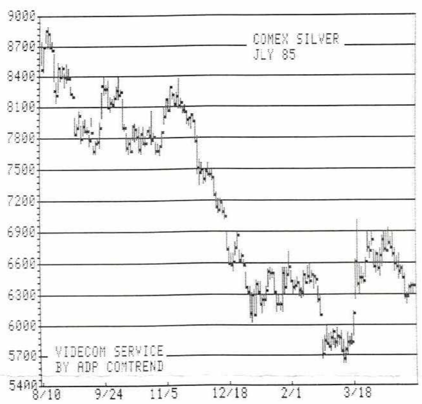
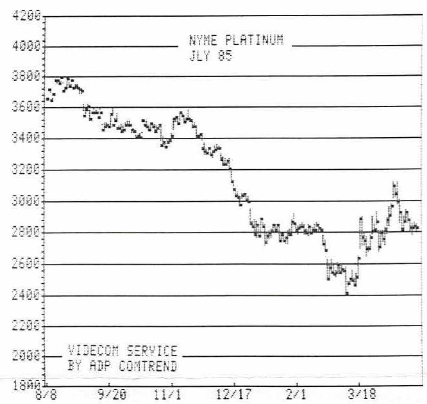


Chart 10



Currencies

The US unit is likely to remain weak for yet some time under the combined effect of a weakening economy and a stimulative Fed. Support for the dollar, on the other hand, has come from an unlikely source: central banks. In effect, it has been reliably reported that the British have recovered almost entirely the $750 million used in defence of Sterling, while almost the same is true for the Continental central banks. If correct, and there is little reason to doubt the report, the intervening central banks made a "bundle," having bought at the 3.40/3.48 $/DM rate and covered at the 2.95/3.05 $/DM rate. Clearly, the intervention can be considered a success or, in the more sober central bank parlance, *stabilizing*. In effect, central banks should intervene only at a psychologically vulnerable time, i.e., a time when the market has literally become one-sided. This policy rationale runs counter to some recent IMF supported theses that central banks must intervene more actively to help determine *equilibrium rates.*

Is is to be hoped that in this era of massive capital flows and uncoordinated fiscal and monetary policies, central banks abandon hopes for setting "so-called" realistic exchange rates. Instead, opportune, short-term, and decisive interventions should be undertaken when and only when speculative excesses appear, without any preconceived ideas as to where the exchange rate should be.

We remain friendly to the Canadian dollar, South African rand, and the Continental currencies. See "Forex Rates & Update" for fuller coverage.

STRATEGY: *A close above $/DM 3.20 in New York would signal an immediate trend reversal. In the event, all short dollar positions should be closed out.*

Chart 11

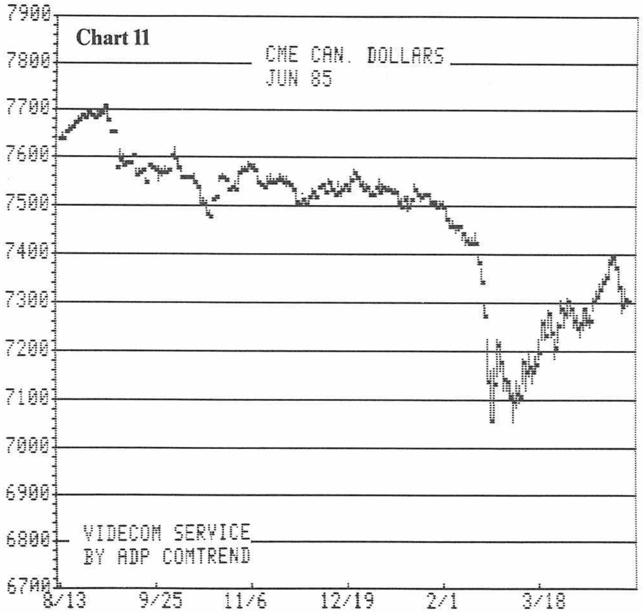


Chart 12

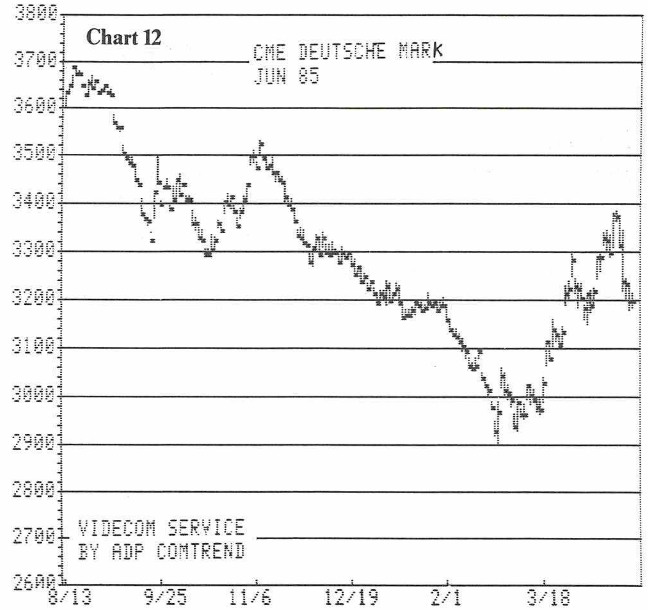


Chart 13

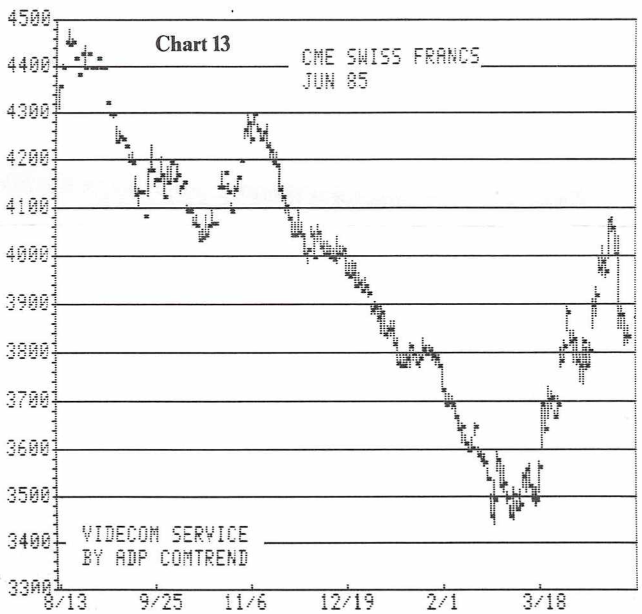


Chart 14

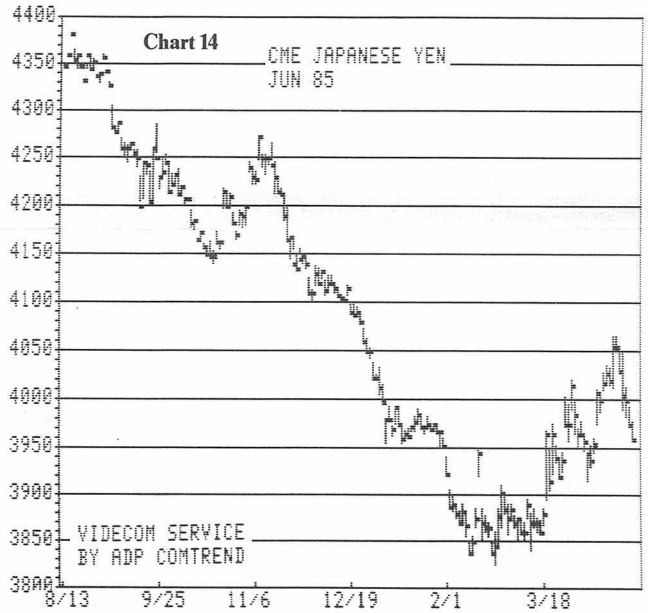
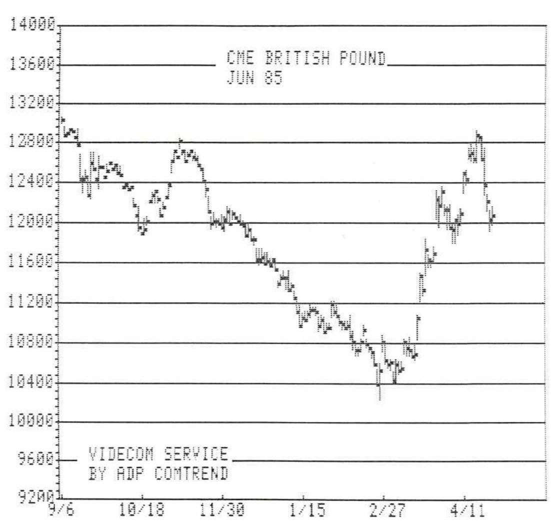


Chart 15



The Exotics

Venezuelan bolivar

Outlook and recommendation: Statistically, Venezuela presents a fairly solid facade. Reserves stand at an imposing $12.6 billion — after the state appropriated the balance of the national oil company — and have been augmented by last year's current account surplus of $4.4 billion. In fairness, this current account surplus was obtained by a drastic reduction in imports, which brought the import/GNP coefficient down to 11.4% compared with the preceeding 10-year average of 18.8%. Also, large arrears have been built up on the $8 billion private debt. Venezuela has promised repeatedly to expedite the resolution of private sector external payments; by the end of March '85, 85% of these debts have been duly processed and registered, a process that has taken considerably longer than expected and has greatly annoyed the creditor banks.

The maintenance of a multiple exchange-rate system with dollar rates as low as 4.30 bolivares, and free rates as high as 12.85, has helped to restrain price inflation. But the adjustments required to increase the competitiveness of the tradeable sector vis à vis the nontradeable sector have been delayed. Of course, one can argue that for a mono-exporter like Venezuela, exchange-rate adjustments are not highly significant. But this ignores the medium-term impact on import substitution and the long-term impact on export diversification. For 1984, inflation accelerated nevertheless to 18.3% from 7% in 1983 and is expected to rise to over 20% in 1985, as the government is committed to abolish a concessionary exchange rate for the imports of essential foodstuffs by the end of the year.

Chart 16 shows that the Bolivar is unusually undervalued when using the free market rate of 12.5. Any official realignment of the currency will probably settle somewhere short of the free market rate but somewhere above the second tier 6.0 bolivars, which is the rate provided primarily for certain nonessential imports.

It is clear that the free market rate undervalues greatly the bolivar simply because very few dollars are provided by the central bank at any rate — a situation that will undoubtedly be alleviated if and when the multiple exchange system is merged into one realistic rate.

STRATEGY: *In conclusion, forward sales of bolivars will bring no joy, even if oil prices fall to $20.00 per barrel. Of course, all bets are off should oil prices go into a free fall, at which point we would prefer to be short other petro-currencies.*

Chart 16

YEAR	BOLIVARES PER: U.S. DOLLAR (PERIOD END)	U.S. 1970=1.00	U.S. 1978=1.00
1967	4.4500	0.9152	0.9239
1968	4.4500	0.9423	0.9514
1969	4.4500	0.9686	0.9779
1970	4.4500	1.0000	1.0096
1971	4.3500	0.9881	0.9976
1972	4.3500	0.9943	1.0038
1973	4.2850	0.9971	1.0067
1974	4.2850	1.0215	1.0313
1975	4.2850	1.0132	1.0229
1976	4.2925	0.9978	1.0073
1977	4.2925	0.9851	0.9945
1978	4.2925	0.9905	1.0000
1979	4.2925	0.9800	0.9894
1980	4.2925	0.9155	0.9242
1981	4.2925	0.8713	0.8796
1982	4.2925	0.8421	0.8502
1983	4.3000	0.8195	0.8273
1984 (1Q)	7.5000*	1.3775	1.3907
1984 (2Q)	7.5000*	1.3536	1.3666
1984 (3Q)	7.5000*	1.3206	1.3333
1984 (4Q)	7.5000*	1.2564	1.2685
1984 (1Q)	12,5000 **	2.3000	2.3200
1984 (2Q)	12,5000 **	2.2600	2.2800
1984 (3Q)	12,5000 **	2.2000	2.2200
1984 (4Q)	12,5000 **	2.0900	2.1100

* Average of all rates, rate used by IFS.
** Approximate free market rate.

Above 1.00 = undervalued
Below 1.00 = overvalued

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.

Chart 17

YEAR	FOREIGN ASSETS (Mln US$)	CURRENT ACCOUNT AS % OF GDP %	CUMULATIVE 12 QTR CURRENT ACCOUNT (Mln US$)
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	10,007 E	7.03	+ 3895

E = estimate

Chart 18

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

Reserves * + Previous 12-months current Account *** = 17,005

(Reserves + 12-months C/A)/ M1 ** = 17,005/10259 = 165%

(Reserves + 12-months C/A)/ Broad Money **= 17,005/20,392 = 83.4%

*As at Feb. 1985 ** 1984 (3) *** 1984 (1)-1984(IV)

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	2641	4,610
1984 (3)	10259	20,392
%Increase (decrease)	288%	342%
Corresponding % increase in the United States	101.4%	155.3%

(a) 1984 Imports as percentage of GNP 11.40%
(b) 1975-1984 Imports as percentage of GNP 18.8%
1984/(1975-1984 average) = (a)/(b) = 60.6%

Source: IFS

Chart 19

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	12.75-12.85	12.76-12.89	12.80 - 12.95	13.05-13.35	13.50-14.50

Kuwaiti dinar

Kuwait's broadly defined M2 money supply fell 2.4% in February to 4.44 billion dinars from 4.55 billion in January, while narrowly defined M1 dropped 1.7% to 900.3 million from 916.1 million, according to the central bank's monthly monetary review. M2 was 1% above the 4.39 billion in February 1984, while M2 was down 16.4% from 1.08 billion a year earlier.

Kuwait's banking system continues to wilt under the spreading impact of industrial insolvencies and falling real estate and share prices. Up to now, the Kuwaiti government has acted in an *ad hoc* fashion by bailing out financial institutions especially those with either large foreign exposure or those likely to tarnish the country's image of solidity.

It is doubtful that this approach can contain the deflationary domino without damaging beyond repair the country's international reserves. As recently as this past February, the central bank argued that the "increased supervisory role of the central bank that is now evolving must be accompanied by new and more effective tools of policy such as changeable reserve ratios and open market operations, aimed at controlling the banks' free reserves and thus directly influencing domestic credit."

In other words, the central bank is aiming to expand its control over money supply, which grew rapidly in the early 1980. Proof of this determination can be seen in the money supplies statistics quoted above. As Kuwait's external position continues to deteriorate, a direct result of falling oil prices and volume, the central bank may opt for a more flexible foreign exchange policy that will result in a) protection of its dwindling foreign assets (although it should be noted that as of this date, they are still relatively substantial) and b) the inhibition of the present deflation of money supply process.

This policy would tend to view favorably a more rapid depreciation of the dinar in the foreign exchange markets accompanied perhaps by a substantial increase in the money supply, which would have the effect of bailing out the entire banking system by propping up the value of the banks' assets.

STRATEGY: *At this time, the exchange rate of the dinar is officially linked to an unspecified basket of currencies, which includes primarily the other Gulf currencies, the Japanese yen, and to a much lesser extent, the US dollar. The Kuwaiti dinar has responded to the recent dollar weakness by appreciating a relatively small 3%. In our view, further dollar weakness should not significantly affect the dinar, and we therefore recommend reinstating forward sales, taking advantage of the forward premiums.*

Chart 20

=========== BASKET ===============

U.S.	16%	Italy	19%
Japan	45%		
Germany	20%		

YEAR	KUWAITI DINAR PER U.S. DOLLAR (PERIOD END)	U.S. 1972=1.00	U.S. 1977=1.00	1972=1.00	1977=1.00
1970	0.3571				
1971	0.3289				
1972	0.3278	1.0000	1.2393	1.0000	1.0957
1973	0.2967	0.8861	1.0981	0.9451	1.0356
1974	0.2896	0.8504	1.0539	0.9353	1.0248
1975	0.2942	0.8698	1.0779	0.9153	1.0029
1976	0.2870	0.8537	1.0579	0.9304	1.0194
1977	0.2801	0.8069	1.0000	0.9126	1.0000
1978	0.2718	0.7751	0.9606	0.9140	1.0015
1979	0.2731	0.8099	1.0037	0.9481	1.0389
1980	0.2713	0.8538	1.0581	0.9225	1.0108
1981	0.2814	0.9104	1.1282	0.9055	0.9922
1982	0.2887	0.9196	1.1396	0.9103	0.9974
1983	0.2926	0.9185	1.1382	0.8708	0.9542
1984 (1Q)	0.2926	0.9358	1.1597	0.8990	0.9851
1984 (2Q)	0.2943	0.9482	1.1750	0.8890	0.9742
1984 (3Q)	0.2991	0.9727	1.2054	0.8875	0.9725
1984 (4Q)	0.3045	0.9956	1.2338	0.8986	0.9847

Above 1.00 = undervalued
Under 1.00 = overvalued

Chart 21

YEAR	FOREIGN ASSETS (Mln US$)	CURRENT ACCOUNT AS % OF GDP %	CUMULATIVE 12 QTR CURRENT ACCOUNT (Mln US$)
1970	1,110		
1971	1,424		
1972	1,615		
1973	1,656		
1974	2,807		
1975	3,154	49.29	
1976	3,128	52.75	
1977	4,373	32.25	17,414
1978	4,866	39.55	17,616
1979	5,191	58.08	24.719
1980	6,744	55.43	35,433
1981	7,625	56.68	42.376
1982	8,468	22.41	33.434
1983	7,820	21.51	22.752
1984	7,744		
1985 Jan.	8,145		

Chart 22

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

Reserves * + Previous 12-months current Account *** = 9696
(Reserves + 12-months C/A)/ M1 ** = 9696/3175= 305%
(Reserves + 12-months C/A)/ Broad Money **= 9696/14820 = 65%
*As at Feb. 1985 ** Jan.1985 *** Jan.-Dec. 1983

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	581	1807
1985 Jan.	3175	14,820
%Increase (decrease)	446%	720%
Corresponding % increase in the United States	108.6%	165.7%

(a) 1983 Imports as percentage of GDP 32.73%
(b) 1975-1983 Imports as percentage of GDP 22.84%
1983/(1975-1983 average) = (a)/(b) = 117.56%
Source: IFS

Chart 23

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	.30260-.30285	.30220-.30270	.30100-.30215	.30010-.30185	.29810-.30020

The Dutch guilder

Although the Netherlands struggles with one of the largest unemployment rates in Europe and a bulging fiscal deficit equal to approximately 10%-11% of GNP, which just won't go away, its external position is quite sound. The Dutch central bank has tended to target its monetary and exchange policies on the Bundesbank with considerable success. As a result, money-supply growth has been moderate, and inflation has remained extremely low.

STRATEGY: *For the foreseeable future, we do not anticipate significant deviations in the guilder/DM parity.*

Chart 24

BASKET			
U.S.	10%	UK	13%
Belgium	19%	Italy	06%
Germany	39%	France	13%

YEAR	GUILDERS PER U.S. DOLLAR (PERIOD END)	U.S. 1970=1.00	U.S. 1977=1.00	1970=1.00	1977=1.00
1967	3.5960	0.9952	1.7664	0.9958	1.3349
1968	3.6060	0.9998	1.7747	0.9904	1.3277
1969	3.6240	0.9880	1.7538	0.9912	1.3287
1970	3.5970	1.0000	1.7750	1.0000	1.3405
1971	3.2581	0.8799	1.5618	0.9607	1.2879
1972	3.2265	0.8351	1.4823	0.9085	1.2178
1973	2.8245	0.7189	1.2760	0.8429	1.1300
1974	2.5065	0.6458	1.1463	0.8000	1.0724
1975	2.6885	0.6843	1.2147	0.8067	1.0815
1976	2.4570	0.6072	1.0778	0.7182	0.9628
1977	2.2800	0.5634	1.0000	0.7460	1.0000
1978	1.9690	0.5026	0.8922	0.7150	0.9585
1979	1.9055	0.5192	0.9216	0.7699	1.0321
1980	2.1295	0.6184	1.0977	0.8943	1.1988
1981	2.4685	0.7417	1.3166	0.8883	1.1909
1982	2.6245	0.7898	1.4019	0.8789	1.1782
1983	3.0645	0.9259	1.6436	0.9420	1.2629
1984 (1Q)	2.9210	0.8861	1.5729	0.9133	1.2243
1984 (2Q)	3.1535	0.9594	1.7029	0.9404	1.2606
1984 (3Q)	3.4100	1.0472	1.8588	0.9603	1.2874
1984 (4Q)	3.5495	1.0860	1.9277	0.9156	1.2274

Above 1.00 = Undervalued
Below 1.00 = Overvalued

Chart 25

Year	Foreign Assets (Mln US$)	CURRENT ACCOUNT As % of GNP %	CUMULATIVE 12 QTR. Current Account (Mln US$)
1970	3,458	-1.51	-355
1971	4,622	-0.28	-439
1972	5,767	2.94	762
1973	7,215	3.99	3664
1974	9,000	3.11	5990
1975	10,165	2.40	6628
1976	10,984	3.00	6939
1977	11,004	0.55	5341
1978	13,164	-1.04	1915
1979	13,744	-1.31	-2885
1980	13,773	-2.35	-6480
1981	15,470	2.04	-2161
1982	15,736	2.64	3541
1983	16,508	2.87	10303
1984 (1Q)	19,219		11338
1984 (2Q)	24,889		12750
1984 (3Q)	23,818		13101
1984 (4Q)			

Chart 26

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

Reserves * + Previous 12-months current Account *** = 25,712

(Reserves + 12-months C/A)/ M1 ** = 25,712/23,457 = 109%

(Reserves + 12-months C/A)/ Broad Money **= 25,712/73,026 = 35%

*As at Feb. 1985 ** Nov. 1984 *** 1983 (4) - 1984 (3)

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1973	12.441	30,486
1984	23,457	73,026
%Increase (decrease)	88.5%	139.5%
Corresponding % increase in the United States	104.2	159.7

(a) 1983 Imports as percentage of GNP 41.7%
(b) 1974-1983 Imports as percentage of GNP 39.2%
1983/(1974-1983 average) = (a)/(b) = 106.3%

Source: IFS

Chart 27

Rates	Spot	1 Month	3 Month	6 Month	12 Month
	3.5375-3.5425	3.5330 3.5385	3.5227-3.5282	3.5020-3.5080	3.4510-3.4590

Forex Rates & Update

Currency	*Spot*	*3-month*	*12-month*	*Comments vis-à-vis US$*	*Comments vis-à-vis DM*
Australian dollar	.6650-.6665	.6540-.6565	.6800-.6830	Remain long; place stops at 64.00	Remain long; place stops at 1.9980
Belgian franc	63.10-63.20	63.20-63.26	63.33-63.35	Remain long	Remain long
Danish krone	11.24-11.26	11.27-11.29	11.31-11.37	Neutral	Remain short
Italian lira	2000-2005	2002-2008	2008-2015	Remain long	Remain long
Indonesian rupiah	1108-1110	1130-1175	N/A	Remain short	Remain short
Malaysian ringgit	2.4950-2.4980	2.5005-2.5065	2.5100-2.5380	Neutral	Remain short
Mexican peso	245-247	275-283	345-367	Remain short	Remain short
New Zealand dollar	.4520-.4540	.4295-.4365	.3490-.4250	Neutral	Neutral
Norwegian krone	9.05-9.06	9.14-9.16	9.30-9.33	Neutral	Neutral
Portugese escudo	178-180	184-196	198-225	Remain long	Remain long
Saudi Arabian riyal	3.6100-3.6120	3.6060-3.6160	3.6100-3.6200	Reinstate full short position	Remain short
Singapore dollar	2.2280-2.2310	2.2112-2.2152	2.1730-2.1910	Neutral	Remain short
South African rand	.5120-.5130	.4955-.4975	.4965-.4725	Remain long	Remain long
Spanish peseta	175.00-175.25	177.25-177.75	183.50-184.75	Neutral	Neutral
Swedish krona	9.08-9.09	9.19-9.21	9.39-9.43	Remain long	Remain long

Explanatory Notes

Currency expected to firm against both currencies.	Buy	Buy
Currency expected to strengthen against US $ and weaken against DM.	Buy	Sell
Currency expected to weaken against both major currencies.	Sell	Sell
Currency expected to weaken against US $, but strengthen against DM.	Sell	Buy
Term used to liquidate short position but does not imply a new buy recommendation.	Cover	
Term used to indicate sale advice of previous long position, but does not imply a new short sale recommendation.	Liquidate	

Hotline Update

Wednesday, March 27: The new market letter is in the mail. For the benefit of long distance callers we will institute a more efficient hotline service. From today, Friday, March 29, onwards the regular after-market updates of Tuesday and Friday will repeat until 10:00 a.m. the following business day (Wednesday and Monday respectively). Between those days, the hotline will be disconnected unless there is a *flash bulletin*. Therefore, long distance callers will be assured of a chargeless phone call between scheduled updates, unless there is a FLASH update.

Friday, March 29: The new market letter is in the mail. Repeat of Wednesday message.

Tuesday, April 2: The new market letter was mailed last Tuesday. For the benefit of long distance callers, we will institute a more efficient hotline service. The regular after-market updates of Tuesday and Friday will repeat until 10:00 a.m. of the following business day (Wednesday and Monday respectively). Between those days, the hotline will be disconnected, unless there is a flash bulletin. Therefore, long distance callers will be assured a chargeless phone call between scheduled updates, unless there is a flash update. There are no changes since the market letter March 24, 1985.

Thursday, April 4: This recording is one day early, due to the holiday weekend. Repeat of Tuesday's message.

Tuesday, April 9: We have one change. Raise stops in June Canadian dollar to 71.95, close only.

Thursday, April 11: Our Friday market update is being broadcast one day early for this week only:
1. Leave stops on June Canadian dollars at 71.95, close only.
2. Raise stops on June gold to 316.00, close only.

Flash bulletin: Monday, April 15, 10:30: Reinstate short oil positions at the market, using preferably July and forward months.

Friday, April 19:
1. Raise stops on Canadian dollars to 72.80, basis June, close only.
2. Retain gold stops at 316.00, basis June, close only.
3. We reentered the short side of the crude oil market through July and forward months as per our April 15 flash bulletin. Stop loss level pending. Keep in close contact.

Tuesday, April 23: A repeat of Friday's message:
1. Raise stops on Canadian dollar to 72.80, basis June, close only.
2. Retain stops on gold at 316.00, basis June, close only.
3. We reentered the short side of crude oil through July and forward months as per our flash of April 15.

This tape will disconnect Wednesday at 10:00 a.m. and there will be no recording unless a flash bulletin is necessary until Friday after close.

Friday, April 26:
1. Retain stops on Canadian dollar of 72.80, basis June, close only.
2. Retain stops on gold of 316.00, basis June, close only.
3. Place stops on all crude oil short positions at 28.05, basis July, close only.

This tape will disconnect Monday, April 29 at 10:00, and there will be no recording unless a flash bulletin is necessary until Tuesday, April 30 after the market close.

How the Hotline Service Works

Every Tuesday and Friday, after the market closes, the Hotline will be updated and will repeat until 10:00 a.m. of the following business day (Wednesday and Monday, respectively). At all other times, the Hotline will be disconnected, unless there is a flash bulletin. In this way, long distance callers will not have a telephone charge unless there is a flash update.

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