

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

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## 1988: Where was the beef?

What little difference a year makes. The Commodity Research Bureau Index rose a bare 8.5%. The US dollar trade-weighted index eked out a mere 3% gain. And even the US stock market just managed an unimpressive 12.4% rise. For trend followers, 1988 was a bore. For traders, like ourselves, who *projected* trends and did not get them, it was close to a nightmare.

There were some winners, and there were some losers, but through it all, our expectations far exceeded the "beef." What follows is a brief summary of last year's action in the futures market.

### How long does it take you to empty your cookie jar?

In January, we started with, "Question: If your liquid reserves amount to \$25 billion (at most) and you draw them down by \$1.5 billion per month, how long will it take to empty your cookie jar? Answer: Just over 16 months. That in a nutshell is Saudi Arabia's current predicament." In that issue, we concluded that Saudi Arabia needed to raise production in order to increase revenues. In the long term, we predicted prices would collapse to \$5 a barrel and recommended taking short positions. In April we were stopped out. In August we were short again. In October we covered our short positions, showing good profits and reentered the market from the short side. In November we recommended "Stay heavily short." In December we were stopped out and reinstated short positions. Talk about being persistent!! We must be the only remaining shorts in this market and Saudi Arabia must be down to its last crumbs.

### Round and round we go

In our discussion of the US dollar we touched on such topics as "...trade balances, government budgets, inflation, deflation, recession, exports, imports, consumption, production, econometric models, GNP, CPI, inventories, trade figures, savings, disposable income, current accounts, capital accounts, capital inflows and outflows, monetary policy, fiscal policy, devaluation, revaluation, G-7, purchasing power parity, target zones, supply side spreads, labor markets, wage pressure, business cycles, EMS currencies, central banks, laissez-faire attitudes, unemployment rates, inverted yield

curves, Professor Martin Feldstein, bullish consensus, FX models, trends toward international peace, Gorbachev's glasnost and perestroika, Bush's read my lips,..." After being discussed, ad infinitum, it's odd that the US dollar finished the year just about where it started. However, 1989 has begun with a bang with the US buck rallying strongly against all major currencies.

### The bear continues

In February we went short the stock indexes, anticipating an eventual decline in the Dow and S&P to the 1,100 and 135 level respectively, over a period of 24 to 30 months. We continued being short until June, at which point we retreated to the sidelines. In September, we once again probed the market from the short side, citing the following reasons: "...money supply (M1), while growing slightly faster than 1987, has not become sufficiently strong...the corporate debt service continues to mount...sluggish A/D line...sentiment shows more bears than bulls, but not excessively so ... the extreme oversold condition of late July and mid August has been cleaned up." In October we added, "...inverted yield curve...lack of breadth and volume...high P/E ratios...", to this list. We also suggested selling the Value Line and buying the S&P in addition to maintaining short positions. In December we gazed into our crystal ball and concluded, "The bear's laborious one-year uphill climb is about to come to an end." All this said and done, we didn't make any money in stock index futures.

### In this issue

The (apparent) perversity of the foreign exchange market. Confounding the bears over at the stock markets. And crude bears in oil. The river of gold turns into a torrent. We're long copper, but with a caution. Grains: no rains on the plains. Also: Friedberg Capital Markets and Forex Rates & Update. Contributions by Albert D. Friedberg, Daniel A. Gordon, Michael D. Hart, and Lorenzo DiIorio.

### **A fetish for platinum**

In March we stated, "...the Japanese would import about 72% of the world's entire supply... Japanese jewelry demand not only constitutes over 50% of Japan's demand but also is a significant portion of the world platinum demand." We recommended going long 2 platinum/short 1 gold. In April we added, "...it seems the only thing lacking is speculative interest." In May, the headline read, "Wait and you shall receive." In July, after several months of waiting, we liquidated positions for a profit of over \$3,000 per spread.

### **Money in the pocket**

It was in February that we first recommended traders consider a long CRB/short gold spread on a 2.5 gold to 1.0 CRB ratio. At the time we emphasized, "...deferred CRB contracts trade at a discount, while deferred gold contracts trade at a premium." In effect, we were buying the discount and selling the premium. In August we advised liquidating the position. The trade, "...showed a \$75,400 profit on a \$32,500 investment." In September we reinstated our position on a dollar-weighted readjusted basis of long 2 CRB/short 7 gold. The spread continues to make substantial profits. One for the good guys.

### **All that glitters is not gold – often have I heard that told**

The one bright spot in base and precious metals was copper. What it lacked in lustre, it more than made up for in performance. In February, we forecast, "...low stocks/usage ratios will put, once again, upward pressure on prices... backwardations, however, are only helpful in redistributing supplies and reactivating idle material, a near-term palliative until global supply and demand conditions ease." We went long in February and liquidated positions in March on a 13¢ rally. In April we reentered the market from the long side, basis July '88 and predicted, "...new supply bottlenecks will begin to reappear." The positions were rolled over to September '88, taking advantage of large backwardation. In September we liquidated all long positions after prices recovered more than 20¢ basis the nearby delivery. By November we were back on the long side of the market.

### **Sweet and sour**

We had been on a sugar binge since mid 1987 in the hope that our concerted effort would raise sugar prices. In 1988, prices did increase but so did our dental bills and waistlines. In January we concluded, "...ending stocks, as a percentage of disappearance will fall to 31.47%... a number this low has not

been recorded since the 1980-1981 marketing year, a year that marked the peak of the last bull market in sugar. The average closing (Oct. 1 to Dec. 31/81) for the March contract was 38.05¢ per pound." In October 1987 we recommended purchase of sugar. In February we were stopped out for a \$1,500 profit per contract. Shortly thereafter, we reinstated positions. A few days later we were stopped out for a small loss. In May, we reinstated our positions at about 9.30, basis October '88 and conceded, "...Although, we confess that we haven't traded this commodity in brilliant manner, we have been on the right side of the market." This wins the award for the understatement of the year, for on June 16 we liquidated our position at 9.80 for a small profit only to see the market roar ahead to 15.00. What had started out sweet had quickly gone sour. In October we were once again in the market. In December we liquidated our position for about a 150-point profit.

### **Some food for thought**

It was late in May, with flowers in full bloom, that we began to develop an amorous feeling towards wheat. In June we recommended the purchase of wheat. In October we liquidated outright positions for a substantial profit. In November we reentered the market, basis March '89, and are now expecting a retest of the \$4.70 level.

### **What were we thinking of??**

After missing the spectacular runup in grain prices in the spring and summer, we just had to get aboard. In September, we recommended the purchase of soybeans, risking an unheard of sum of \$5,000 per contract. If we had only idled away that afternoon drinking strawberry margueritas at our favorite watering hole, instead of analyzing grain markets, we wouldn't be in beans today. But let us not despair, for there is a ray of light at the end of the tunnel. In recent weeks the soybean charts have started to look much more constructive and the fundamentals continue to improve. Will 1989 bring beans in the teens??

### **Thank Goodness! History did not repeat itself**

We began the past year with great trepidation. After the October crash, economic pundits were predicting a major recession, or worse yet, a depression the likes of which we haven't seen since the 1930s. To their surprise, the economy just kept roaring along, growing at a rate of just over 3% accompanied by relatively mild inflation and an unemployment rate that made 14-year lows. If there is one thing that we should be thankful for this past year, it is that 1988 was not a repeat of 1930!!

**CURRENCIES**

# Are foreign exchange markets perverse?

For some time, it should have been obvious to foreign exchange analysts that the worse the *fundamentals* of a nation appear, the stronger its currency has become. By “fundamentals,” of course, we mean the current account balance.

The Canuck buck, the Aussie dollar, and Sterling all suffered from large current account deficits during 1988, and yet all ended the year substantially up — on a trade weighted basis (see Charts 1 to 4). Are forex markets irrational?

Not really. The current account is the other side of the ledger of the capital account. If, for whatever reason, capital inflows quicken, an immediate, automatic adjustment takes place: The current account moves towards becoming increasingly negative, to “accommodate,” so to speak, the surplus on capital account. The adjustment happens in a number of ways: capital inflows finance a quicker pace of economic activity, which in turn generates more imports and slows export activity. This is a well-known income effect. Also, the sudden demand for a country's currency pushes it up, aiding the previously described trade process.

At this point, central banks in the affected countries began to worry. Recall that the capital inflows generate strong domestic economic activity. They may even cause a boomlet or a full-fledged boom. Inflation becomes a concern. The current account deficit may be the result of *real* factors (whatever started the capital inflows process), but it may also signal to conservative central banks that the economy is out of control and that costs are rising too fast. The medicine? Tightening monetary policy (and sometimes fiscal policy as well).

But, of course, tight monetary policies cause large rises in interest rates. Thus, Canada, UK, and Australia have the highest interest rates in the OECD countries. Foreign exchange markets respond with gusto. To the “basic” capital inflows, we add short-term, hot-money flows. In due course, the original, basic capital thrust ceases either because (currency-adjusted) assets are too expensive, or because the economy has started to slow, making business deals less attractive, or because the country's terms of trade begin to deteriorate, or because the original *raison d'être* for it has also disappeared.

With the basic capital flow halted or even reversed, the economy is left precariously balanced between a large current account deficit and an equally large *short-term* capital account surplus fed only by temporarily high interest rates.

If the central bank had read the tea leaves properly, it would not have tightened excessively in response to the basic capital inflow (which was probably a *real* phenomenon, i.e., attractive political and economic climate, low taxes, improving terms of trade, cheap labor, etc.), and it should have allowed the exchange rate to rise. Then we would have been talking about a real appreciation of the currency. Flexible exchange rates possess this advantage over fixed rates: They

absorb *real* fluctuations instead of forcing the economy to absorb these fluctuations (via, let's say, higher inflation).

Under those circumstances, a neutral monetary policy would be in order. Surely, an *easy* monetary policy that also encourages a *depreciation* of the currency in a futile attempt to redress the current account deficit is not only an incorrect diagnosis but also threatens to perpetuate the problem.

But that is exactly what the US has done. The strong capital inflows of the early to mid '80s, encouraged by a number of *real* factors, among them attractive tax rates (as we have shown in previous issues), stimulated domestic demand and raised the forex value of the dollar, with the effect of generating an offset to the capital surplus: a current account deficit. Instead of allowing the dollar to continue appreciating (or *remain* appreciated) and eventually see a halt or reversal of the capital inflows and an automatic correction of the current account, it eased money significantly (1985 to 1987) and encouraged a *low* dollar. Only recently has the Fed moved to tighten moderately, leaning against the domestic boom. On the exchange rate side, however, they are still following an incorrect policy: that of forcing the dollar to remain *cheap* in real terms, at the low end of its range over the past 20 years.

In very simplified terms, we are arguing that a “cheap” dollar can only obtain a very minor (just a bit smaller trade deficit) and a very transitory benefit. (See Chart 5. The trade deficit, in nominal terms, is already worsening.) Only a halt and/or reversal of the capital inflows will produce a lasting effect on the current account. But, as we have argued before, it may not be ideal, or necessary (why isn't a capital account surplus at least as positive as a current account surplus?), and when it comes, it may imply a severe US recession.

On the other hand, the central banks of Canada, Australia, and the UK have not been as poorly advised. Running current account deficits, primarily a *result* of quickening capital inflows — because of free trade, improving finances and terms of trade, good economic performance, the Thatcher image, and perhaps a number of other reasons — these central banks have kept a wary eye on domestic economic activity and inflation: As a result, they *have tightened*, producing the most spectacular inverted yield curves in the OECD, and have allowed (and indirectly have caused) their currencies to appreciate. Watching money supply growth in each one of these countries, one can even argue that their central banks are not tightening but are merely neutral, responding to market forces (strong demand for credit). If so, their posture is correct in all respects: A monetary policy that leans against the wind and allows the currency to appreciate.

A rising current account deficit implies a rising capital account surplus, which, in turn, implies a strong currency.

Rising interest rates and rising exchange rates will, at some point, slow down the economy, halting and/or reversing the capital inflows: Then, and only then, will exchange rates fall.

Clearly, then, widening current account deficits that are *not* the result of repressed monetary inflations (South-American style) are bullish for currencies.

Canada, Australia and the UK are not the exception. Is anyone listening at the Fed?

**STRATEGY:** Our long US dollar positions have been showing good results. Heavy intervention and the fact that the US unit had become somewhat overbought had prompted us to take profits on half these positions (see Hotline Update). Ideally, we will want to reinstate long US dollar positions on drops from Friday's levels. The intermediate to long-term trend continues to point upward.

Chart 1

**BRITISH POUND**  
TRADE WEIGHTED EXCHANGE RATES

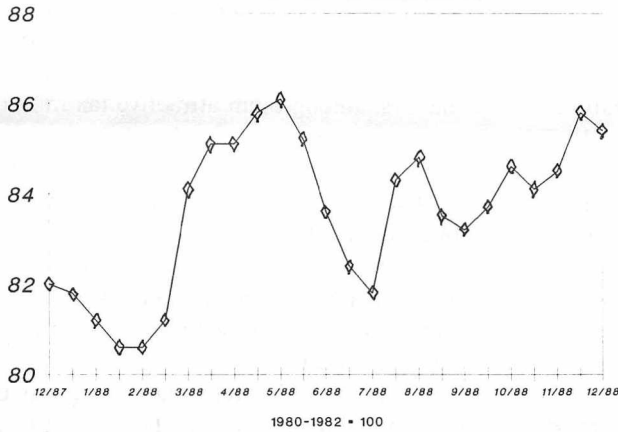


Chart 2

**AUSTRALIAN DOLLAR**  
TRADE WEIGHTED EXCHANGE RATES

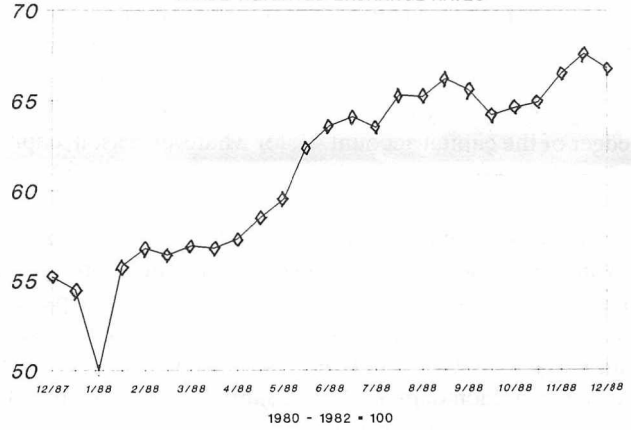


Chart 3

**CANADIAN DOLLAR**  
TRADE WEIGHTED EXCHANGE RATES

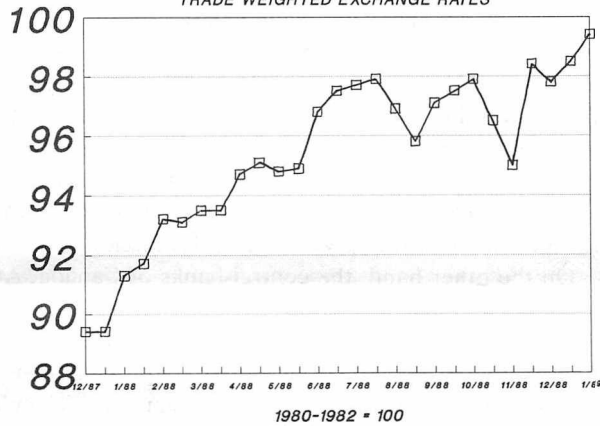


Chart 4

**U.S. DOLLAR**  
TRADE WEIGHTED EXCHANGE RATES

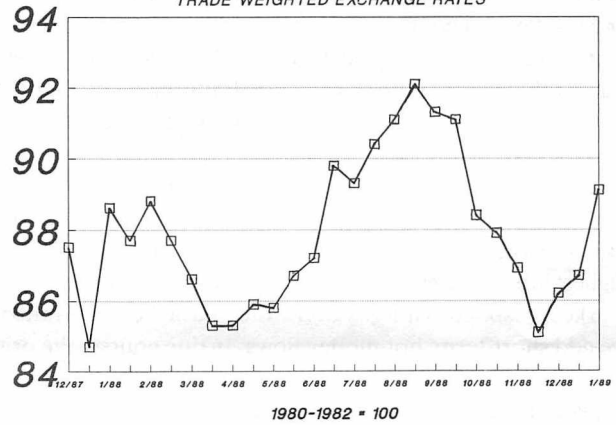
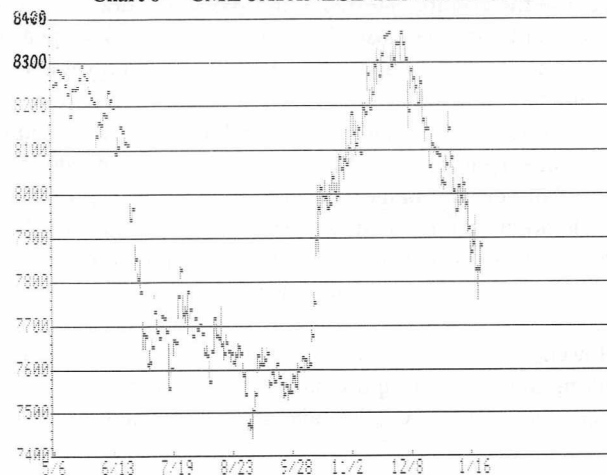
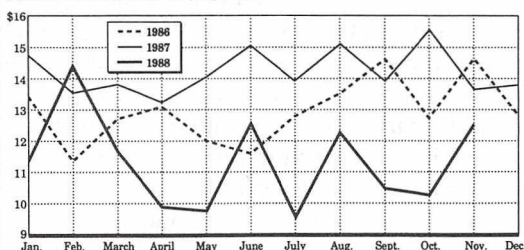


Chart 6 - CME JAPANESE YEN MAR '89



**Tracking the Trade Deficit**

(In billions of dollars, seasonally adjusted)



Note: Monthly figures for 1986 aren't adjusted for undocumented exports to Canada; deficit based on imports, including insurance and freight.  
Source: Commerce Department

Chart 7 - CME DEUTSCHE MARK MAR '89

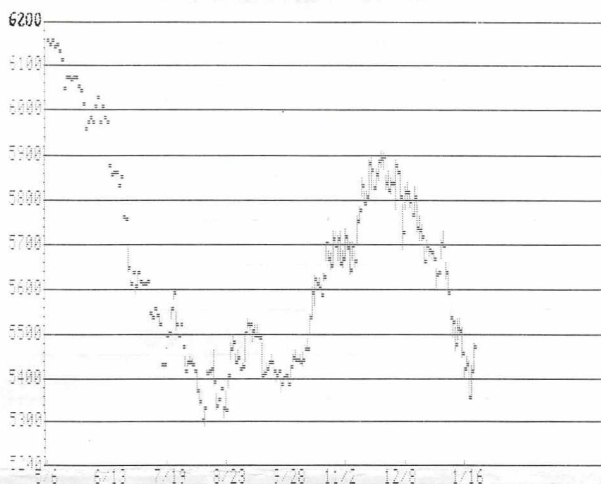


Chart 8 - CME SWISS FRANC MAR '89

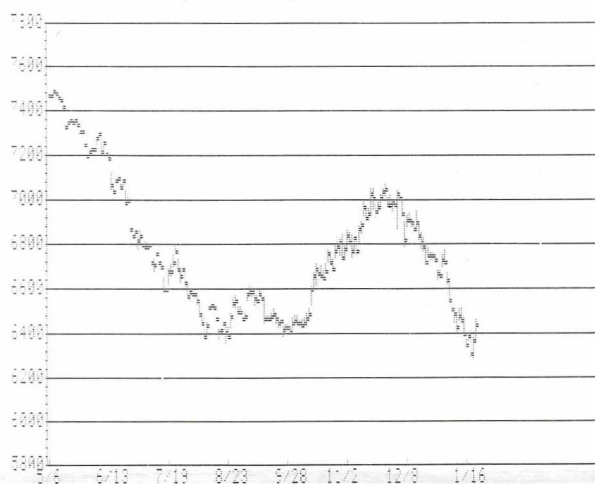


Chart 9 - CME BRITISH POUND MAR '89

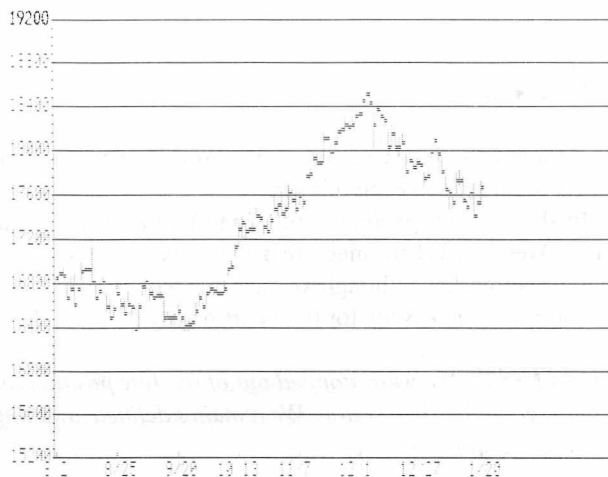
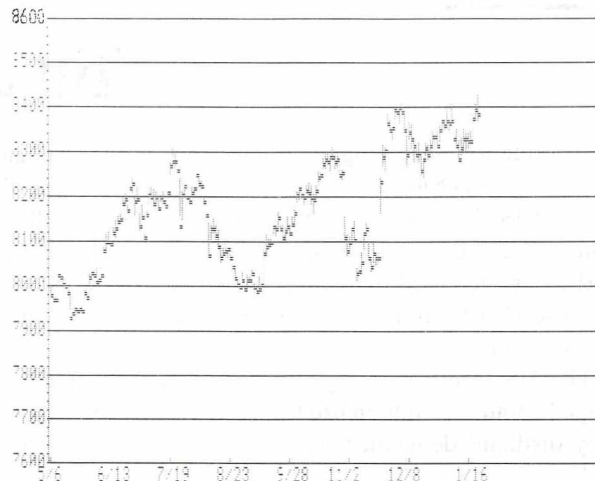


Chart 10 - CME CAN. DOLLARS MAR '89



**STOCKS & T-BONDS**

## Confounding the bears

Falling price-earning ratios, now at 12.6 for the S&P 500, and rising optimism that the much-awaited recession has been postponed for yet one more year, have fuelled some buying from heretofore bearish quarters. The bulls are not daunted by the unpleasant earnings surprises put out by respectable industrial establishments (example Caterpillar), a sign that profit margins are not what they used to be. Neither are they intimidated by the competitive lure of high-yield debt instruments, making us rather uncomfortable in our long T-bonds/short S&P 500 spread (see Chart 11). In its infinite wisdom, the market will do what the least amount of people expected it to do. Clearly, in the past weeks, very few expected it to go up.

Yet, bullish consensus is rising, put buyers are despairing (put premiums are significantly cheaper than call premiums) and the famous odd-lot short seller has vanished. We can't be

too far from some kind of turning point. Will it merely be another correction in an ongoing bear market rally, or will it be the real McCoy? Or will it be, as the bulls voice, the last correction before launching the attack on the August '87 highs? Valuation models could not support such action, but then again, they never went along with the January-August 1987 blow-off either.

**STRATEGY:** *March 270 puts are still the only reasonable and prudent way to be short. Maintain positions.*

*With January almost gone, who's afraid of the big, bad wolf? Stay short March Value Line/long March S&P.*

*Long T-bonds/short S&P 500 may be too rational a trade for this crazy world; maintain spread, risk a close below .308 (see Chart 11).*

Chart 11 – MAR '89 T-BOND/MAR '89 S&P

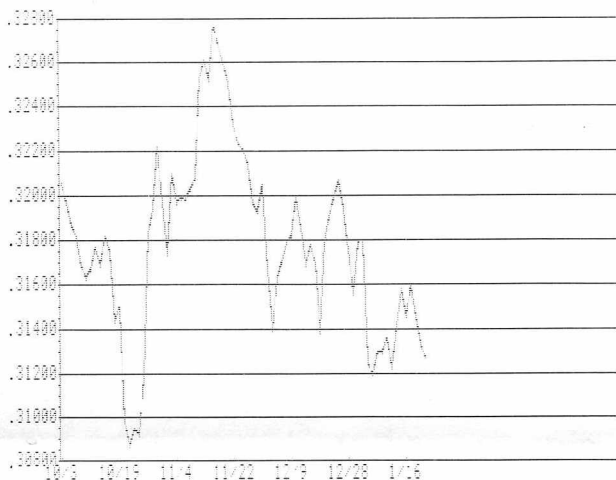
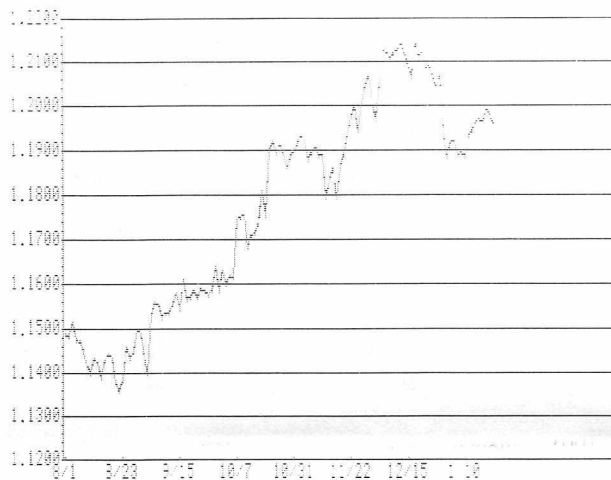


Chart 12 – S&P/VALUE LINE



**CRUDE OIL**

**Still a bear...**

Opec production, including natural gas liquids and condensates, averaged 23.8 million barrels per day (b/d) in the fourth quarter of 1988, anywhere between 4 million and 5 million b/d in excess of demand for Opec oil. To assume that it was absorbed by increased demand is to assume that world demand rose 8%-10% from the corresponding period last year, a preposterous idea.

The US Dept. of Energy estimated that US demand averaged about 17.2 million b/d last year, a solid gain of 2.9%, led by distillate demand, which rose an impressive 4.3%,

while gasoline demand rose only 1.5%. World consumption is unlikely to have risen even this far.

In the interim, profitable refining margins continue to prop up West Texas Intermediate prices. Overall, this still remains a bear market, although we must concede that the steep backwardation makes life for the bears nearly unbearable.

**STRATEGY:** We were stopped out of the July positions as per our revised \$16/barrel stop. We remain sidelined, awaiting reentry to the short side.

Chart 13 – NYME CRUDE LIGHT FEB '89

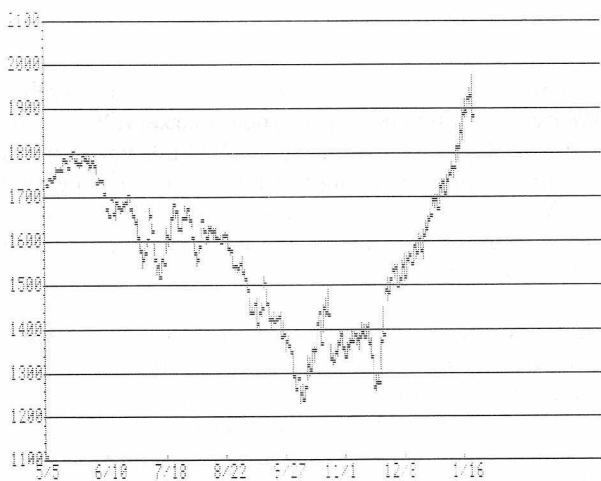
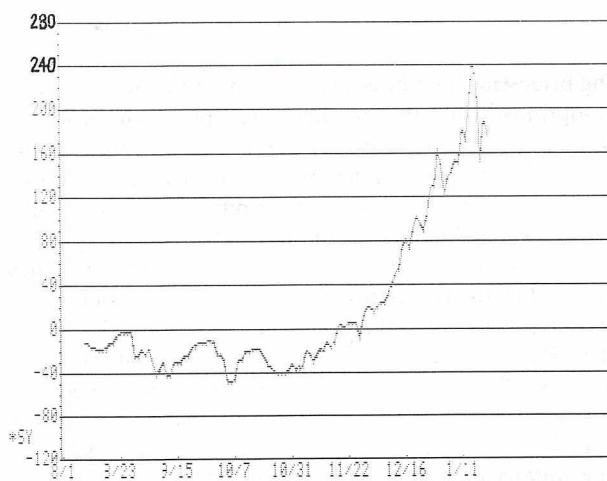


Chart 14 – CRUDE FEB '89 - AUG '89



**GOLD & SILVER**

# The golden torrent

Spectacular testimony to the gold expansion cycle underway since the early '80s is the string of announcements made recently by some of the largest gold producers in the world. To wit, Newmont Gold Co. expects to produce 1.4 million ounces in 1989, up from an early forecast of 1.28 million ounces and 865,000 ounces produced in 1988.

Homestake Mining Co. announced a joint venture with Australian businessmen Alan Bond to own and manage some of Australia's richest gold leases in Western Australia. The deal will lead to a gold mine yielding 800,000 ounces per year by 1991, *seven times current output*. What is more, production from the super pit will fall to approximately US \$200/oz. in 1991 from about US \$360/oz. now.

Finally, American Barrick Resources Co. said it will increase production at its super-rich Goldstrike Mine in Nevada to 900,000 ounces in 1992 from 119,000 ounces in 1988. According to President Robert Smith, the cost of production for mining Goldstrike from 1989 to beyond 2000 will average US \$190 to US \$195 per ounce.

If the South African government accepts proposals for lower mining taxes advanced by a special technical committee led by Deputy Finance Minister Georg Marais, 15 new major gold mines could be developed with life expectations of at least 30 years. By the year 2000, South Africa could be producing 720 tonnes, up from last year's 607 tonnes.

As is becoming ever more obvious, only a dramatic upsurge in inflation can, *at present prices*, absorb the torrent of gold supplies coming on the market over the next three to five years. More likely, prices will drift down towards marginal costs of production (\$200 to \$250/oz.). Alternatively, a strong whiff of inflation will cheapen gold prices in real terms, thus encouraging accelerated consumption and diminished mining.

**STRATEGY:** *Either way, a strategy of being short gold against the purchase of CRB futures should continue to be profitable (see Chart 17). Also our short December '89 gold/long December '89 silver is beginning to pay off (see Chart 15). Maintain spread.*

Chart 15 - DEC '89 GOLD/DEC '89 SILVER

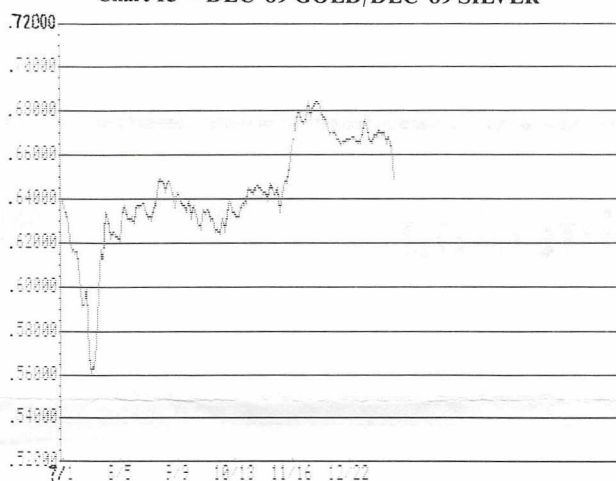


Chart 16 - COMEX GOLD FEB '89

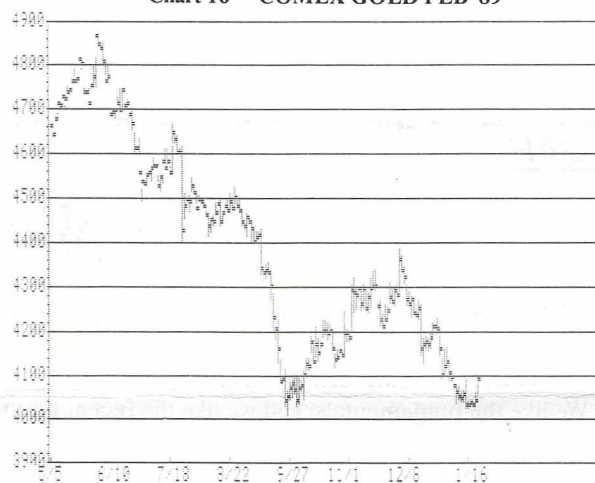
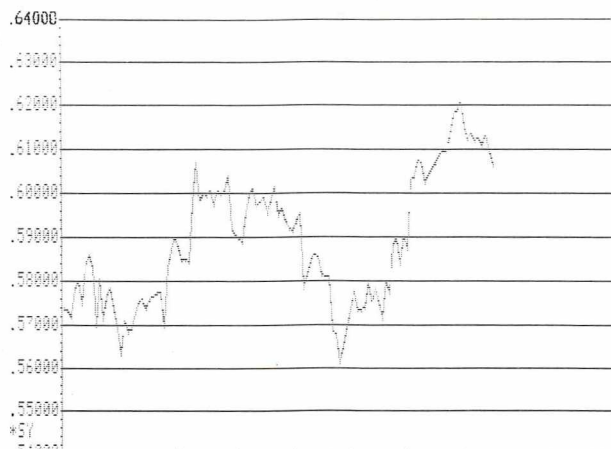


Chart 17 - CRB/GOLD



**COPPER**

# The bull unperturbed

As expected, the steep backwardation present at the end of last year has brought back copper to the warehouses. Since the second week of December, combined LME and Comex stocks have *increased* 15,000 tonnes. The bull, however, remains unperturbed, concerned with the threat of renewed strikes in Peru and 4,000 to 8,000 tonnes/month refined copper losses at Codelco, because of a recent explosion.

We remain long but believe that a correction is imminent.

**STRATEGY:** *Remain long, but tighten stops to 144.00, basis March, good anytime. By the time you receive this letter, you may have been advised to liquidate long positions via the Hotline service.*

Chart 18 – MAR '89 COPPER



**SUGAR**

# Supplies tightening

F.O. Licht's new statistical balance points to the possibility that stocks will end below 30% of usage in 1989, the tightest supply/demand balance in eight years.

We like the fundamentals, and we like the recent basing action.

**STRATEGY:** *Buy May '89 sugar at market, risking 9.60, close only.*

Chart 19 – MAY '89 SUGAR



**GRAINS**

# Gains in grain from no rain on the plain

If there ever was a time to be long grains, it must be in early 1989. The drought problems in 1988 eliminated the last vestiges of the surplus grain condition of the early '80s. Chart 20 paints a very bullish picture for wheat and coarse grains. Stocks as a percentage of utilization are lower today than they were in the early '70s, a time of record real prices. From the demand side, a politically motivated "Export Enhancement Program" (EEP) subsidized consumption at an even more rapid pace (see Chart 21).

Climatic conditions in the tropical Pacific that seemed to have caused last year's drought in North America are still present. This, and a lack of moisture in the wheat-growing areas, especially the Plains are raising concern that 1989 may see a repetition of 1988. If so, the world is ill-prepared. Both

China and the USSR are coming in with substantially reduced crops; Argentina, and to some extent Brazil, are being afflicted with a severe case of drought.

For those fascinated with cycles, we reproduce below a chart that appeared in the spring of 1988 in *Profarmer* (Chart 22). Notice how the years 1989 through 1992 fall in the category of "shortages," a very likely possibility should even a mild crop disappointment take place this spring and summer in North America.

**STRATEGY:** Our favorite continues to be November 1989 soybeans, March '89 soymeal, and May 1989 wheat. Remain long and raise stops to 6.80, 230.00, and 4.16 respectively, close only.

Chart 20

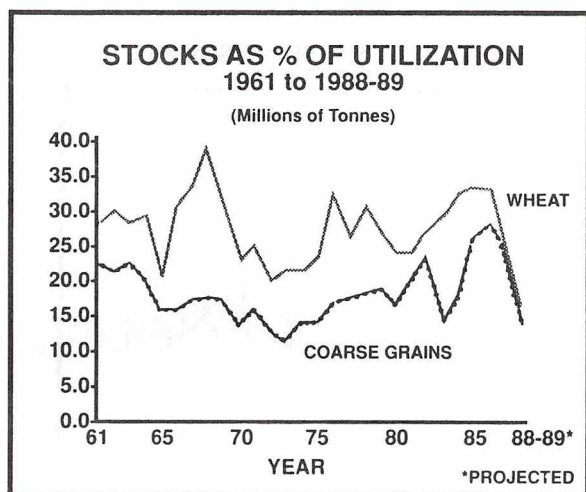


Chart 21

**U.S. WHEAT EXPORTS**  
1985-86 TO 1987-88

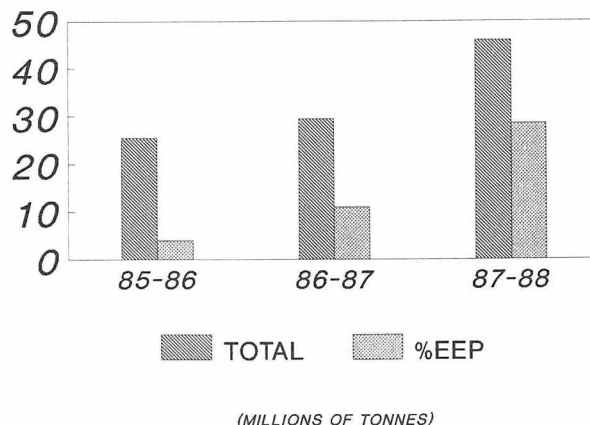


Chart 22

Agricultural Production 18.6 Year Cycle

1854	1872	1891	1909	1928	1946	1965	1983	
1855	1873	1892	1910	1929	1947	1966	1984	Uncertain
1856	1874	1893	1911	1930	1948	1967	1985	
1857	1875	1894	1912	1931	1949	1968	1986	
1858	1876	1895	1913	1932	1950	1969	1987	Decline
1859	1877	1896	1914	1933	1951	1970	1988	
1860	1878	1897	1915	1934	1952	1971	1989	
1861	1879	1898	1916	1935	1953	1972	1990	Shortages
1862	1880	1899	1917	1936	1954	1973	1991	
1863	1881	1900	1918	1937	1955	1974	1992	
1864	1882	1901	1919	1938	1956	1975	1993	
1865	1883	1902	1920	1939	1957	1976	1994	Improvement
1866	1884	1903	1921	1940	1958	1977	1995	
1867	1885	1904	1922	1941	1959	1978	1996	
1868	1886	1905	1923	1942	1960	1979	1997	
1869	1887	1906	1924	1943	1961	1980	1998	Surplus
1870	1888	1907	1925	1944	1962	1981	1999	
1871	1889	1908	1926	1945	1963	1982	2000	
	1890	1927	1964					

Ag production in the "declining" stage of 18.6-year cycle. Using corn yields as his "gauge," Dr. Louis Thompson, Professor Emeritus at Iowa State University and renowned agronomist and weather buff, has identified an 18.6-year cycle in agricultural production dating back to 1850s. Each cycle is composed of five "stages" as shown below. Looking only at clusters of "surplus" years, the interval averages about 18.5 years, while clusters of "shortage" years are closer to 20-year intervals. Thompson has found the 18.6-year interval to be the "best fit."

Chart 23 - CBT WHEAT MAY '89

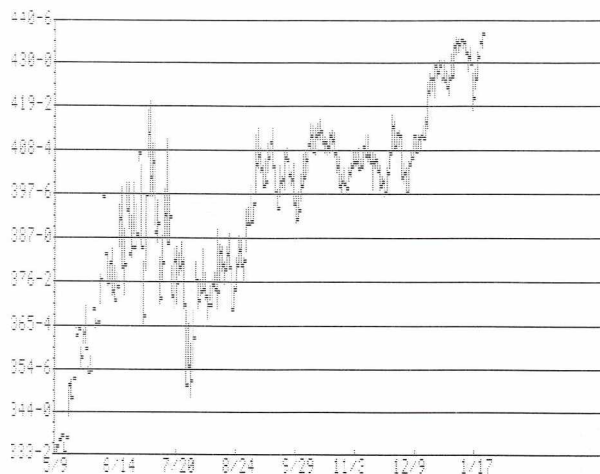


Chart 24 - SPOT WHEAT PRICES

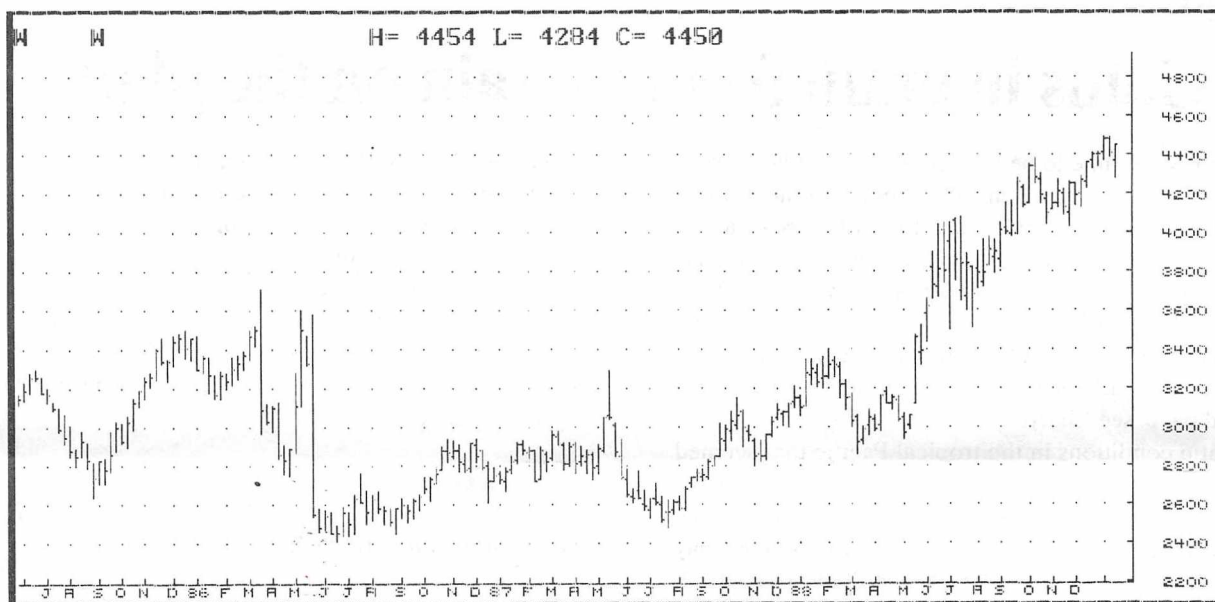


Chart 25 - CBT SOYBEANS NOV '89

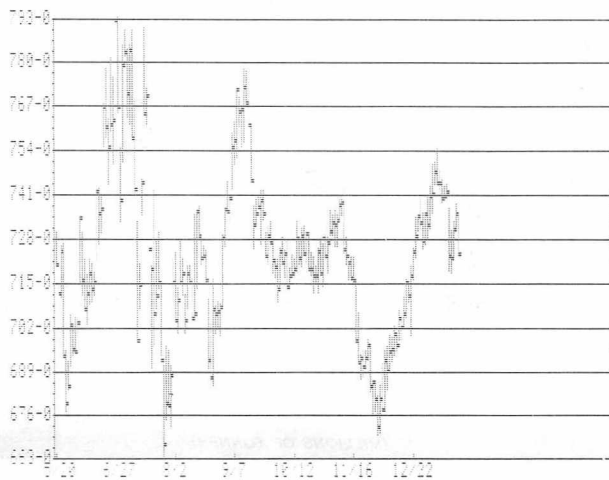


Chart 26 - SPOT SOYBEAN PRICES

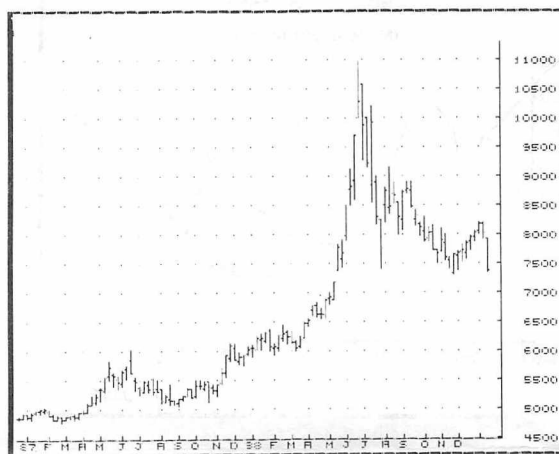


Chart 27 - CBT BEAN MEAL MAR '89

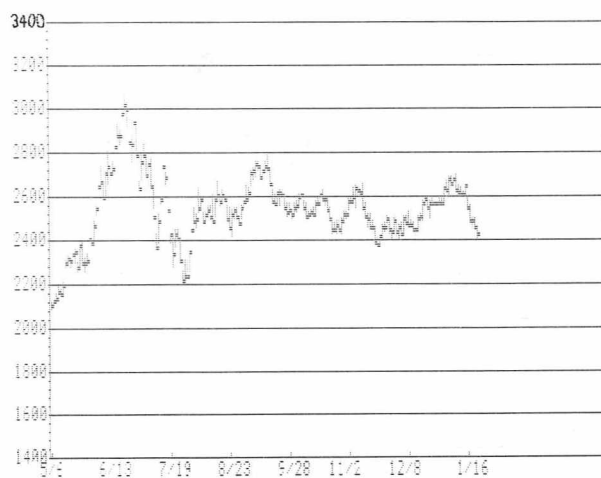
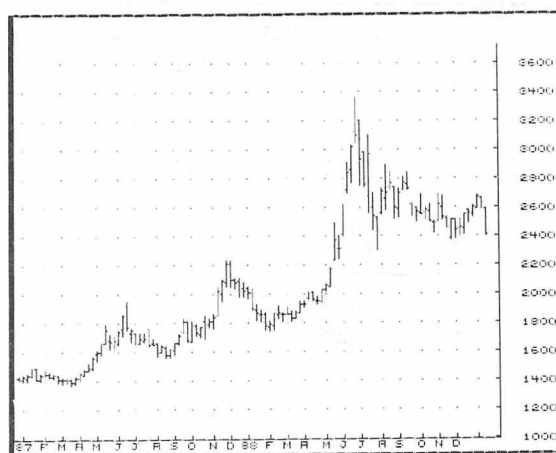


Chart 28 - SPOT SOYMEAL PRICES



**FRIEDBERG CAPITAL MARKETS**

**Recommended bond portfolio allocation:**

New Zealand dollar bonds 40%

US dollar floaters 60%

**Chart 29  
FOREIGN CURRENCY BONDS**

Date: January 19, 1989  
We offer the following Bonds subject to change without prior notice: Minimum amount US\$5,000 (Can.\$7,000)

ISSUER/MTY./DATE/COUPON	BID	OFFER	CURRENT ANN. YIELD TO MTY	LAST PAY DATE	NEXT PAY DATE
<b>NEW ZEALAND DOLLAR DENOMINATED BONDS</b>					
TORONTO DOMINION BANK	103 1/2	-	-	02/04/88	02/04/89
02/04/90 18% BRSP eligible					
SALLIE MAE (semi annual)	103 3/4	104 1/2	14.08%	04/08/90	04/02/89
04/08/90 17%					
MCDONALD'S (semi annual)	103 5/8	104 3/8	13.97%	15/08/88	15/02/89
15/08/90 16 3/4%					
TOURIST HOTEL (N.Z.)	55	56 1/4	14.12%	04/06/93	04/06/93
04/06/93 zero coupon					
<b>AUSTRALIAN DOLLAR DENOMINATED BONDS</b>					
COMMONWEALTH BANK OF AUSTRALIA	99 1/2	100 1/4	13.87%	01/07/88	01/07/89
01/07/94 14%					
WORLD BANK	96	96 3/4	13.80%	15/03/88	15/03/89
15/03/93 12 3/4% BRSP eligible					
CAN. IMP. BANK OF COMMERCE	93 3/4	-	-	13/03/88	13/03/89
13/03/91 13% BRSP eligible					
<b>DANISH KRONE DENOMINATED BONDS</b>					
WORLD BANK	100 1/4	-	-	20/11/88	20/11/89
20/11/92 9 3/4% BRSP eligible					
STOCKHOLM	103 3/8	104 3/8	8.76%	10/11/88	10/11/89
10/11/91 10 5/8%					
<b>BRITISH POUND DENOMINATED BONDS</b>					
RGM of SWEDEN	95 7/8	96 5/8	10.38%	14/04/88	14-04/89
14/4/93 9 3/8%					
<b>DEUTSCHE MARK DENOMINATED BONDS</b>					
QUEBEC HYDRO	96 7/8	97 5/8	5.91%	01/05/88	01/05/89
1/5/96 5 1/2% BRSP eligible					
<b>SWISS FRANC DENOMINATED BONDS</b>					
GOVT. OF AUSTRALIA 30/10/98 5%	101 1/4	102	4.74%	30/11/88	30/10/89
JAPANESE YEN DENOMINATED BONDS					
GOVT. OF CANADA	102 7/8	103 5/8	4.70%	23/01/88	23/07/89
23/7/93 5 5/8% BRSP eligible					
<b>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</b>					
ALBERTA 9/12/91 7 3/8% BRSP eligible	94 1/8	94 7/8	9.48%	9/12/88	9/12/89
<b>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</b>					
ISSUER	MAT. DATE	COUPON	BID	OFFER	CUR. COUP.
UNITED KINGDOM	24/9/96	3 mo. LIBID-1/8	99.99	100.29	9 1/8% (quarterly)
			98.77	99.17	8 5/8% (quarterly)
REPUBLIC OF ITALY	30/4/93	3 mo. Lisean	99.79	100.09	9.425% (quarterly)
			99.79	100.09	9.425% (semi annual)
<b>L.B.C. PAPER DENOMINATED IN U.S. DOLLARS</b>					
ISSUER	MAT. DATE/COUPON	BID	OFFER	CUR. COUP.	
BANCO CENTRAL De CHILE (restructured)	58--	61	9.0625	*	14.86% (annually)
12mo. LIBOR +1 1/8					
ARGENTINA	15/2/92	.8540	-.8670	8 9/16%**	15/08/88-15/02/89
BONEX ser.82 LIBOR (sem.ann.)					amortized:12% of principal paid yearly

For further information and current prices please call:  
FRIEDBERG CAPITAL MARKETS (415) 364-2700 F/MICHO

**Chart 30  
Breakeven exchange rates for US\$ - based investor**

This analysis shows a "snapshot" of the relationship between interest rate differentials and rates of exchange. The breakeven rate measures how far the foreign currency has to devalue (for NZ\$, A\$, DKr) or revalue (for DM, SF, JY) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. **BOND YIELDS AND RATES OF EXCHANGE AS OF JANUARY 19/89.**

	U.S. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE
1 year	8.87%						
2 year	9.08%	McDonalds 16 3/4% 15/8/90 yields 13.97% (.575 NZ/US)					Stockholm 10% 10/11/91 yields 8.76% (7.21 Dkr/US)
4 year	9.06%	Tourist Hotel 0% 4/6/93 Yields 14.12% (.548 NZ/US)	World Bank 12 1/2 15/3/93 Yields 13.80% (.731 A/US)			Canada 5 1/2% 23/7/93 Yields 4.70% (109.9 US/JY)	
5 year	9.03%						
6 year	9.02%						
7 year	8.98%			Quebec Hydro 5 1/2 1/5/96 yields 5.91% (1.53 US/DM)			
10 year					Australia 5% 30/10/98 yields 4.74% (1.07 US/SF)		
Spot Exchange Rate	N/A	.6277	.8668	1.8725	1.5925	129.50	7.2655

\*\*For example, in parentheses, since a US\$ based investor would receive 489 basis points (1397-908) by holding the McDonalds NZ\$ bond, NZ\$ can depreciate to .575 NZ/US from the present spot exchange rate of

.6277 NZ/US over the next 2 years for the NZ\$ investment to break even with current US\$ rates of interest. Assumes that bonds are held to maturity, and coupons are reinvested.

**FOREX RATES & UPDATE**

<u>Currency</u>	<u>Spot</u>	<u>3-Month</u>	<u>12-Month</u>	<u>Comments vis à vis US\$</u>	<u>Comments vis à vis DM (Spot DM: 1.8440)</u>
Australian dollar	.8730-.8740	.8600-.8620	.8255-.8275	Neutral	Neutral
Belgian franc	38.53-38.58	38.56-38.45	37.80-38.00	Remain short	Neutral
Danish krone	7.14-7.15	7.12-7.15	7.05-7.08	Remain short	Neutral
Dutch guilder	2.0785-2.0800	2.0620-2.0639	2.0112-2.0142	Remain short	Neutral
Greek drachma	153.40-153.50	154.70-157.00	160.40-169.50	Remain short	Remain short
Hong Kong dollar	7.7995-7.8005	7.7995-7.8030	7.7900-7.8000	Neutral	Remain long
Irish punt	1.4500-1.4515	1.4460-1.4480	1.4345-1.4400	Remain short	Neutral
Italian lira	1348-1349	1357-1359	1376-1382	Remain short	Neutral
Kuwaiti dinar	.28580-.28610	.28425-.28475	.28000-.28100	Remain short	Neutral
Malaysian ringgit	2.7200-2.7220	2.7030-2.7080	2.6300-2.6500	Neutral	Neutral
New Zealand dollar	.6290-.6310	.6220-.6260	.6025-.6095	Remain long	Remain long
Norwegian krone	6.69-6.70	6.72-6.73	6.79-6.81	Neutral	Neutral
Portugese escudo	151.70-152.10	152.20-153.35	154.70-159.10	Neutral	Remain long
Saudi Arabian riyal	3.7500-3.7510	3.7510-3.7520	3.7505-3.7545	Remain short	Remain short
*Singapore dollar	1.9410-1.9420	1.9240-1.9265	1.8800-1.8900	Buy	Buy
Spanish peseta	114.68-114.78	115.56-115.73	118.23-118.53	Remain short	Neutral
Swedish krona	6.28-6.29	6.30-6.31	6.30-6.33	Remain short	Neutral

**Explanatory Notes**

\*Indicates change in recommendation from last issue.

Currency expected to firm against both currencies.

Currency expected to strengthen against US\$ and weaken against DM.

Currency expected to weaken against both major currencies.

Currency expected to weaken against US\$, but strengthen against DM.

Term used to liquidate short position but does not imply a new buy recommendation.

Term used to indicate sale advice of previous long position, but does not imply a new short sale recommendation.

Buy	Buy
Buy	Sell
Sell	Sell
Sell	Buy

Cover

Liquidate

**HOTLINE UPDATE**

**Flash update, Monday, December 19, 9:30 a.m.:** As explained in the forthcoming newsletter, which will be mailed tomorrow, we advised reentering the short side of the crude oil market via the sale of July contracts. Place initial stops at 16, close only.

**Flash update, Tuesday, December 20, 1:20 p.m.:** Reinstate long March sugar positions at market, risking 1070, close only.

**Tuesday, December 20:** The market letter was mailed today.

- As per our flash update on Monday at 9:30 a.m., we have reentered the short side of the oil market via the July contract. Place stops at 16.00, close only.
- As per today's flash update, we have reinstated long March sugar positions, placing stops at 1070, close only.

**Friday, December 23:** The market letter was mailed Tuesday.

- As per our flash on Monday, we have reentered the short side of the oil market via the July contract. Place stops at 1600, close only.
- As per Tuesday's flash update, we have reinstated long March sugar positions, placing stops at 1070, close only.

**Tuesday, December 27:** No changes or new recommendations.

**Friday, December 30:** No changes or new recommendations.

**Tuesday, January 3:** No changes or new recommendations.

**Friday, January 6:** No changes or new recommendations.

**Tuesday, January 10:** No changes or new recommendations.

**Friday, January 13:** No changes or new recommendations.

**Flash update, Tuesday, January 17, 9:10 a.m.:** Take partial profits on long US\$ positions by liquidating at least half of short Japanese yen, SF, DM, and other EMS currencies. Stay posted for reentry.

**Friday, January 20:** One change this week: As of this week's flash update, we took partial profits on long US\$ positions by liquidating at least half of short Japanese yen, SF, DM, and other EMS currencies.

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