FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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Withdrawal pains

The US economy is in the early stages of weaning itself from credit addiction — and it is finding the withdrawal quite painful.

In classical Austrian economics, credit is *the* cause for booms and busts. Easy credit lays the groundwork for increasingly ill-timed and poorly-conceived investments (malinvestments in their jargon) that begin to fail when the last Ponzi-scheme bail-out loan is denied. The ensuing recession/deflation is no more than the *recognition* and *liquidation* of these malinvestments. The length of the recession/deflation is simply proportional to the rapidity with which economic agents recognize their follies and get on with life.

Resolution Trust Corporation, the government agency in charge of disposing of hundreds of billions of dollars of repossessed Savings & Loans assets is but one example of the incredible end of all credit excesses. All over the US, corporate assets, debt, and real estate will have to be *liquidated*, i.e., sold at prices attractive enough to induce speculative buyers to acquire them, before the stage is clear for the next expansion.

Hayek, von Mises, and company provided us with an unusually clear insight into credit processes. Departing from traditional Chicago-taught monetarism, they argue that monetary injections were not at all the equivalent of dropping dollar bills from airplanes, where presumably money growth is evenly distributed. Instead, money and credit would enter at a *specific point(s)* in an economy and spread from there. The redistributive effects were crucially different than the ones implied by a mere money supply expansion. To wit, the first ones to receive the benefits of increased money and credit would enrich themselves at the expense of those who had not as yet received it, who in turn would enrich themselves over the next group.

What is more, the continuous outpouring of credit to a specific point or area in the economy kept that sector in continuous disequilibrium *vis à vis* the rest of the economy, while its own leverage was increasing. When credit came to an end, the disequilibrium became highly visible — and highly vulnerable.

Income levels can no longer support the high-priced credit-fabricated asset levels. As arbitrage activities proliferate, vacancies mount and resources become idle. This is true of real estate, department stores, media, gambling, and natural resources empires, etc. *Because of favorable institutional arrangements*, credit entered the economy more easily in the '80s via residential and commercial real estate, car loans, and Wall Street than via farming or commodities (the darling of the '70s). Wealth in the '80s went to developers and raiders. As a result, real estate and acquisitions became overleveraged and overpriced. The long and painful process of liquidation has just begun.

It will not be over until the equity holders lose their equity and the lenders bite the bullet. The worst thing the Feds can do is to try to *stave off* liquidation by delaying loss-recognition and sales and/or by reflating.

Fortunately, it is in the nature of bureaucracies that once they are exposed and humiliated for their laxity, they turn into tigers, with the same zeal and irrationality that they applied in their earlier irresponsible ways. When they are through, banking will no longer be the same.

So much for recognition. What about the enforcement of sales? Will they relent when they see how little they recover? Or when they see the enormity of assets to be disposed that haven't *yet* entered the pipelines? It is to be hoped that they don't. It is to be hoped that, in market jargon, they "hit the bids." In the alternative, the idling of resources (due to mispricing) will have extremely negative repercussions on the US economy.

In this issue

With contributions by Albert D. Friedberg, Dr. Steve H. Hanke, Daniel A. Gordon, and Michael D. Hart.

Finally, will the Fed reflate? Our Wicksellian watch (see "Prof. Wicksell revisited" in our October issue) suggests that, indeed, the central bank will ease, but only grudgingly. Being reactive, chances are that the Fed will fail to anticipate economic air pockets resulting from mispricing and the failure to "liquidate." As an example, a delay or a too-high reserve on the part of Resolution Trust Corporation (or other commercial banks) is reflected, to the casual observer, as a *flat price level* when, in fact, a genuine transaction would require a price drop of 50% or more. In effect, the Fed can be blindsided until well past the point of no return.

We are not suggesting that the Fed take a proactive role and guess what markets may or may not do. We are merely speculating about the probability of the Fed's staving off a much-needed liquidation. Our conclusion is, tentatively, positive: The Fed will ease too late.

STRATEGY: *Bearish on the US dollar and the US stock market; neutral on US interest rate* futures *contracts (which already discount a massive drop in rates) and neutral-bearish on the majorities of commodity prices.*

CURRENCIES

A strengthening yen?

The slow and grudging fall in Fed Funds (now at 8¼%) continues to drive the US dollar lower.

At Friday's close, three-month Euro-deposit rates were as follows: Euro-DM 8¼%, Euro-swiss 8½%, Euro-guilder 8⅝%, Euro-Sterling 15%, and Euro-dollar 8⅜%. Clearly, the US interest-rate edge is a thing of the past, with perhaps the sole exception of the yen.

It is because of this developing trend that for the past three months we have been recommending long DM (or long SF) positions *vis à vis* short yen positions. While the trade has produced extraordinary results (see Chart 3) to date, we would like to introduce a word of caution. Japanese broad money-supply growth continues to grow at an unacceptably high 9.5% to 10% per annum. The credit boom is entirely responsible for their soaring real estate and stock prices, eerily reminiscent of the great US credit orgy of 1983-87. We now know the consequences of such a boom: Rising bank failures, repossessions, and foreclosures. The Japanese have tried, to no avail, of course, to cool off the boom by asking banks to slow their real estate lending in Tokyo. If new money is created, banks must put it to work. And so, the insane real estate inflation is spreading outside of Tokyo.

The new Governor of the Bank of Japan, Mr. Yashusi Mileno has recognized the folly of easy credit. Instead of spending the first few months in office "paying courtesy calls to the great, the good, and the influential" (in the words of the *Financial Times of London"* correspondent), he has expressed strong views about raising the discount rate to 4¼% from its current 3¾%, incurring the displeasure of the Ministry of Finance.

Nevertheless, three-month Euro-yen rates have risen 250 basis points so far this year, and are now trading at a 1989 high of 7%. Furthermore, the yield curve has turned negative (see Chart 5) at 130 basis points. Movements in the yield curve and M1 appear to correlate well with Bank of Japan dollar intervention: Persistent dollar sales (such as occurred this past spring and summer and throughout 1985) tighten money, while dollar purchases (throughout '87 and part of '88) loosen money.

It remains to be seen whether the new governor is willing to take a new, independent course of action, targeting its own explosive credit situation. If, as we suspect he is, then Japanese interest rates are likely to soar in coming months, setting off a collapse in real estate values and stock prices but strengthening the yen *vis à vis* the US dollar and perhaps even the European currencies.

STRATEGY: *1) We are long DM/short yen but becoming a bit more concerned with the short side of the yen. We will be monitoring the Bank of Japan interest rate policy rather closely for signs of credit tightening moves independent of US dollar intervention.*

2) We advise commercial hedgers to hedge all their US exposure via purchases of EMS currencies.

3) Inside of the EMS, the Italian lire offers interesting possibilities. The appointment of Mr. Guido Carli, former Governor of the Bank of Italy from 1960 to 1975, a man of wide experience and known to favor a stable currency, to the post of Treasury, gives us reassurance that the lire will fight hard to remain in the EMS. The LIT now trades at 747 LIT/DM, well below its EMS central parity of 720.69, and offers a yield pick up of approximately 1% per quarter over DM deposits. We recommend it to aggressive traders (including the substitution of long DM positions).

Chart 1
CME Deutsche Mark Mar '90

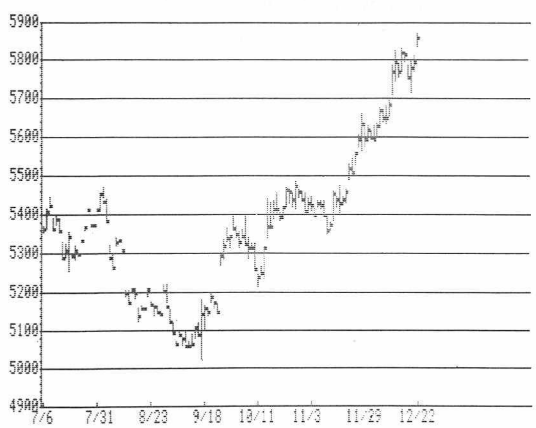


Chart 2
CME Japanese Yen Mar '90

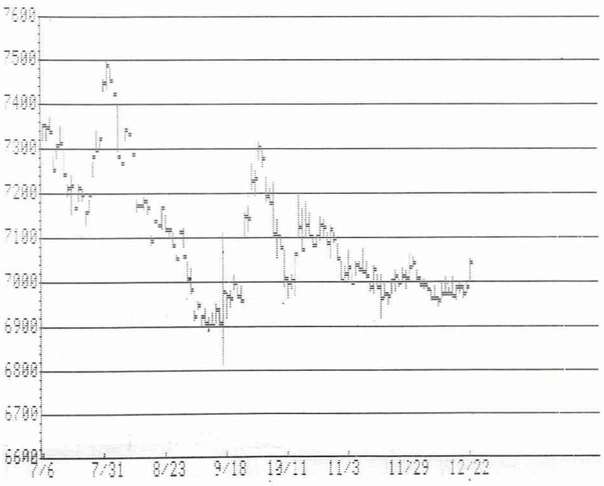
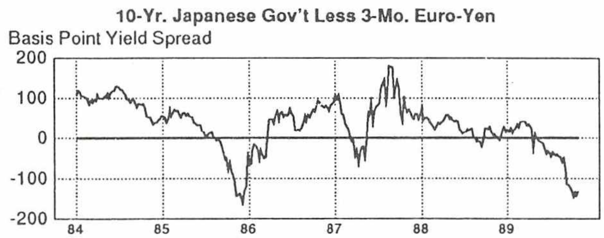


Chart 3
DM 90/JY 90

Chart 5

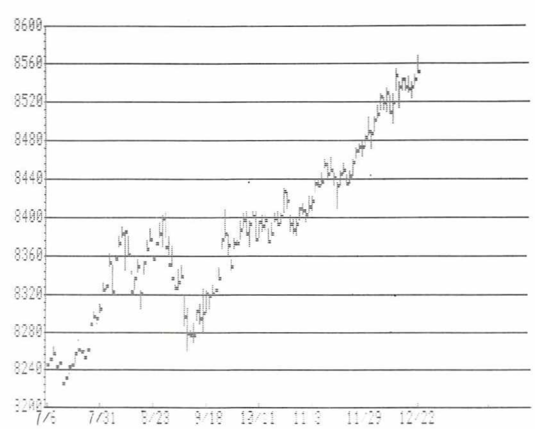


Merrill Lynch Capital Markets,
Currency & Bond Market Trends

CANADIAN DOLLAR

Not ready to sink

Chart 6
CME Can. Dollars Mar '90



The Governor of the Bank of Canada has expressed concern over the fast growth of M2 in recent months. In fact, from August through November (four months), M2 grew at 3.6%, or an annual rate of 15%. Clearly, the pace is excessive and the Bank will have to maintain (or even increase ?) its grip on monetary policy. Translation: the Canadian dollar is not about to sink, yet.

STRATEGY: *Maintain long put options, but don't expect immediate results.*

STOCK MARKET INDEXES

'Smart money' moves to quality

The swings in stock market prices are explained by two conflicting schools: The "faddists" and the "fundamentalists." The faddists, like John Maynard Keynes and John Kenneth Galbraith, claim that bull and bear markets are caused by changes in the "animals spirits" of investors. From this perspective, "fads and fashions" drive uninformed investors to buy and sell stocks.

The fundamentalists, like Benjamin Graham, claim that major market swings are caused by informed investors, who are cautious, far-sighted, and shift their investments in response to changing fundamentals.

The volatility of stock market indexes has always been used as a powerful argument by the fads and fashion folks. Indeed, the faddists claim that stock fundamentals change only slowly and that price swings (volatility) are therefore the consequence of irrational waves of enthusiasm or pessimism that cause stock index prices to swing wildly and deviate from their fundamental values.

The faddists' view has been effectively challenged in "Bull and Bear Markets in the Twentieth Century," a research paper published last month by the National Bureau of Economic Research, Inc. The authors of this paper, Robert Barsky and J. Bradford De Long, show that major market swings have been driven by careful investors who have focused on changes in market fundamentals. In consequence, researchers demonstrate that price changes have been validated by "smart money" that has formed its expectations by analyzing fundamentals. Hence, Barsky and De Long conclude that swings in the past century's stock prices has been a consequence of smart money's revised forecasts of fundamentals.

The fundamental model

To determine fundamental values, we must have a model. We employ the basic model used in the National Bureau's research study. Smart money expects real dividends (D) to grow at a constant rate (g), and it discounts the future at a long-run real required rate of return (r). Based on these fundamentals, a stock's price (P) is given by the following $P = D/(r-g)$.

To appreciate how changes in these fundamentals can cause major price swings, consider that during this century, the average price/dividend ratio (P/D) has been about 20 and (r-g) has been about 0.05. In consequence, if estimates for dividends (D) and their growth (g) remain constant, for example, and the required rate of return for other assets of comparable risk (r) increases by one percentage point, then the price/dividend ratio (P/D) would fall to 16.7, or about 17%. This sensitivity of equity values to changes in expectations about required rates of return for assets of comparable risk underlies our (the fundamentalists') argument that we should expect large bull-bear price swings.

Economic downshift

To use our fundamentalist model, we must evaluate the current state of the economy. Although we do not anticipate a recession in the coming year, we do foresee a significant down-shift in economic activity. While the economy flies at low altitude, the risk of a recession will increase. Moreover, this low-altitude flying will squeeze many marginal or low quality firms, particularly those that are highly leveraged.

Indeed, low-quality firms have already begun to show signs of serious troubles. For example, last week the Campeau Corporation's two American retail units, Federated Department Stores and Allied Stores, were notified by their leading creditor, Citibank, that they would be in default on $2.34 billion in loans. In addition, Merv Griffin's Resorts International sought bankruptcy court protection under Chapter 11.

In consequence of the marginal firm squeeze, financial institutions have begun to sell portions of their loan portfolios that are exposed to the marginal firm squeeze problem. By selling loans, particularly senior debt used to finance leveraged buyouts, these institutions reduce their risks and clean up their balance sheets. Indeed, financial institutions are beginning to recognize that yesterday's loans, which were made during high-altitude economic flight, look terribly questionable today, under conditions of anticipated low-altitude flight.

In consequence of smart money's changing evaluation of the fundamentals, selling pressure in the high-yield or "junk" bond market has been growing. Junk bond prices have fallen, and their yields, relative to high quality paper, have widened to 700 basis points above Treasuries. We anticipate that this flight to quality will continue as the economy begins its low-altitude flight.

Marginal firms' values down

The increase in the spread between high yield and Treasury bonds has significant implications for marginal or lower-quality firms' stock prices. It means that so-called lower-quality firms' fundamental values should shift down sharply.

Let's employ our fundamental valuation model to analyze the implications of the increased junk-bond spread. Assume that a firm's price/dividend ratio (P/D) was 20 and the difference between the real required rate of return (r) and dividend growth rate (g) was 0.05. If the only parameter in the valuation model that changes is the required rate of return on assets of comparable risks, and if it increases by 3.5 percentage points, the (r-g) becomes 0.085. In consequence, the price/dividend ratio (P/D) will fall to 11.76. This means that the firm's fundamental value (price) is 41.2% lower than it was before the required rate of return on assets of comparable risk increased by 3.5 percentage points.

Conclusions

Smart money alters its view of fundamentals as required rates of return on assets of comparable risk change. The prospect of low-altitude economic flight is putting a squeeze on low-quality firms, and has caused many financial institutions to clean up their balance sheets. In consequence, these institutions have sold increasing quantities of high-yield bonds, which has pushed their yields even higher. These higher yields and their use by fundamentalists have put the share price of low-quality firms under considerable downward pressure. We anticipate that this trend will continue.

Chart 7 shows that since mid-year — when the junk-bond spread took off — the ratio of the Major Market Index (a proxy for "high quality" stocks) to either the S&P 500 Index or the NYSE Composite Index (proxies for "lower quality" stocks) has taken off to the upside. Since mid-year, smart money fundamentalists have correctly been discounting prospective dividend flows from low-quality firms at higher discount rates. This trend will continue as funds are shifted toward higher quality assets.

Dr. Steve H. Hanke

Chart 7
MMI/NYFE

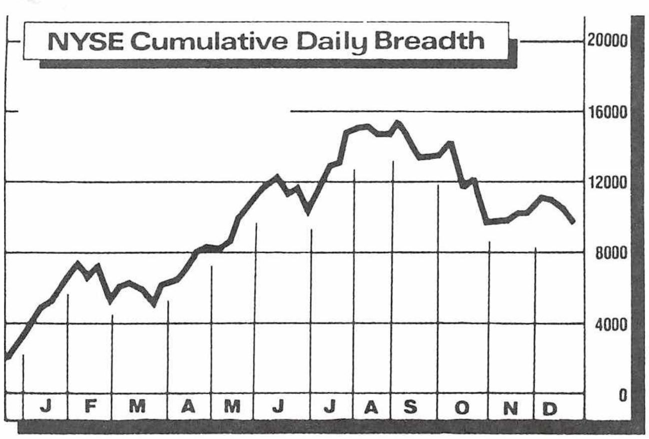
STOCK MARKET INDEXES

Lull before the storm

The very low level of odd-lot short sales tells us that the public has become relatively comfortable with the stock market, despite gathering clouds (more LBO failures, spreading banking woes). Then there's the disastrous lack of breadth (see Chart 8), five-month low in NASDAQ and Value Line (see Chart 9), and last week's 2-1 ratio in the NYSE new lows to new highs. Overall sentiment is confirmed by the latest *Investors Intelligence* tally: 55.3% of advisers are bullish — more than twice the 25.4% of bearish advisers. Dead on the numbers of August/September 1987.

STRATEGY: *As credit quality worries continue to spread, stock prices are certain to take it on the chin. The next major move is DOWN, and it will be BIG. Retain S&P 500 long put options. Also outright short sales of March '90 Value Line are recommended.*

Chart 8



BARRON'S / **MARKET WEEK**

Chart 9
KBT Spot Value Line Index

GOLD

Poor fundamentals, tolerable technicals

Although the bullish consensus has risen to 77% for two weeks running and implied volatilities remain at 19% to 20%, there are still few signs of a serious top. The recent consolidation around $412/oz. in a $400-$420 range is practically normal given the rapid $55-$60/oz. runup. The "tape" is *slightly* bullish.

STRATEGY: *Despite our fundamental misgivings (fear of a banking collapse, however, may be playing a bigger role than we think), we have advised* traders *to go long at this juncture, looking for a new upleg to the $430-$435/oz. area, basis spot.*

Protect long positions with stops at $406.00, basis February '90, close only.

Chart 10 – Comex Gold Feb '90

LONDON 3-MONTH DEPOSIT RATES

Spells lower rates ahead

UK's economic statistics continue to point to a strong deceleration of activity. For the third quarter, gross domestic product rose 0.5% over the second quarter; the year-on-year growth rate of 1.9% in the third quarter was the lowest since the 1.4% in the fourth quarter of 1984.

Increases of 0.9% in industrial production and 1.2% in manufacturing output during October contrast rather sharply with the flat-to-lower rate of growth of retail sales, indicating perhaps a rise in unwanted inventories. The £4.9 billion increase in M4 Bank/Building Society lending for November is lower than the £5.2 billion increases in October, and substantially lower than the £7.6 billion average of the past six months. Clearly, the 15% base rate is beginning to deter borrowings.

In our opinion, the UK has entered an economic recession of undeterminated duration and extent — the consequences of much too easy credit for much too long. The Bank of England is still unable to begin lowering rates because M0's latest year-on-year growth rate (5.7%) is above its 1% to 5% target. Furthermore, Sterling remains weak at DM 2.77/£. The very rapid fall in economic activity, however, will bring monetary aggregates in line while showing substantial improvement in the trade balance in the very near future. This allows for some rate accommodation on the part of the Bank of England without risking a further drop in Sterling.

STRATEGY: *At this point it is difficult to know whether rates will begin dropping by the middle of February (and thus benefit our long March '90 three-month deposit rate contract) or past the middle of March. The steep inversion of the yield curve makes it worthwhile to stay in the March '90 position for the moment rather than contemplating a rollover to June '90.*

Chart 11 – LIF Short Sterling Mar '90

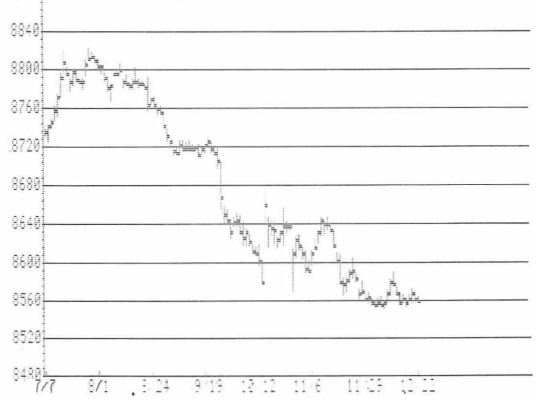
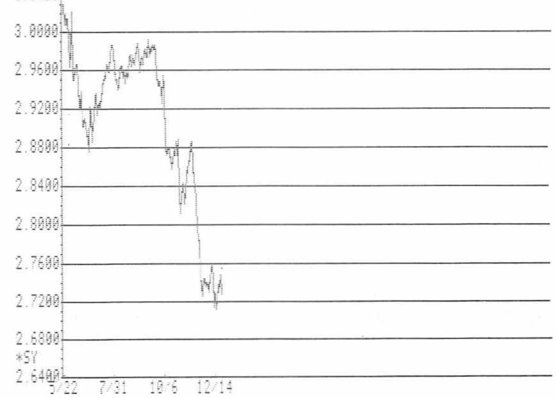


Chart 12 – Sterling/DM



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Recommended bond portfolio allocation

New Zealand dollar bonds	5%
US dollar high-yield convertible bonds	20%
Argentina Bonex	5%
US dollar floating-rate notes	35%
US zero coupon bonds	15%
Danish krone bonds	20%

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Chart 13 – Foreign Currency Bonds

Date: December 21, 1989
We offer the following bonds subject to change without prior notice:
Min. a/c US$5000.

PAY ISSUER/MTY.DATE/COUPON	BID	OFFER	CURRENT ANN. YIELD TO MTY	LAST PAY NEXT PAY DATE
CANADIAN DOLLAR DENOMINATED BONDS				
GOVERNMENT OF CANADA (semi annual) 01/02/90 13 1/4%	99.85 -	100.15	Money Market	01/08/89-01/02/90
NEW ZEALAND DOLLAR DENOMINATED BONDS				
TORONTO DOMINION BANK 02/04/90 18% RRSP eligible	100 3.4 -	101 3/4	9.89%	02/04/89-02/04/90
TOURIST HOTEL (N.Z.) 04/06/93 zero coupon	62 3/4 -	63 3/4	14.00%	matures 04/06/93
AUSTRALIAN DOLLAR DENOMINATED BONDS				
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	99 1/2 -	100 1/4	13.85%	01/07/89-01/07/90
WORLD BANK 15/03/93 12 3/4% RRSP eligible	98 1/2 -	99 1/4	13.00%	15/03/89-15/03/90
CAN.IMP.BANK OF COMMERCE 13/03/91 13% RRSP eligible	95 3/4 -	96 3/4	16.00%	13/03/89-13/03/90
DANISH KRONE DENOMINATED BONDS				
STOCKHOLM 10/11/91 10 5/8%	99 5/8 -	100 3/8	10.36%	10/11/89-10/11/90
BRITISH POUND DENOMINATED BONDS				
KGDM of SWEDEN 14/4/93 9 3/8%	91 5/8 -	92 5/8	12.18%	14/04/89-14/04/90
DEUTSCHE MARK DENOMINATED BONDS				
QUEBEC HYDRO 5 1/2% 1/5/96RRSP eligible	89 3/8 -	90 1/8	7.51%	01/05/89-01/05/90
SWISS FRANC DENOMINATED BONDS				
GOVT.OF AUSTRALIA 30/10/98 5%	88 1/8 -	89 1/8	6.67%	30/10/89-30/10/90
JAPANESE YEN DENOMINATED BONDS				
GOVT.OF CANADA 23/7/93 5 5/8% RRSP eligible	98 3/4 -	99 1/2	5.77%	23/07/89-23/07/90
U.S.DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @$38 p/sh	72 1/4-	74 1/4	11.90%	15/12/89-15/06/90
SUNRISE MEDICAL INC.7.25% 26/6/96 CV @$17 5/8 p/sh	77 1/2-	79 1/2	11.94%	26/06/89-26/06/90
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @$39.75 p/sh	46 1/4-	48 1/4	16.23%	15/05/89-15/11/90
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @$27.45 p/sh call in 1995 @100	65 3/4-	67 3/4	17.13%	01/09/89-01/03/90
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @$39.50 p/sh	43 1/2-	45 1/2	13.15%	10/06/89-10/06/90
U.S. DENOMINATED ZERO COUPON BONDS				
KINGDOM OF DENMARK 6/8/98	49 3/4-	50 1/8	8.35%	matures -06/08/98
U.S.DOLLAR DENOMINATED FIXED RATE BONDS				
ALBERTA 7 3/8% 9/12/91 RRSP eligible	98.15 -	98.90	8.00%	09/12/89-09/12/90
SOUTHMARK CORP.10 7/8% 1/11/89 (semi)				N/A
U.S.DOLLAR DENOMINATED FLOATING RATE NOTES	**Bid.**	**Offer.**	**Curr. Coupon**	
UNITED KINGDOM 24/9/96 3 mo.LIBID-1/8 (qtly)	99.90 -	100.20	8 13/16%	28/09/89-28/12/89
REPUBLIC OF ITALY 30/4/93 3 mo Limean(qtly)	99.30 -	99.70	8.625%	31/10/89-31/01/90
REPUBLIC OF PORTUGAL 8/12/93 6 mo LIBOR +5 B.P.(semi)	99.80 -	100.10	8.2375%	08/12/89-08/06/90
BANCO CENTRAL DE BRAZIL 15/10/99 6 mo LIBOR +13/16 (semi)	57 -	60	9.5%	16/10/89-17/04/90
BANCO CENTRAL DE CHILE 20/1/94 12 mo LIBOR+ 13/16 (annual)	58 3/4-	60 3/4	* 21.89% 10 11/16% ** 17.59%	*ammortized: 1/14 of principal paid semi-annually starting 1993. 20/01/89-20/01/90

* Yield to maturity
** current yield

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Chart 14
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. **December 21, 1989.**

	U.S. $	NEW ZEALAND $	AUSTRALIAN $	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND
2 year	7.64%		CIBC 13% 13/3/91, yields 16.0% (.678 A$/US)				Stockholm 10⅝%, 10/11/91, yields 10.36% (7.04 US/DK)	
3 year	7.68%	Tourist Hotel 0% 4/6/93, yields 14.0% (.502 NZ/US)				Canada 5⅝% 23/7/93, yields 5.77% (136.13 US/JY)		Sweden 9⅜% 14/4/93, yields 12.18% (1.427 BP/US)
4 year	7.73%		CBA 14% 1/7/94, yields 13.84% (.632 A/US)					
6 year	7.76%			Hydro Quebec 5½% 1/6/96, yields 7.51% (1.702 US/DM)				
8 year	7.84%				Australia 5% 30/10/98, yields 6.67% (1.427 US/SF)			
Spot Exchange Rate	N/A	.596	.788	1.7255	1.558	143.63	6.7062	1.6145

**For example, in parentheses, since a US$ based investor would receive 632 basis points (1400-768) by holding the Tourist NZ$ bond, the NZ$ can depreciate to .502 NZ/US from the present spot exchange rate of .596 NZ/US over the next 3 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

Currency	Spot	3-Month	12-Month	Comments vis à vis US$	Comments vis à vis DM (Spot DM: 1.7100)
Australian dollar	.7885-.7895	.7715-.7730	.7320-.7350	Neutral	Neutral
*Belgian franc	35.95-36.10	36.06-36.22	36.50-36.85	Buy	Neutral
*Danish krone	6.6560-6.6610	6.7150-6.7250	6.8680-6.8910	Buy	Remain long
*Dutch guilder	1.9270-1.9300	1.9270-1.9305	1.9350-1.9400	Buy	Neutral
*Greek drachma	157.35-157.55	160.85-167.00	171.85-189.05	Remain short	Remain short
Hong Kong dollar	7.8070-7.8075	7.8050-7.8075	7.8020-7.8220	Neutral	Neutral
*Irish punt	1.5370-1.5385	1.5248-1.5273	1.4820-1.4865	Buy	Neutral
*Italian lira	1281-1283	1294-1298	1337-1345	Buy	Buy
Kuwaiti dinar	.29300-.29350	.29240-.23940	.29200-.29350	Neutral	Neutral
Malaysian ringgit	2.6980-2.7010	2.6820-2.6870	2.6570-2.6670	Neutral	Neutral
*New Zealand dollar	.5960-.5970	.5880-.5900	.5630-.5665	Buy	Neutral
*Norwegian krone	6.2220-6.2270	6.2850-6.2940	6.4730-6.4930	Buy	Neutral
Portugese escudo	150.30-150.50	153.30-155.50	162.30-166.50	Neutral	Neutral
Saudi Arabian riyal	3.7500-3.7510	3.7465-3.7495	3.7450-3.7480	Remain short	Remain short
Singapore dollar	1.9010-1.9040	1.8920-1.8950	1.8660-1.8770	Neutral	Neutral
*Spanish peseta	110.30-110.50	112.32-112.62	118.45-118.90	Buy	Neutral
*Swedish krona	6.2320-6.2370	6.2875-6.2960	6.5055-6.5235	Buy	Neutral

Explanatory Notes

*Indicates change in recommendation from last issue.

	US$	DM
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

Flash update, Monday, November 27, 11:45 a.m.:
In our newsletter, which will be mailed tomorrow, we advise liquidating long T-bill and T-bond call options at market. Friday we advised hedging up Japanese yen positions via the purchase of SF contracts in the same dollar equivalent.

Tuesday, November 28:
Our newsletter will be mailed today. We advise liquidating long T-bill and T-bond call options at market. Friday we advised hedging up Japanese yen positions via the purchase of SF contracts in the same dollar equivalent.

Flash update, Thursday, November 30, 1:00 p.m.:
Despite the generally negative fundamental outlook, gold prices seem to have consolidated well in the past few days, and the metal seems ready to continue its advance short term. Therefore, buy February Comex gold at market, risking 411.50, good anytime.

Friday, December 1:
A recap of the week's activities.

1. As per our market letter and as stated on our flash Monday a.m., we have liquidated long T-bill and T-bond call options.
2. As per our flash of Thursday 1:00 p.m., we recommended a long position in February Comex gold with stops at 411.50, good anytime.

Flash update, Monday, December 4, 1:30 p.m.:
Buy March sugar at market, risking 1290 stop, close only.

Tuesday, December 5:
Repeat of Monday's flash update. Buy March sugar at market, risking 1290 stop, close only.

Flash update, Friday, December 8, 12:30 p.m.:
Traders may re-enter the long side of the gold market. Buy February gold, placing stops at 406.00, close only. One note: As per our flash of Monday, December 4, you are long March sugar with stops at 1290, close only.

Flash update, Tuesday, December 12, 1:30 p.m.:
We advise liquidating long SF/short DM spread at market. Also, we suggest improving our long SF/short yen spread, by selling SF and buying DM, leaving us with a net long DM/short yen spread. Be sure to weigh spread according to dollar equivalents.

Friday, December 15:
We had one change this week — a flash on Tuesday, December 12 at 1:30 p.m.: We advised liquidating long SF/short DM spreads at market. Also we suggested improving our long SF/short yen spread by selling SF and buying DM, leaving us with a net long DM/short yen spread. Be sure to weigh spread according to dollar equivalents.

Tuesday, December 19:
No changes or new recommendations.

Flash update, Thursday, December 21, 10:00 a.m.:
Liquidate long sugar positions at market.

Friday, December 22:
One change this week as per our flash update of Thursday, December 21 at 10:00 a.m.: We have liquidated long March sugar positions.

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