

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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Oil's slippery road

Opec is running on a treadmill. While production is up about 26% from 1986, prices in real terms, are approximately 20% lower, and going down. As a result, total *real* revenues are minimally higher thus far.

During the '80s, we repeatedly faulted the Gulf producers for their policy of maintaining a \$15 to \$20 a barrel price at the expense of curtailing output artificially. We posited that the only way to increase total revenues, in the long run,

was by a policy of damn the prices and full-throttle on production. Unfortunately for these high-reserve producers, Opec has not mended its ways.

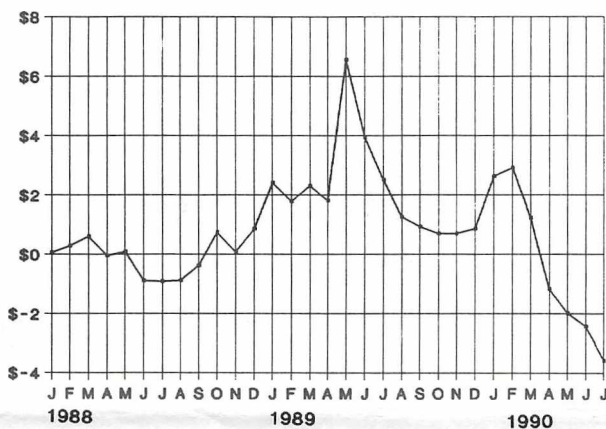
Interestingly enough, the passage of time *has cheapened* oil in real terms, providing us with *some* proof that long-run price elasticity is greater than one. As we have stated, total real revenues were slightly higher in 1989 than in 1986. Persistent overproduction by the UAE and Kuwait may indicate that the lesson has been well-learned. If so, we are likely to see much lower nominal prices in the medium term.

Opec production, at more than 23 million barrels per day (b/d), remains excessive. Crude oil inventory in the US stand at five to seven-year highs. Chart 1 is a picture of the collapse to come: Spot WTI prices are close to the record \$4/barrel discount to six-month deferred positions. This is another way of saying that holders of inventories can earn a return equal to 50% per annum by hedging their stocks on the futures market. The glut is catastrophic.

After having covered earlier short positions with \$3-\$5/barrel profits, we reinstated these via the Hotline (see Hotline Update section). We believe that oil prices are headed towards post-1974 lows.

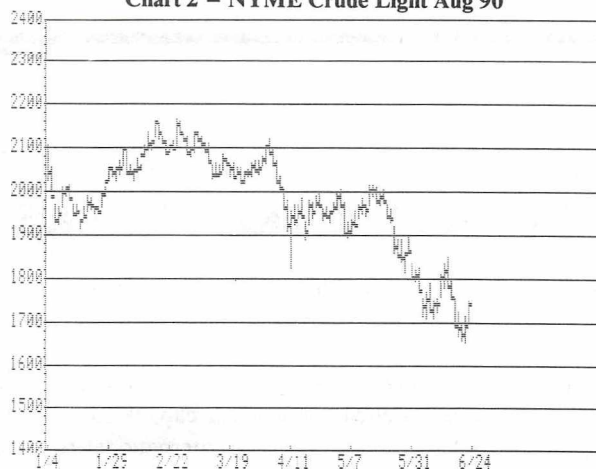
STRATEGY: Retain August and September puts purchased, as advised, on May 21.

Chart 1
CRUDE OIL
SPOT MINUS 6-MONTHS FORWARD DIFFERENTIAL



IN US\$ PER BARREL, AT EXPIRATION

Chart 2 - NYME Crude Light Aug 90



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

CRUDE OIL

High on crack

Would you like to have an oil refinery as a next door neighbor? New refineries have become about as difficult to build as new garbage dumps. A lot of small, obsolete refineries were permanently closed in the mid-80's. If we had to pick one industry that would enjoy unusual profitability in the next decade, we'd give the nod to oil refining. Have you noticed that pump prices haven't fallen at all, as crude oil is down from \$22.00 to \$16.00 a barrel?

It so happens that the futures market offers a superb vehicle to tap into this river of profits. The "crack spread" is a very rough approximation of what happens in an oil refinery. A spread of short three contracts of crude oil futures, against long two contracts of gasoline and one of heating oil, constitutes a bet on rising industry profitability.

Again and again during the past couple of years, this

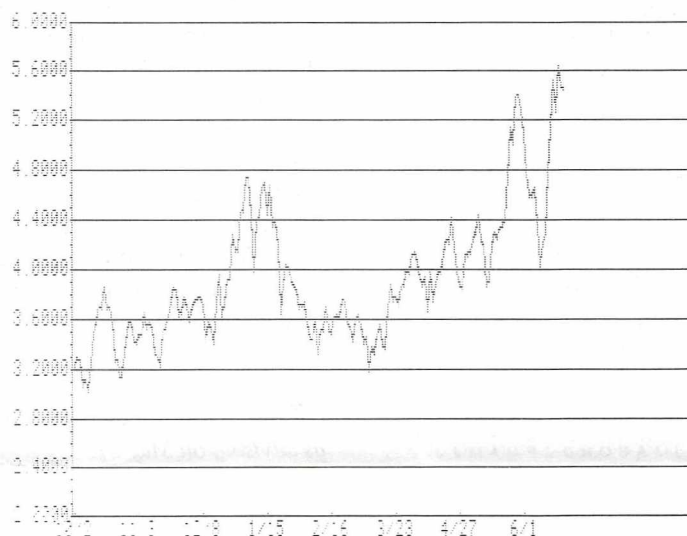
spread has widened spectacularly as the delivery months approached expiry. We expect more of the same.

The explanation may lie in differing market structures in the crude and products markets. Crude oil tends to oversupply and a carrying charge market. The product markets tend to be in tight supply and therefore inverted, as the refineries never really catch up with the crude oil oversupply. Thus, the futures markets often gave the opportunity to buy products at a discount while selling crude oil futures at a premium.

STRATEGY: Put on crack whenever the spread is between \$2.50/barrel and \$3.00/barrel. Take partial profits at \$4.25/barrel and ride the balance for a shot at the moon (\$7 to \$9 per barrel).

— William E. Burt

Chart 3 – Crack

**CURRENCIES**

Japanese yen

Yen, bonds, and Nikkei stumble: the bear market resumes

Fueled by a rapid and accelerated monetary expansion, Japan finds itself in the midst of a strong and very inflationary boom. In the fiscal fourth quarter ended March 31, GNP surged at an annual real rate of 10.4%. For the year as a whole, Japan grew a strong 5%. Quite remarkably, more than half of the growth during the quarter was attributed to the external sector, al-

though for the year as a whole domestic demand contributed 5.7% to the growth while external demand contributed a negative 0.7%.

As a result of cheap money, Japan is running a basic balance of payment deficit: Short-term capital outflows are being compensated by drawdowns in international reserves.

Since the end of March '89, these have dropped \$25 billion. Under a freely floating regime, the adjustment would have fallen on the yen. Heavy short-term outflows would have caused the yen to fall, which in turn would have improved even further the surplus on current account.

Japan's Ministry of Finance has resisted this type of adjustment for basically two reasons. In the first place, a falling yen would sharply increase import and export prices, thus validating overall price inflation. Secondly, an expanding current account surplus would have exacerbated trade friction with the US with negative political consequences.

The US would like to see further Japanese deflation accompanied by a rising yen, a contradiction in terms unless accompanied by ruinous foreign exchange intervention. As we have seen, the Japanese Central Bank has already lost over \$25 billion in one year just to contain the drop in the yen to 35% *vis à vis* European currencies.

As inflation numbers begin to pick up, short-term capital outflows will accelerate (overwhelmed by negative real

returns) particularly if, as is likely, the BOJ delays in implementing a tighter monetary policy. This will mean an even greater loss of reserves. At some point, the BOJ will be forced to undertake a far more orthodox form of adjustment, despite US protestation and Ministry of Finance's opposition. Either the yen will have to sink or interest rates will have to surge, or both.

STRATEGY: *The rally in the yen is over. We expect the basic ¥/DM cross to reach 105-110 in the coming months. Because we still favor Swiss francs over DM (see "Swiss francs"), retain the highly profitable long Swiss franc/short yen cross trade.*

Bond prices are paralleling the currency (see Chart 5). And this is understandable in view of the fact that a weak yen implies rising interest rates. On June 5 (see Hotline Update) we reentered the short side of the long-dated 6% bond traded on the LIFFE. Retain new stops at 96.75.

Japanese stock prices are headed lower in a hurry. Sell September Nikkei at market, placing stops at 34000, close only.

Chart 4
CME Japanese yen Sep 90

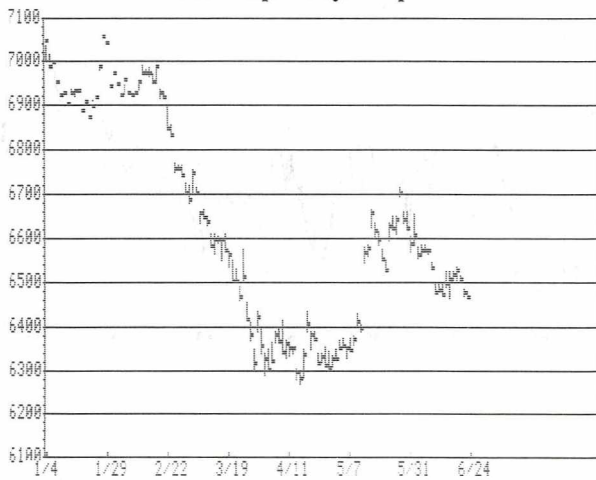


Chart 5
LIF Japanese Bond Sep 90

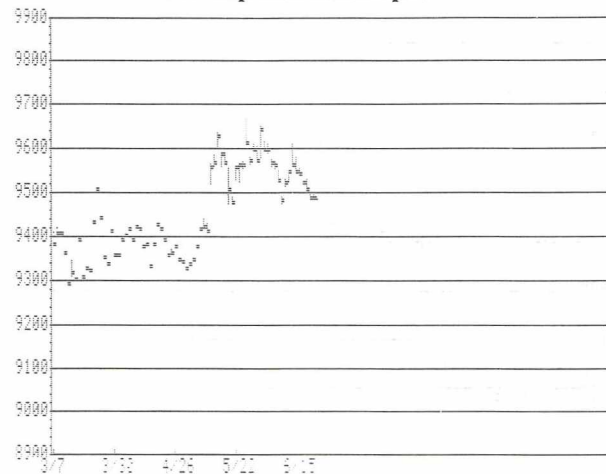
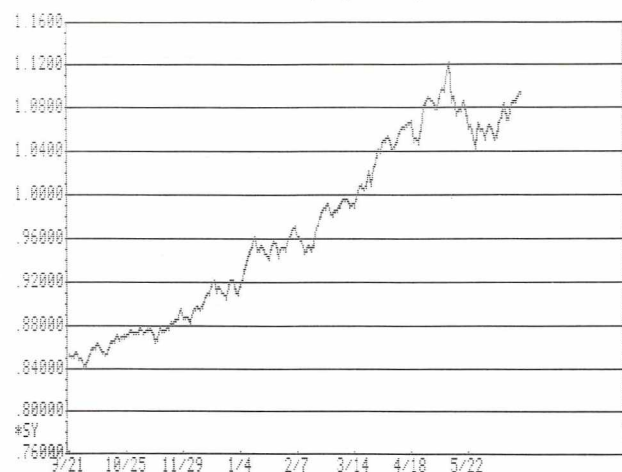


Chart 6
Nikkei 225 Index Spot



Chart 7
Swiss francs/Japanese yen



Swiss francs

Swiss francs/DM: getting close to profit taking

As we approach D-day (July 2), the Bundesbank will probably move to tighter monetary policy in order to contain strong demand pressures. The bank's intention is to reduce the gigantic current account surplus (DM104 billion, or 4.5% of GNP in 1989) and thus facilitate the transfer of real resources to the GDR "by means of a strong external value for the DM" (Report of the Deutsche Bundesbank 1989, pg 11).

The Swiss National Bank on the other hand, which has pursued a very tight policy, undershooting dramatically money supply targets, is more likely to ease up a bit in coming months.

Since the Swiss franc/DM rate, at 84.25, is close to its five-year average of 83, the domestic imperative of easing is not being seriously threatened.

STRATEGY: We sold DM and bought SF on a spread basis back in the early part of the year (see FC&CC Jan. 28, 1990, Hotline Update for Jan. 4, 1990) at well over 90 centimes. As we approach July 2, we will want to cover the DM, anticipating renewed strength. In the meantime, cover, if given the opportunity, at 83.50.

Chart 8
CME Swiss franc Sep 90

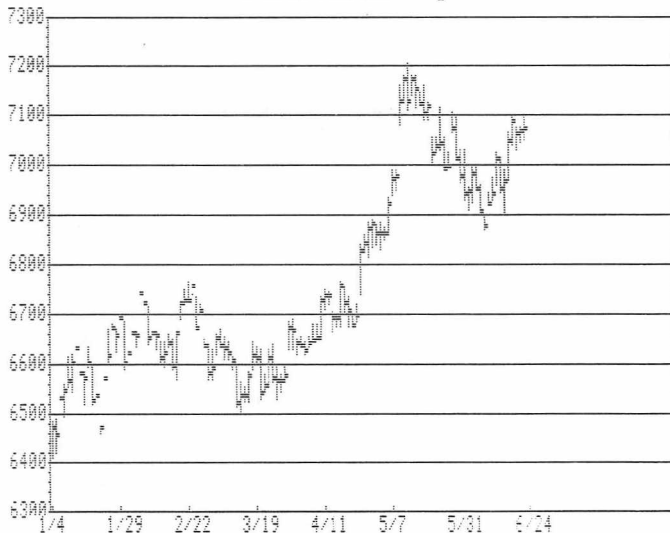
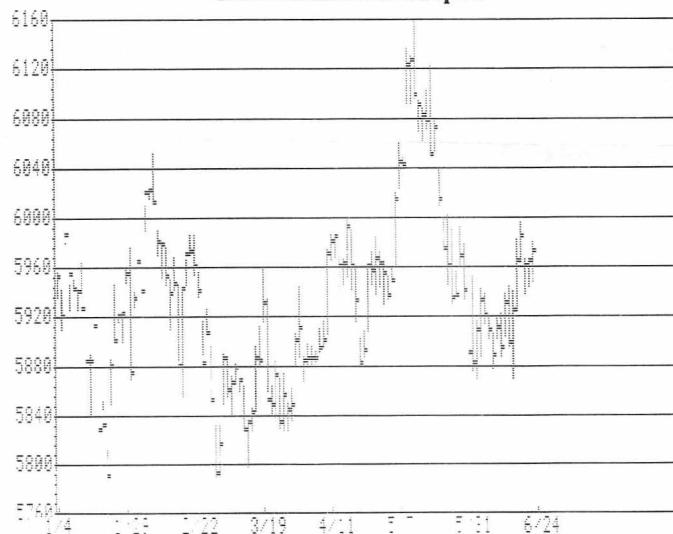


Chart 9
Swiss Franc/Deutschemark



Chart 10
CME Deutsch Mark Sep 90



THE ECONOMY

More supply-side problems

Last month we indicated that President Bush's propensity to reregulate the economy and utter the "T-word" (taxes) would, in the future, act to squeeze our supply-side spreads. If this wasn't dismal enough, the June 4 Labor Department report, which contains revisions in the 1990(I) productivity numbers, was even more depressing. The future is apparently now!

Our supply-side spreads measure the difference between the "value of output" and the "costs of inputs." Spreads are an indicator of the health of the real side of the economy and are driven, in large part, by changes in productivity. When productivity falters, the "value" side of the spread falls and the "cost" side increases. In consequence, the spread is squeezed.

The Labor Department's revisions for 1990(I) productivity indicate that productivity plummeted at a much more rapid rate than first reported. In consequence, the supply-side spread for 1990(I) was altered from a mildly positive number to a negative one (see Chart 11). This is of great concern because we now have had two back-to-back quarters with negative spreads. Indeed, over the past year, the spreads have been weak and deteriorating.

To put these data into perspective, the last time we observed this pattern of spread weakness was the last half of 1986 through the first half of 1987. During that period, 1986(IV) and 1987(I) registered negative spreads. It is also interesting to note that whenever there have been a series of more than two consecutive negative spreads, a recession ensues.

Given these new spread problems, we have been forced to reconsider our view about the economy. Recall that we have held the view that Dr. Greenspan's projection for economic growth in 1990 (1.75%-2.0%) would be realized. However, after an examination of our supply-side spreads and yield curve equations (see "Ease Over," *FC&CC*, January 28, 1990), we have downgraded the prospects for reaching the Fed's projection. Indeed, our yield curve equations show that the economy should continue to weaken modestly until 1991(I) or 1991(II). This weakness should translate into further problems for the spreads and an increased probability that we will fail to meet the Fed's growth target.

Implications

1. An economy that is weaker than the Fed's growth target and inflation that is higher than the Fed's target will confront the Fed with a dilemma. Will the Fed be biased toward growth or stable money? We anticipate that the White House will increase its pressure on the Fed to ease and tilt toward growth and away from stable money. If history is a guide, the outcome of growth vs. stable money conflicts usually favors growth.

2. A further deterioration in the US economy could motivate international movements of capital. Recall that a lack of synchrony between the business cycle in the US and Europe — in particular Germany — has been a major and dominant force behind international capital movements. In general, capital inflows to Europe have gained momentum during periods when the European economies have been strengthening, while the US has been weakening. The factors responsible have been interest rate differentials moving in favor of Europe, fears of the US engaging in a beggar-your-neighbor devaluation to stimulate the economy, and a lively demand for European equities. The improvement in the European capital accounts have usually far offset the deterioration in their current accounts during these episodes. In consequence, the European currencies have strengthened vis-à-vis the dollar.

Given our revised views about the US economy and the continued strengthening of the European economies, particularly Germany (which is growing at about 4.5%), we anticipate further pressures that will fuel capital flows toward Europe.

— **Dr. Steve H. Hanke**

STRATEGY: *A weakening US economy may force the Fed to lower Fed Funds a notch or two. The yield curve, on the other hand, is likely to steepen. Therefore, liquidate Eurodollar puts but retain T-bond puts.*

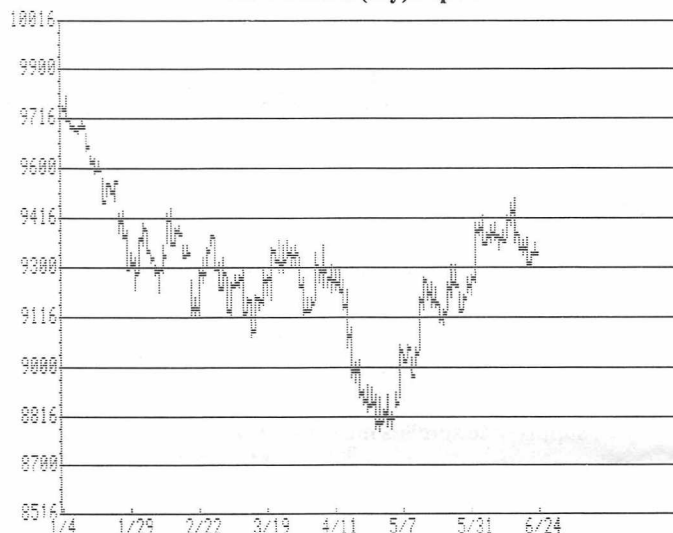
Also, a pronounced slowdown, surely a recession, is likely to affect very negatively the US dollar. Retain long positions in Swiss francs and Deutschmarks (see Hotline Update of May 24, where we advised accepting profits in the British Pound and switching to Swiss francs and Deutschmarks).

Chart 11
Supply-Side Spreads
(Economy-Wide)

	Change in GNP ¹	Supply-Side Spread ²
	%	%
1988 (II)	5.5	+1.1
1988 (III)	5.0	+1.1
1988 (IV)	3.3	+2.1
1989 (I)	3.3	- 0.2
1989 (II)	3.0	+1.2
1989 (III)	2.4	+0.5
1989 (IV)	2.6	- 0.8
1990 (I)	2.0	- 0.8

Notes: ¹ Calculated on a year-over-year basis.
² Non-form business sector.

Chart 12
CBT T-Bond (day) Sep 90



STOCK INDEX FUTURES

The direction: down, down, down

The upcoming second quarter results are likely to prove disappointing once again and send prices down to test the 2550-2650 range in the Dow Jones Industrial Average.

This aging bull market continues to show the same negative features that have characterized it for the past number of years: Very poor breadth (see Chart 13), overvaluation (particularly, in terms of market to book value and dividend yields), split personality (strength in the S&P 500 stocks, weakness in the secondaries).

The slow-motion drop in earnings has raised price-earnings ratios and lowered earnings yields to below those obtainable on best-grade bonds. One wonders how a rational market dominated by institutions can rationalize such an overvaluation. In the same incomprehensible way, institutional investors flocked to commercial real estate in the late '80s, when vacancy rates were rising and returns were meager.

It would appear that portfolio managers, having been educated on the inexorability of the business cycle, have decided to anticipate the upturn and take every pieces of "bad news," such as a disastrous earnings report, as evidence that the turn is at hand. This "new psychology" practiced by investors who espouse long investment horizons and no urgency to sell has had the effect of prolonging the stock market adjustment and impeding it from reflecting the realities of a disintegrating banking system, a spreading credit crunch, and a corporate profit devastation.

But just as in real estate the length of the slump did in the "rational" contra-cyclical investor, the length of the profit depression will finally wear out the professional money manager. When the profit recovery fails to appear, once, twice, and maybe thrice, the selling will begin in earnest.

STRATEGY: We remain short September '90 Value Line and long September '90 S&P put options.

Chart 13

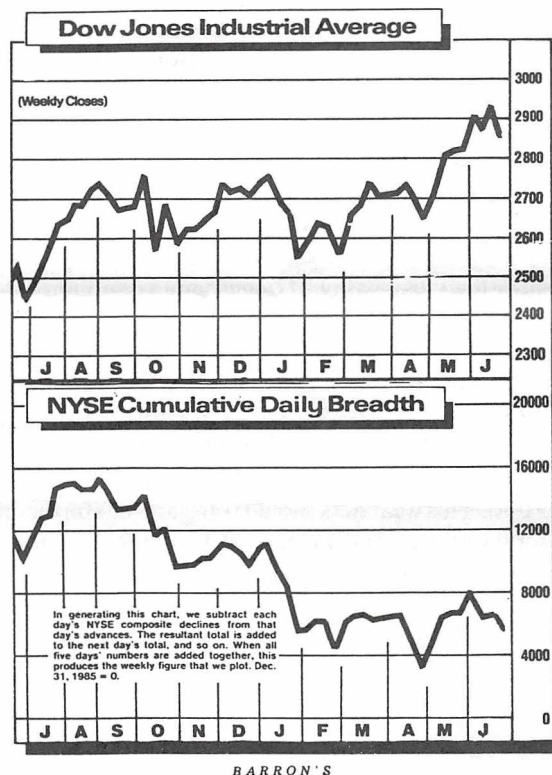


Chart 14
Value Line

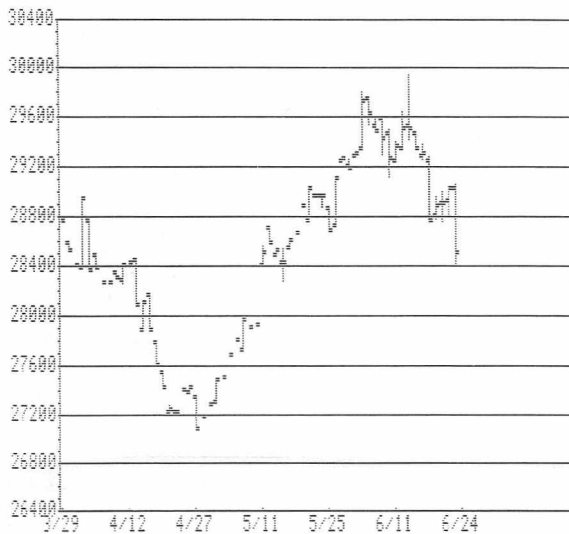
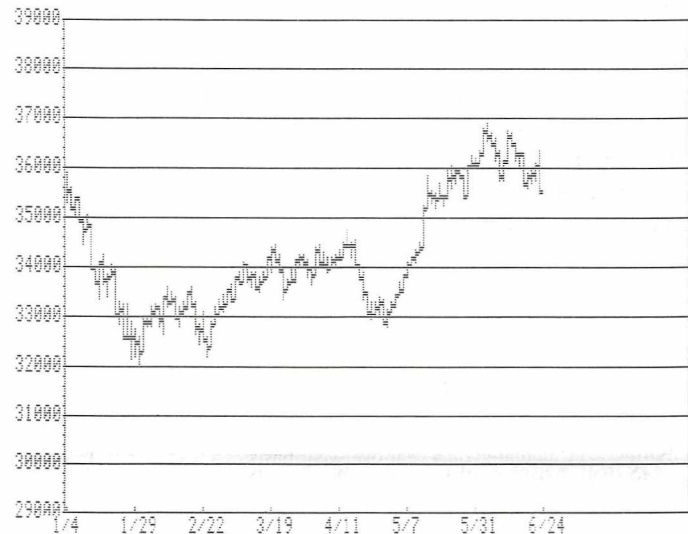


Chart 15
CME S&P 500 Index Nov 90



FRIEDBERG CAPITAL MARKETS

Pacific Scientific first quarter 1990 update

Pacific Scientific 7¾% convertible bonds, due June 15, 2003. Trading at 72 1/4 to yield 12.39%.

Sales for Pacific Scientific were \$44.7 million for the first quarter of 1990. This represents a 12% increase in sales over the same period in the previous year. Net income was 15 cents per common share.

Pre-tax profit from operations for the first quarter of 1990 was \$1.4 million, a substantial improvement over the same period last year, when the comparable amount was \$373,000, which included a \$750,000 gain from the sales of discontinued product lines.

The rate of new orders is encouraging as the backlog of orders for future delivery is now \$100 million.

Sunrise Medical update

Sunrise Medical's fortunes continue to improve. Net earnings rebounded to the positive side for 1989, and for the three months ending March 31, 1990, net earnings were almost double the same period one year ago.

Sunrise has been continuing to reduce its long-term debt. In the quarter ended March 31, 1990, long-term debt was reduced \$4.3 million, which brings long-term debt reduction to a total of \$9.3 million (17%) for the year to date (end of third quarter).

When we originally recommended the Sunrise Medical convertible bond back in our April 1989 issue, the stock was

trading at 3½ per share, which was a far cry from its conversion price at 17½ per share.

Having bought the bond at 56¾ (a yield of 18.61%), we effectively paid no consideration for the conversion privilege. This was justified by the fact that the stock was trading at 3½ compared with the 17½ conversion level. Currently, Sunrise Medical stock is trading at 13¾ per share, which has bolstered the price of the bond to 91½ and lowered its yield to 9.15%.

Assuming similar quality and maturity, an equivalent straight bond would yield 11.03%. Thus, the Sunrise convertible bond has an investment value of 83.45. This means that the Sunrise Medical bond currently has a floor of 83.45, which is where it would be trading if the conversion feature was not attached. Therefore, we can assign a risk premium of 8.05 points (91.5 - 83.45).

At this point bondholders must decide whether to continue to hold the Sunrise Medical bond in their portfolios. After all, a bond with 9.15% yield to maturity needs another feature to keep an investor interested. For the answer to this question, we look for the most recent earnings and cash flow statements.

Earnings per share for 1989 were 81 cents, while cash flow per share was \$2.02. In view of the fact that the nine-month results are already out, we estimate the comparable 12-month earnings per share will see a hefty increase of 58% over the previous 12 months, which translates to an annual EPS figure of \$1.28. Similarly, our estimate for the comparable 12-month period for cash flow translates to a per-share figure of \$2.26.

Currently, Sunrise Medical's stock trades at 13.75 per share, a reasonable 10.7 times earnings and a modest 6.0 times cash flow.

Sunrise Medical designs, manufactures, and markets medical products used in the rehabilitation, home healthcare, prescriptions, manual and electric wheelchairs, ambulatory and bath safety aids, patient-room beds and furnishings, and specialty mattresses for the management of pressure sores. As the population ages, Sunrise Medical's products should enjoy strong demand.

Chart 17

Recommended bond portfolio allocation

Swiss franc and/or DM denominated bonds	35%
US dollar high-yield convertible bonds	20%
Argentina Bonex	10%
British pound fixed-rate bonds	17.5%
Danish krone fixed-rate bonds	17.5%

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Chart 16 – Sunrise Medical – The Financials

Net earnings have been erratic:				
(000's)	1989	1988	1987	1986
	3,600	7,700	850	1,874
		(loss)		
However, cash flow available to support debt service has been more than satisfactory and improving dramatically.				
	1989	1988	1987	
Net income before income tax				
Add back:	6,670	5,608	1,710	
Interest expense	5,901	6,229	5,098	
Depreciation and amortization	3,577	3,242	4,480	
Amortization of goodwill and other intangibles	1,456	1,643	1,069	
Total	17,604	16,722	12,357	
Debt service	5,901	6,229	5,098	
Excess	11,703	10,493	7,259	
Coverage ratio	2.98:1	2.68:1	2.42:1	
Other relevant statistics (Fiscal 1989)				
Net sales				\$152,696,000
Current assets				46,803,000
Current liabilities				24,384,000
Long-term debt				56,371,000
Book value per share				\$6.37
Earnings per share				0.81
Long term debt/total capitalization				33.2%
Debt-equity				.71:1
Bonds outstanding	\$25,000,000	(issue size — \$25,000,000)		
Investment value				not rated
Fixed charges coverage is far superior to popular junk bonds.				
Sunrise Medical Inc.				
Coupon: 7.25% convertible due 26/06/96				
Yield to maturity: 9.15%				
Price: (subject to change) 91.5%				
Traded: US over-the-counter market (listed on NASDAQ).				
Conversion terms: 56.738 shares per \$1,000 bond or convertible at \$17.625 per share.				
Recent stock price \$13.75 (priced on June 15, 1990)				

Chart 18
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. Rates as of June 21, 1990.

	U.S. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND
2 year	8.42%	CIBC 14% 27/7/92, yields 12.67% (.544 NZ/US)					1 yr. US 8.16% Stockholm 10% 10/11/91 yields 10.12% (6.50 US/Dkr.)	
3 year	8.46%		World Bank 5½% 15/3/93 yields 12.91% (.701 A\$/US)	Euro Inv. Bk. 5½% 9/8/93, yields 8.82% (1.695 US/DM)		Canada 5% 23/7/93, yields 6.60% (146.9 US/JY)		Sweden 9% 14/4/93, yields 12.69% (1.537 BP/US)
4 year	8.53%		CBA 14% 1/7/94, yields 14.04% (.649 A\$/US)					
6 year	8.58%			Bk. of Nova Scotia 5% 9/8/96, yields 9.22% (1.7389 US/DM)				
8 year	8.58%				Australia 5% 30/10/98, yields 7% (1.258 US/SF)			
Spot Exchange Rate	N/A	.587	.7912	1.6787	1.415	154.8	6.385	1.725

*For example, since a US\$-based investor would receive 425 basis points (1267-842) by holding the CIBC NZ\$ bond, the NZ\$ can depreciate to .544 NZ/US from the present spot exchange rate of

.587 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.

THE EXOTICS

Australian dollar

When measured quantitatively, monetary policy in Australia has tightened considerably in the most recent year. In the first three quarters of the 1989-90 fiscal year, the monetary base has increased by a mere A\$178 million versus A\$872 million in the comparable period of the 1988-89 fiscal year and A\$1,110 million in the nine months of 1987-88.

This has resulted in a dramatic deceleration of M3 and broad money supply, with the latter falling to an annualized rate of 11.5% (March 1990 over March 1989), compared with a peak reading of 20% in the July 1989 over July 1988 period.

Financial deregulation made the job an extremely difficult one. The Reserve Bank has run a negative yield curve continuously since the end of the first quarter of 1988. And except for a brief six-month period straddling January 1988, it has run a negative yield curve for the past five and a half years. Furthermore, record real interest rates have prevailed for the better part of these five years. During this time, the private sector has undergone a veritable boom building up debt on the back of a spectacular asset inflation.

In deregulated markets it would appear that the level of interest rates is no deterrent to fast dealings. Only after

problems appear in credit quality does the banking system begin to rein in its credit expansion. This is exactly the situation today in Australia: Asset inflation has come to an end, credit quality problems are appearing, and a significant slowdown in activity is in the works.

Australia needs a prolonged period of liquidity rebuilding where income growth exceeds credit growth by a wide margin, and a general strengthening of the private sector's run-down balance sheets. This implies a subpar economic growth, and perhaps even a salutary and cleansing recession.

The first signs of this adjustment will appear in the external accounts where only slight progress has been made thus far. To help this process along, the Reserve Bank will be forced to maintain strict monetary control, reacting only very slowly to the gathering weakness. As a result, the Australian dollar is likely to remain buoyant for the foreseeable future.

STRATEGY: *We favor moderate long positions in the Australian versus the US dollar, taking advantage of deep forward discounts. Remain neutral vis à vis the DM.*

Chart 19

YEAR	US DOLLAR PER DOLLAR	===BASKET===			
		U.S. 1967=1.00	U.S. 1973=1.00	UK 11% US 30% JAPAN 41% GRMNY 9% NEW ZEALAND 9% 1967=1.00 1973=1.00	
1967	1.1125	1.0000	1.2931	1.0000	1.2401
1968	1.1125	1.0150	1.3125	0.9575	1.1874
1969	1.1110	1.0418	1.3472	0.9814	1.2171
1970	1.1137	1.0588	1.3692	1.0029	1.2437
1971	1.1361	1.0197	1.3186	0.9953	1.2343
1972	1.1923	0.9494	1.2277	0.9573	1.1872
1973	1.4195	0.7733	1.0000	0.8064	1.0000
1974	1.4378	0.7356	0.9512	0.7685	0.9530
1975	1.3102	0.7662	0.9908	0.8117	1.0065
1976	1.2252	0.7637	0.9875	0.7734	0.9591
1977	1.1090	0.8003	1.0349	0.8299	1.0292
1978	1.1447	0.7730	0.9996	0.8431	1.0456
1979	1.1179	0.8073	1.0439	0.9169	1.1371
1980	1.1395	0.8162	1.0555	0.9622	1.1932
1981	1.1493	0.8122	1.0503	0.8933	1.1078
1982	1.0174	0.8775	1.1347	0.9156	1.1354
1983	0.9024	0.9299	1.2025	0.9226	1.1441
1984	0.8796	0.9524	1.2316	0.8954	1.1104
1985	0.7008	1.1624	1.5032	1.0853	1.3459
1986	0.6709	1.1390	1.4729	1.1435	1.4180
1987	0.7009	1.0397	1.3445	1.1206	1.3896
1988	0.7842	0.8989	1.1624	1.0117	1.2546
1989 (1Q)	0.8475	0.8236	1.0650	0.9153	1.1350
1989 (2Q)	0.7777	0.8915	1.1529	0.9643	1.1959
1989 (3Q)	0.7638	0.8957	1.1583	0.9633	1.1946
1989 (4Q)	0.7811	0.8654	1.1191	0.9364	1.1612

Above 1.00 = Undervalued Below 1.00 = Overvalued

Chart 20

Year	Foreign Assets (Min US\$)	CURRENT ACCOUNT As % of GNP	CUMULATIVE 12 QTR. Current Account (Min US\$)
1970	1,817	-2.35	-3135
1971	3,330	-2.11	-2621
1972	6,079	+0.09	1250
1973	5,776	+0.06	+ 11
1974	4,137	-3.44	-1952
1975	3,653	-1.13	-3408
1976	2,571	-1.99	-5780
1977	2,952	-3.00	-6040
1978	3,411	-4.06	-9563
1979	4,016	-2.16	-10267
1980	6,573	-2.90	-11331
1981	4,474	-5.10	-15302
1982	8,912	-5.22	-21169
1983	11,467	-3.71	-22899
1984	9,573	-4.88	-22951
1985	7,012	-5.79	-23358
1986	4,953	-6.03	-27221
1987	5,928	-4.43	-27041
1988	9,476	-4.23	-28221
1989	5,894	-6.44	-34167

Chart 21

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

Reserves * + Previous 12-months curren Account ***= Nil

(Reserves + 12-months C/A) / M1 ** = Nil

(Reserves + 12-months C/A) / Broad Money ** = Nil

*As at April 1990 ** Dec. 1989 *** 1989

Note: Reserves 15,231, MM
C/A Deficit 15,677 MM

Figures in millions of U.S. Dollars

	M1 (Converted to U.S. Dollars)	Broad Money (Converted to U.S. Dollars)
1980	20,331	64,358
1989	35,339	157,809
% Increase (decrease)	74%	145%
Corresponding % increase in the United States	91%	96%

(a) 1989 Imports as percentage of GNP 6.58%

(b) 1989 - 198 Imports as percentage of GNP 14.46%

1980 / (1980 - 1989 average) = (a)/(b) = 114.66%

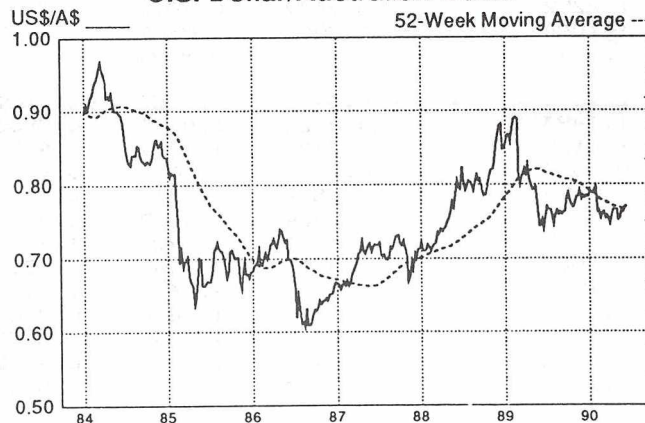
Source: IFS

Chart 22

Spot	1 Month	3 Month	6 Month	12 Month
.7820 -	.7770 -	.7693 -	.7582 -	.7370 -
.7830	.7789	.7707	.7597	.7400

Chart 23

U.S. Dollar/Australian Dollar



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: 1.6760)</u>
Belgian franc	34.44-34.49	34.51-34.64	34.64-34.91	Remain long	Neutral
Danish krone	6.3830-6.3880	6.4170-6.4270	6.4940-6.5140	Remain long	Remain long
Dutch guilder	1.8885-1.8890	1.8887-1.8900	1.8440-1.8960	Remain long	Neutral
*Greek drachma	164.15-164.25	167.25-172.35	180.85-196.85	Liquidated as per June 1 Hotline Update. Remain neutral	
Hong Kong dollar	7.7855-7.7865	7.7965-7.8210	7.8285-7.8375	Neutral	Neutral
Irish punt	1.5955-1.5970	1.5875-1.5900	1.5700-1.5750	Remain long	Neutral
Italian lira	1230-1231	1239-1241	1265-1270	Remain long	Neutral
Kuwaiti dinar	.29245-.29265	.29240-.29280	.29200-.29300	Neutral	Neutral
Malaysian ringgit	2.7090-2.7100	2.7050-2.7080	2.7000-2.7080	Neutral	Neutral
New Zealand dollar	.5850-.5860	.5772-.5786	.5565-.5600	Neutral	Neutral
Norwegian krone	6.4575-6.4625	6.5075-6.5175	6.6465-6.6765	Remain long	Neutral
Portugese escudo	147.10-147.30	149.30-149.80	157.10-160.70	Neutral	Neutral
Saudi Arabian riyal	3.7500-3.7510	3.7480-3.7500	3.7440-3.7460	Remain short	Remain short
Singapore dollar	1.8420-1.8430	1.8425-1.8445	1.8330-1.8430	Neutral	Neutral
Spanish peseta	103.35-103.45	104.90-105.12	108.92-109.47	Neutral	Neutral
Swedish krona	6.0730-6.0780	6.1215-6.1400	6.3240-6.3440	Remain long	Neutral

Explanatory Notes

*Indicates change in recommendation from last issue.

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, May 21, 10:45 a.m.:**

The crude oil market is weakening again and likely to see new lows: Therefore, buy August and September crude oil put options at market, preferably \$19 or \$20 strikes.

One note: The update Friday stated that a flash update on May 15 liquidated long corn positlong corn positions at 345. The correct price was 290 1/2, basis July.

Tuesday, May 22:

Repeat of above.

Flash update, Thursday, May 24, 12:30 p.m.:

We would like to make a minor adjustment to our outright short US dollar positions. For those who chose the long British Pound position, we are advising to take advantage of its recent strength to replace it on a dollar equivalent basis with SF or DM.

Friday, May 25:

A review of changes and recommendations of the week.

1. As per our flash of yesterday, we have liquidated our long Sterling position and replaced it on a dollar equivalent basis with SF and DM.
2. As per our flash Monday, May 21, we bought August and September crude put options with \$19 and \$20 strikes. The new issue of the market letter is in the mail.

Tuesday, May 29:

No changes or new recommendations.

Friday, June 1:

One new recommendation: Cover short Greek drachma positions vis à vis both the US dollar and the DM and remain flat.

Tuesday, June 5:

In our last newsletter we advised rolling over short June yen bond positions to September and lowering stops to 96.25, close only. Unfortunately, we were not aware, as we should have been, of the illiquidity of this contract especially the September position. As an example the June/September spread has fluctuated between a low of 16 points and a high of 45 points on very few trades. This caused us to be stopped out prematurely. In conclusion, since we definitely wish to remain short, we advise you to reenter the short side of the market, if you were stopped out. Place new stops at 9675, close only, basis September, and use extreme caution in entering this market.

Flash update, Thursday, June 7, 8:30 a.m.:

Sell August Comex gold at market, placing stops at 371.00, close only.

Friday, June 8:

A wrapup of the week's recommendations:

1. As mentioned Tuesday, we advised you to reenter the short side of the Japan yen bond market if you were stopped out due to the illiquidity of the September contract. Place stops at 9675, close only.
2. As per our flash update of Thursday, June 7, 8:30 a.m., you are short August Comex gold with stops at 371.00, close only.

Flash update, Tuesday, June 12:

Buy October sugar at market, placing stops at 1250, close only. If there are no other changes, this flash update will replace regular Tuesday update.

Flash update, Friday, June 15, 1:35 p.m.:

Reinstate immediately long October sugar positions at market, placing stops at 1190, close only.

Friday, June 15:

As per our flash update at 1:35 p.m. today, you are once again long October sugar with stops at 1190, close only.

Tuesday, June 19:

No changes or new recommendations.

Friday, June 22:

A review of new position recommendations made since the last newsletter and still outstanding:

1. On May 21, at 10:45 a.m. we purchased August and September crude oil put options at \$19 and \$20 strikes.
2. On Thursday, May 24 at 12:30 p.m. we replaced long British Pound positions with SF and DM on a dollar equivalent basis.
3. On Friday, June 1, we covered short Greek drachma positions vis à vis both the US dollar and the DM and remained flat.
4. On Tuesday, June 5, we reinstated the short side of the September Japanese bond position, placing stops at 9675, close only.
5. On Thursday, June 7, 8:30 a.m. we recommended selling August Comex gold at market, placing stops at 371.00, close only.
6. On Friday, June 15, 1:35 p.m. we reinstated long October sugar positions at market, placing stops at 1190, close only.