

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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Reflation, perhaps; recovery, unlikely

Outside of the big surge in the University of Michigan consumer sentiment poll, and hopeful noises from politicians and professional economists, there has been precious little evidence that the economy is close to a trough.

Some of the downcast statistics are coincident: Capacity utilization stood at 79.18% of capacity in February, off 0.8 of a percentage point and the seventh consecutive drop; industrial production was off 0.8% in February for the fifth consecutive decline; retail sales in February were up 0.8% (first increase in four months in a notoriously volatile and subject-to-revision series) but still down 4.4% in real terms from last year; initial unemployment claims in the week ended March 9 hit 519,000, the highest total since January 1983; car sales continue very weak; and so on. Of course, these are yesterday's and today's stories, and tell us very little about tomorrow.

More significantly — and of more prophetic value — is the trend in corporate health and profits. On the first score, Moody's Investors Services Inc., a New York based credit rating agency, was brutally frank. It said that corporate credit quality continues to deteriorate as bond defaults climb and credit-rating downgrades reach record levels. Specifically, it said that 20 companies defaulted on \$5.8 billion of debt in January and February, up from 12 companies that missed payments on \$3.5 billion of debt during the same period in 1990.

More ominously, Moody's downgraded \$38 billion of debt issued by 81 companies, including 11 that had previously been rated investment grade, to speculative grade during the first two months of this year.

As to corporate profits, the final verdict for the first quarter of 1991 will be in only towards the end of April but early showings (IBM, Eastman Kodak, MMM, Federal Express) point to massive disappointment. Falling profits and gathering losses are likely to put a major damper on capital investment (of course, industrial capacity may be excessive as it is) and thus lengthen considerably this recession.

Even banking data appear to be signalling trouble ahead. During recessions and early on recoveries, bank loans either decline in absolute terms or their rate of growth tapers off, allowing banks to rebuild much needed liquidity. This reliquification process to which we alluded in earlier issues (Oct. 29, 1989, "The coming [banking] reliquification" and March 25, 1990, "The lending trauma") is a necessary precondition for an eventual recovery. Conversely, a "loaned up" banking

system is a sign of approaching distress and liquidation, a situation that normally occurs at the top of an economic cycle.

Unfortunately, the reliquification process that began late in 1989 seems to have come to a halt around the third quarter of 1990: from September 1990 to December 1990, bank investments declined at an annual rate of 2.2% while bank loans, on the other hand, increased at an annual 2.9%. Interestingly enough, an observer of the year-to-year rate of growth of commercial paper and bank loans (Chart 1) would rightly come to conclusion that we are witnessing a "crunch."

What is happening is that banks' balance sheets are expanding at a very slow pace (the result of the meager growth in bank reserves) and banks are choosing to liquidate their most liquid assets in order to accommodate new loans. Clearly, the *real* crunch is yet to come as banks decide that 6% to 9% returns are far more desirable than nonperforming prime +1% loans. Here, again, the absence of bank reliquification bodes ill for *future* economic activity.

Finally, even consumers appear overwhelmed with debt and unlikely to make a significant contribution to real GNP growth. Chart 2 shows that unlike the previous recessions of 1973-75 and 1980-82 — when consumer debt as a percentage

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Contributions by Albert D. Friedberg, Daniel A. Gordon, and Michael D. Hart.

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

of disposable personal income had peaked a number of years earlier — the ratio is today still making new highs.

While the post-war period has witnessed an ever more relaxed consumer — willing to take on increasingly larger debt as a percentage of his income — it is also true that fresh peaks in the ratio have been followed by long correction/plateaus that coincide with periods of retrenchment and consolidation. And so the 1973-75 recession was preceded by a lengthy consumer balance sheet correction, which in fact was quite useful in propelling the economy forward in the late '70s. The same was true at the bottom of the 1982 recession: The consumer had been “adjusting” his balance sheet for at least three years.

The same cannot be said at this time: Consumer debt as a percentage of disposable personal income reached a new historic high in the fourth quarter of 1990. Even a “mild” balance sheet adjustment should impact consumption expenditures quite negatively for the next few years.

Similarly, the March flow-of-funds data released by the Fed reveals that the household sector's ratio of liquid assets to liabilities continues to deteriorate. At 1.38%, the ratio stands at the lowest level since the series were stated in the '40s. This relative decrease in liquid assets comes despite the persistent declines in real retail sales (Chart 3). What will an increase in the ratio do to consumer expenditures?

A monetary note

In the title of this article, we suggest that the Fed *may* be successful in reflating the economy. By reflating, we do not mean engineering a *real* economic recovery but simply an accelerating the pace of inflation.

As stated repeatedly in earlier issues, the Fed and monetary policy can impact only the economy's *price* level. Excessive growth in monetary growth produces inflation, *not* recovery. One need not be a professor of economic history to see that Latin American economies shrank — or at best stagnated — through the '80s, despite enormous increases in money supply and inflation.

The belief — shared by all governors of the Fed — that one can fine-tune economic growth via changes in interest rates and money supply is nonsensical and downright dangerous for the health of the nation.

Chart 4 is an eye-opener. With but a brief interlude in 1986, inflation has been accelerating through the '80s, from 3.9% in the 1983-88 period, to 4.3% in the 1987-88 years to 5.4% in 1989-90. Convincing proof that the Phillips curve trade-off (economic slowdown spells lower inflation) is flawed and gathered from the fact that real GNP slowed down to a 1.1% annual rate of growth in 1989-90 (from 4.3% in the previous year period) while the pace of inflation picked up 25%!

It is obvious that the Fed is doing a lousy job of its principal task of preserving the value of the US dollar. And it

is also obvious that despite protestations to the contrary, the Fed is already much too *easy* in its monetary policy and has been so for quite some time.

How can we reconcile this last statistic with the fact that monetary aggregates have shown extremely low year-to-year rates of growth (see Chart 5)? The solution, of course, lies in the fact that while the supply of money has been growing slowly, the demand for money has grown even less. Our instincts tell us that by setting Fed Funds artificially low (and how can the Fed *really* determine where the rate should stand?), the Fed has printed money in excess of demand.

How can we prove it? First by noting that the market understands this to be the case. Chart 6 shows that long-term interest rates have barely changed over the past year, unperturbed and undisturbed by Fed machinations. All that *has* happened is that the yield curve has become very positive — and very steeply sloped. As good Wicksellians, we see in this reversion a sign that tells us that the Fed has misjudged the true equilibrium level of interest rates, i.e., money supply exceeds money demand.

A second (statistical) proof can be gleaned from Chart 7, derived from an analysis first developed by Victor A. Canto and Arthur B. Laffer (Chapter 4, “Money, Interest Rates, and Inflation: A Classical View,” in *Monetary Policy, Taxation, and International Investment Strategy*, Quorum books, 1990).

The authors use Monetary Base as a proxy for Fed money creation and non-interest-bearing narrow money supply, M1, as a proxy for the demand for money (given its tendency to fluctuate as a function of inflation and interest rates).

In their words, “While money growth during the Reagan administration was high by historical standards, the rate of growth of the monetary base was generally less than the growth rate of the money supply. This means that the Fed released money into the economy in response to growth in the demand for money. Since 1987, however, base growth has exceeded M1 growth. This suggests that the Fed has been creating money in excess of growth in the demand for money” (Chart 7).

This period of excessive monetary ease has continued to date and explains rather well the fact that inflation has accelerated despite meager money supply growth.

In short, the Fed *may* be successful in reflating the economy, as it has already done for the past number of years, but it will be unable to stimulate an economic recovery. In fact, continuous pump priming will complicate even further the eventual recovery as it will 1) raise the already excessive level of debt in the economy, 2) raise long-term interest rates, 3) force the Fed to tighten eventually as inflation accelerates.

The above scenario, a contraction of the economy accompanied by high inflation, has important investment implications for the US capital markets and the dollar. The following article is a discussion of these implications.

Chart 1

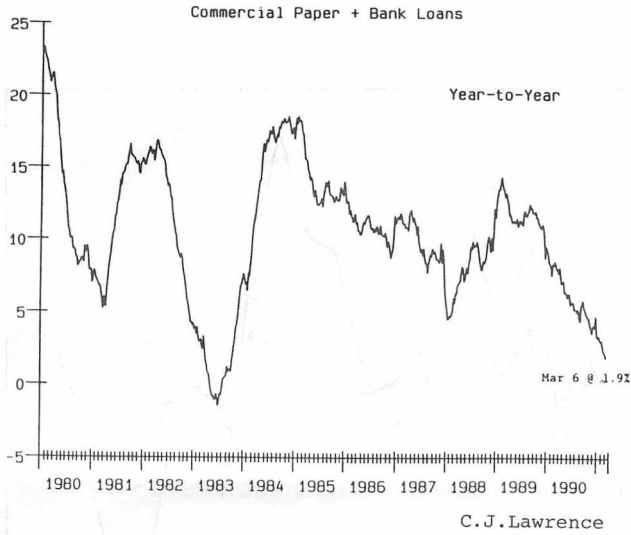


Chart 2

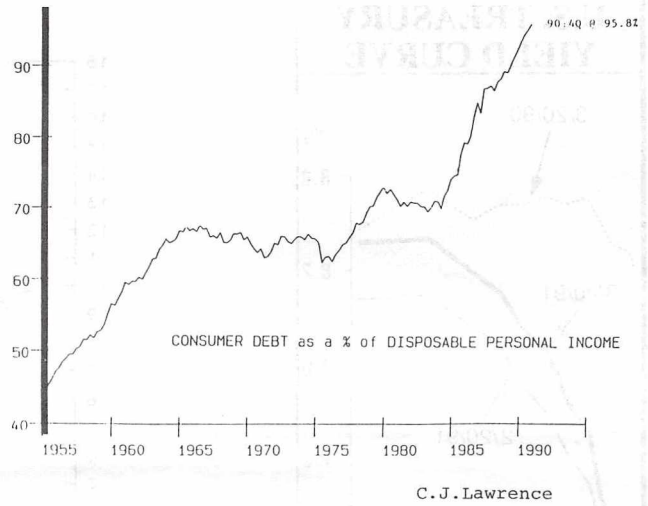


Chart 3



Chart 4

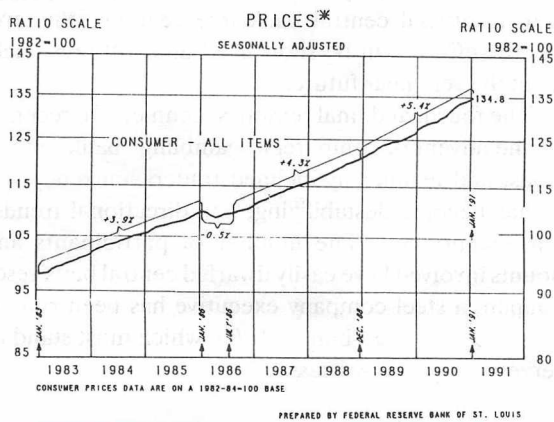


Chart 5

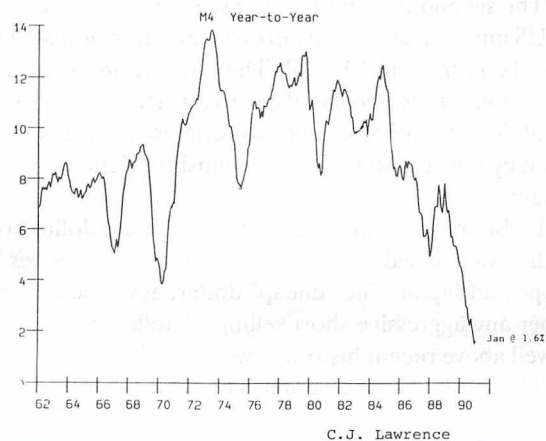
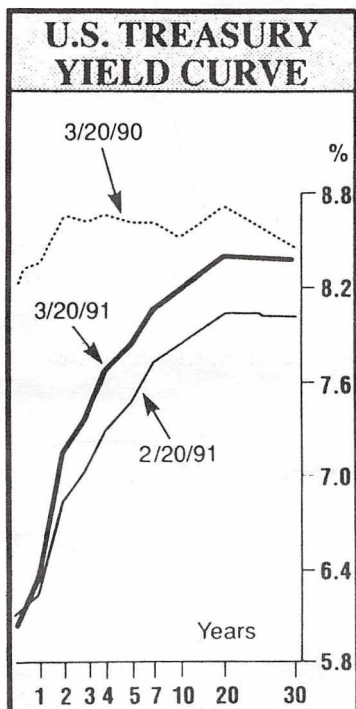


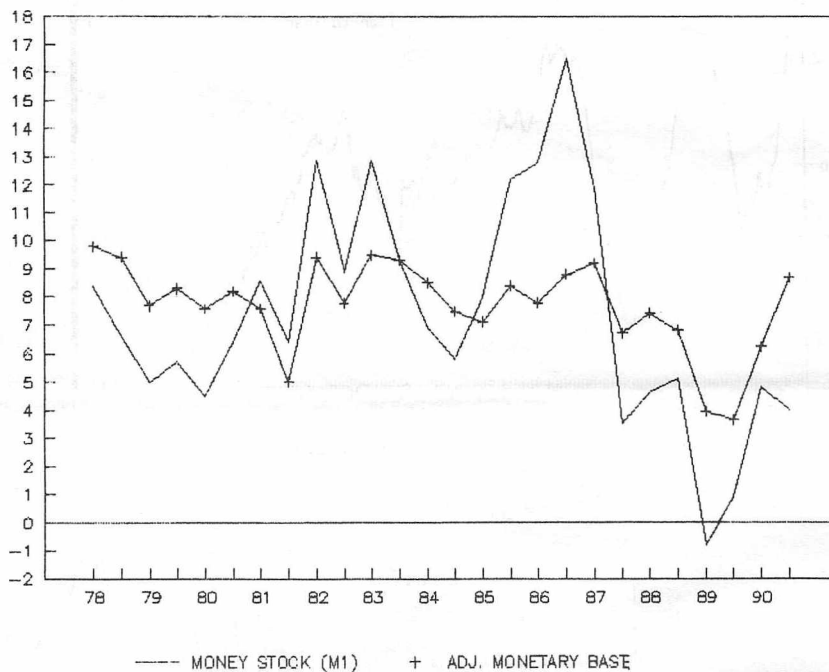
Chart 6



Barron's / Knight-Ridder Tradecenter

Chart 7

U.S.



— MONEY STOCK (M1) + ADJ. MONETARY BASE

US DOLLAR

Unjustified strength

There are four reasons for the US dollar's recent strength. The principal reason is the market's belief that the US economic recovery is imminent, which will bring improved opportunities for foreign capital as well as higher interest rates.

In our opening comments we described what, in our opinion, is likely to occur in the US economy over the coming months and years: Stagflation at best, deep recession accompanied by historically high inflation at worst. If this scenario unfolds, the US dollar is likely to undergo another bout of selling, possibly to new lows.

The second reason for dollar strength is more concrete: The US unit is relatively cheap on an inflation-adjusted basis, as can be seen from Chart 8. The counter-argument is that the US dollar *must remain cheap* to attract sufficient foreign capital flows to satisfy its need for domestic savings (demonstrated by the persistent albeit diminishing deficit on current account).

It also must remain cheap to compensate dollar holders for the wide disadvantage in real interest rates *vis à vis* Europe and Japan. The "cheap" dollar, nevertheless, should temper any aggressive short selling of dollars unless carried out well above recent historic lows.

The third reason is factual. The US allies have promised

to share the costs of the Gulf war, estimated to have been over \$60 billion. As an example, West Germany has pledged \$11 billion in cash and equipment; the last cash payment should take place March 28. To the extent that repayment dollars are purchased in the market (rather than drawn down from international resources) upward pressure is placed on the US unit.

Since the overall numbers are vague, the timing of payments is vague, and the origin of the dollars is uncertain, one can only surmise that there has been *some upward* pressure unrelated to currency fundamentals that perhaps is being offset by official central bank intervention. Whatever the case, the efforts will be short-lived and will presumably be over in the very near future.

The fourth and final reason is technical. In recent years, with the advent of computers, "gambling" banks and corporations, and technically-inclined traders, currency speculation has become destabilizing, i.e., directional trends have been accentuated. The number of participants and the amounts involved have easily dwarfed central bank resources (in Japan, a steel company executive has been rumored to trade \$3 billion to \$4 billion *daily*), which must stand by and intervene only on *weakness*.

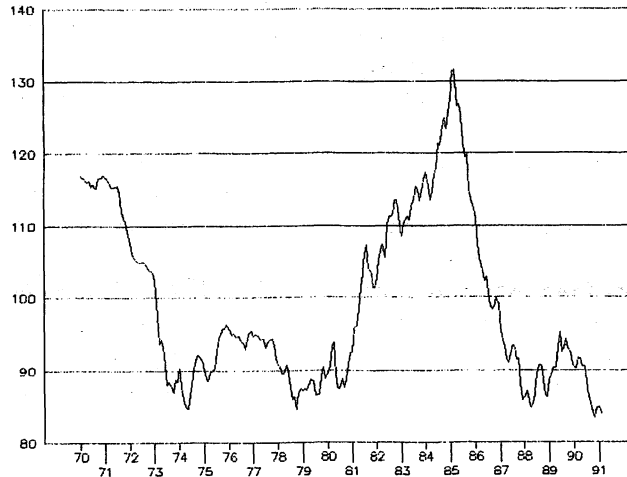
This strategy, employed by the Bundesbank, allows for the market to move considerably more than "warranted," waiting for the move to burn itself out before intervening. Obviously, movements can become exaggerated. And, of course, good forex traders should take a cue from the Bundesbank and not stand in front of a moving train, even if fundamentals so dictate it.

STRATEGY: We were stopped out of long-term short positions in US dollars, once around US\$/DM 1.5450 and finally around 1.5700. The recent move to US\$/DM 1.6756 looks climatic, but it may be too soon to re-enter the short side of the dollar. That will be when a) sentiment becomes totally one-sided and b) on some weakness.

Chart 8

US REAL EFFECTIVE EXCHANGE RATES

1980=82=100



Source: Morgan Guaranty Trust Company

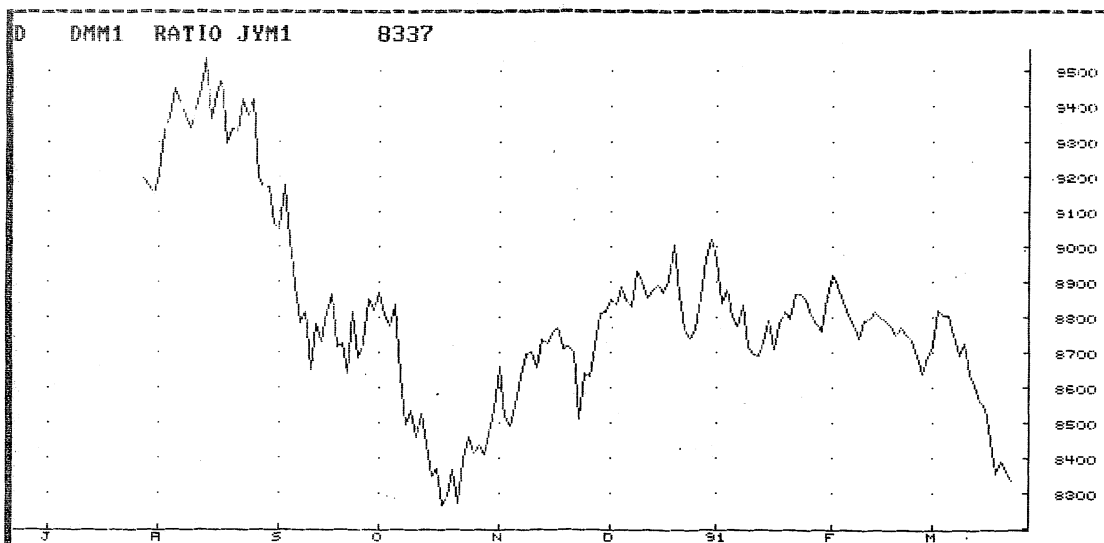
CURRENCIES

Long DM/short yen spread

Dollar strength has impacted unevenly these two currencies, being least disposed to the DM, perhaps because of Soviet instability.

STRATEGY: We have liquidated the cross trade at 86.10 as per the flash update of March 14 (see the Hotline Update section). Remain sidelined.

Chart 9 - DM/YEN



STOCK MARKET

The time of the bears

It will be called the "mother of all stock squeezes." Nearly insolvent companies surged in the short span of two months anywhere between 50% and 125%. Insolvent ones, such as Continental Airlines, skyrocketed 150%. It seems that the closer to bankruptcy they were, the further they rallied.

The decimation of the shorts (see Chart 10 for an interesting sample) proved highly entertaining to the bloodthirsty bulls. In the end, however, the shorts will have proven to be the luckier ones: wounded and butchered, but alive. Not so, the mindless bulls. Convinced of their case, they will overstay the party; many won't survive.

A compelling argument can be made for a near-term rout in prices: Institutional cash reserves have been spent (Indata reports them at 5.9%, down from over 11% a few months ago), shorts have been squeezed dry (the short interest ratio fell from 5.77 to 3.40, the largest two-month fall in recent memory), insiders have become heavy net sellers (see Chart

11), specialists have been heavy sellers over the past five weeks, bullish sentiment is extremely high (by any number of yardsticks).

More interestingly, first quarter earnings will begin streaming out and they should prove a whopper. In short, the influence of negative factors is such that a near-term, dramatic decline is virtually inevitable.

Note: *Consequently, if the S&P 500 does not break significantly (a minimum of 5%) by the week ending April 12, the bears will have lost all their ammunition and a bull market will be declared.*

'Tis the time of the bears.

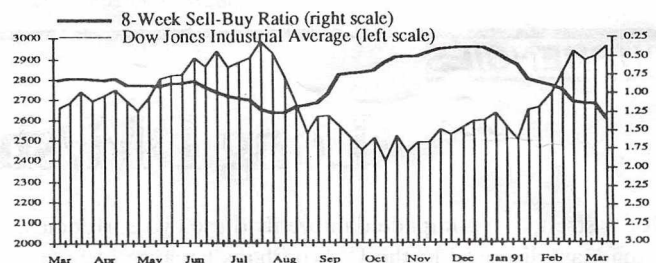
STRATEGY: *Remain long June '91 S&P 500 puts and the newly acquired April '91 350 and 360 strike S&P 500 puts. Retain long Kansas City Value Line/short S&P 500 spread, weighted by contract value.*

Chart 10 - Short Interest

	Bank of Boston	Citicorp	Chemical Bank	First Interstate Bancorp	Mfrs. Hanover
Aug. 15/90	7,788	4,823	3,182	1,275	1,721
Sept. 14/90	9,186	5,711	4,156	2,245	1,646
Oct. 15/90	9,514	8,504	4,930	2,826	2,893
Nov. 15/90	9,056	16,907	5,059	3,282	3,796
Dec. 14/90	8,102	17,102	5,089	2,859	3,623
Jan. 15/91	7,868	16,877	4,369	2,729	3,294
Feb. 15/91	8,984	16,707	3,701	2,069	2,844
Mar. 15/91	7,310	10,590	1,736	733	1,767

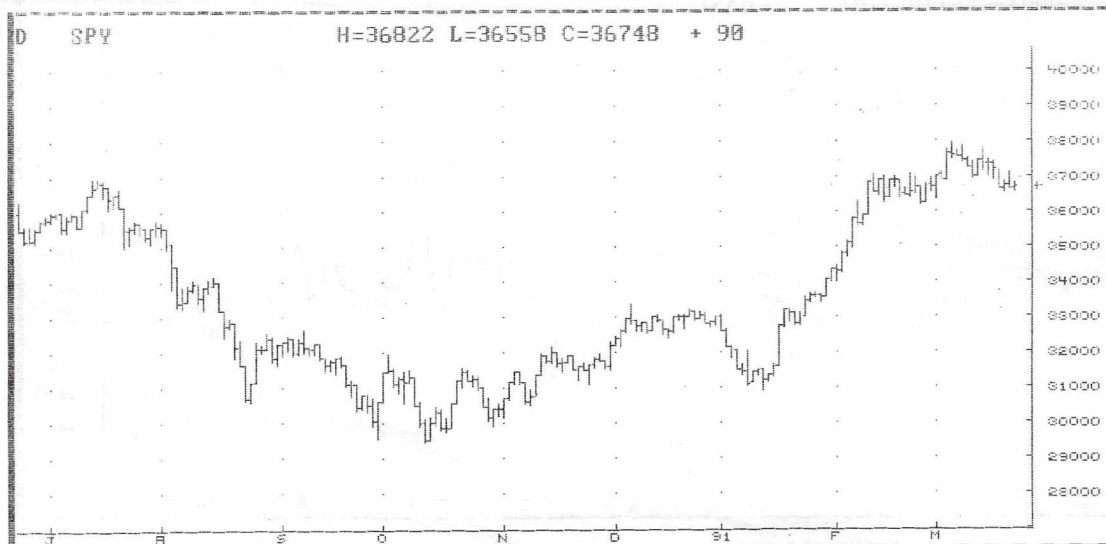
*Shares in thousands

Chart 11



Source: Vickers Weekly Insider Report

Chart 12 - S&P Cash



CRUDE OIL

Single digits, still coming

A Soviet announcement to the effect that oil exports would be cut in half from planned levels over the coming year lent some additional strength to a market that had already been firming for the past month. Two years earlier, the Soviets had exported 4.1 million barrels per day (mb/d) of crude, 1990 exports were put at 3.1 mb/d, and 1991 exports were slated to fall to 2.2 mb/d.

It should be noted, however, that: a) much of what the Soviets export is oil products, not crude; b) the brunt of the export cutbacks had been suffered by the East European countries, which had been weaned in years past on cheap energy and were likely anyway to reduce consumption as market prices prevailed; exports to the OECD have held up reasonably well; and c) the market had been well aware of Soviet oil production problems and the drop in exports. The announcement, therefore, was "news" only to the uninformed traders and may, coincidentally, have been timed to induce heavy technical shortcovering.

On the latter point, it can be seen (Chart 13) that Thursday, March 31, the very day of the Soviet announcement, saw the highest close since mid-January and represented, in technical jargon, a "breakout" of a head and shoulder formation (marked on Chart 13).

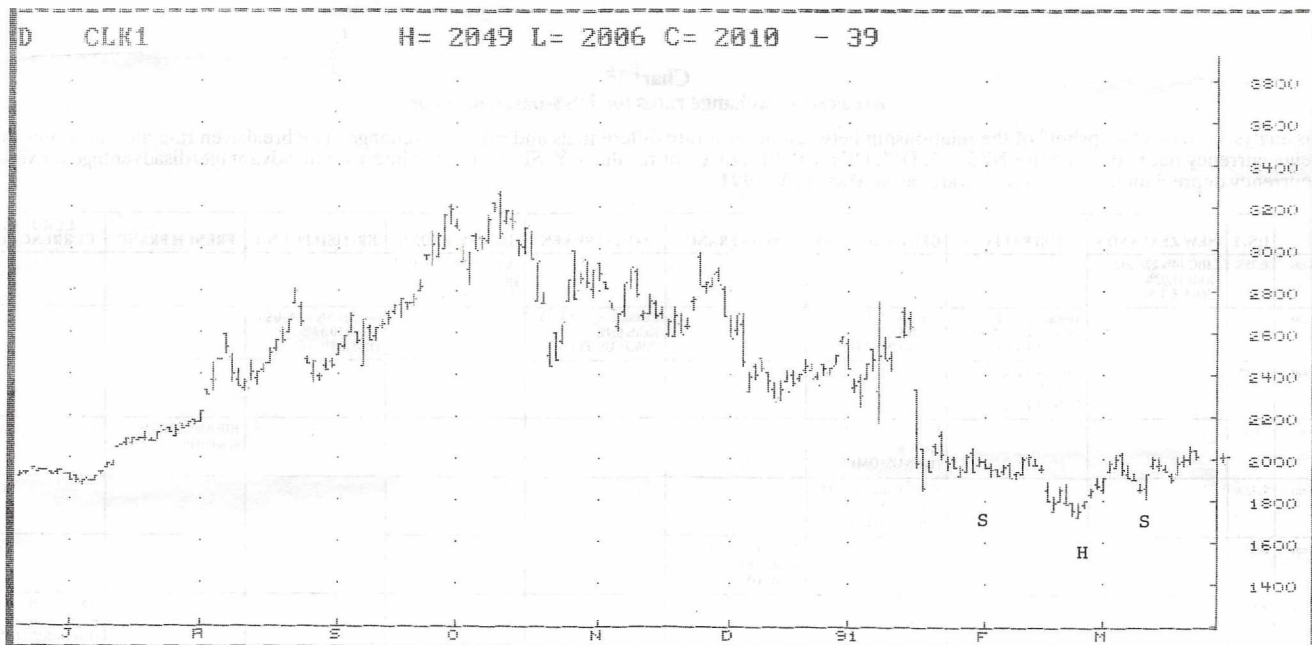
Technically-oriented bearish traders ran for cover in a big way: Combined open interest dropped almost 30,000 contracts, the largest such plunge in recent history.

Falling demand, the result of the gathering global recession, coupled with the inevitable increase in OPEC production (as Kuwait-Iraq output come on stream), and Saudi Arabia's insistence on producing at least 8 mb/d to replenish run down hard currency reserves, will inevitably bring this market down to its knees.

Over time, oil is headed to the low single-digit numbers.

STRATEGY: *Remain short deferred contracts.*

Chart 13 - Crude Oil May



FRIEDBERG CAPITAL MARKETS

Sunrise Medical

Sunrise Medical has called for redemption all of its outstanding 7¼% convertible subordinated debentures due 1996, at a price of 102% of principal amount.

In effect, this forces debenture holders to convert into common and realize the higher prevailing price.

We will be glad to assist you in realizing the best liquidation price.

Current bond portfolio allocation

In the interest of minimizing transaction costs, we advise current portfolios to remain invested as follows:

DM and/or ECU fixed-rate bonds	35.0%
US dollar high-yield and convertible bonds	25.0%
British pound fixed-rate bonds	12.5%
Danish krone fixed-rate bonds	17.5%
Japanese yen bonds	10.0%

Recommended bond portfolio allocation for new portfolios

For new portfolios, we recommend the following investments:

DM fixed-rate bonds	50%
US dollar high-yield and convertible bonds	25%
Danish krone fixed-rate bonds	25%

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Chart 15
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\$, DM, DKr, BP, FFr, ECU) or revalue (JY, SF) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. Rates as of March 21, 1991.

	U.S. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT
1 year	6.35%	CIBC 14% 27/7/92, yields 11.92% (.566 NZ/US)					Denmark 9% 20/11/92, yields 9.48% (6.478 US/Dkr.)			
2 year	7.13%		World Bank 12¾% 15/3/93, yields 10.67% (.7095 A\$/US)	EIB 5½% 9/8/93, yields 8.0% (1.661 US/DM)		Canada 5% 23/7/93, yields 6.9% (136.91 US/JY)		Sweden 9% 14/4/93, yields 10.57% (1.6573 US/BP)		
3 year	7.37%		CBA 14% 1/7/94, yields 11.72% (.6849 A\$/US)							
4 year	7.63%			Sweden 7¼% 1/2/95, yields 8.3% (1.675 US/DM)					EIB 8¾% 12/7/95, yields 9.06% (5.867 US/FFr)	
6 year	7.92%			World Bank 5¾% .97 yields 8.32% (1.6713 US/DM)						
7 year	8.03%				Australia 5% 30/10/98, yields 6.63% (1.285 US/SF)					
10 year	8.17%									U.K. 9½% 21/2/01, yields 9.05% (1.162 US/ECU)*
Spot Exchange Rate	N/A	.596	.7716	1.6345	1.4082	137.50	6.2925	1.7955	5.5655	1.259

*For example, since a US\$-based investor would receive 102 basis points (905-803) by holding the U.K. ECU bond, the ECU can depreciate to 1.162 US/ECU from the present spot exchange rate of 1.259

US/ECU over the next 10 years for the ECU investment to break even with current US\$ rates of interest. Assumes that bonds are held to maturity, and coupons are reinvested.

Chart 14
Foreign Currency Bonds

Date: March 21, 1991

We offer the following Bonds subject to change without prior notice: Minimum amount US\$5000 (Cdn.\$7,000)

ISSUER/MATURITY DATE/COUPON	BID	OFFER	Current Ann. Yield to MTY.	NEXT PAY DATE
DEUTSCHE MARK DENOMINATED BONDS				
KINGDOM OF SWEDEN 7 1/4% 1/2/95	95 7/8	- 96 5/8	8.30%	01/02/92
EUROPEAN INV. BANK 5 1/2% 9/8/93	94	- 94 3/4	8.00%	09/08/91
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	85 3/4	-		07/05/91
WORLD BANK 5 7/8% 4/2/97 RRSP eligible	88 1/4	- 89	8.32%	04/02/92
SWISS FRANC DENOMINATED BONDS				
GOVT. OF AUSTRALIA 30/10/98 5%	88 1/2	- 90 1/2	6.63%	30/10/91
DANISH KRONE DENOMINATED BONDS				
KINGDOM OF DENMARK 9% 20/11/92	98.45	- 99.20	9.48%	20/11/91
ECU DENOMINATED BONDS				
UNITED KINGDOM 9 1/8% 21/02/01	99.70	-100.45	9.05%	21/02/01
BRITISH POUND DENOMINATED BONDS				
KGDM of SWEDEN 14/4/93 9 3/8%	97 1/8	- 97 7/8	10.57%	14/04/91
FRENCH FRANC DENOMINATED BONDS				
EUROPEAN INV. BANK 8 3/4% 12/7/95	98 1/8	- 98 7/8	9.06%	12/07/91
JAPANESE YEN DENOMINATED BONDS				
GOVT. OF CANADA 23/7/93 5 5/8% RRSP eligible	96.55	- 97.30	6.90%	23/07/91
CANADIAN DOLLAR DENOMINATED BONDS				
GOVERNMENT OF CANADA (semi annual) 01/09/91 9%	99.60	- 99.80	9.43%	01/09/91
NEW ZEALAND DOLLAR DENOMINATED BONDS				
CDN. IMP. BANK OF COMMERCE 27/07/92 14% RRSP eligible	101 1/2	-102 1/4	11.92%	27/07/91
AUSTRALIAN DOLLAR DENOMINATED BONDS				
General Electric 11/07/92 14 1/4% (semi)	103 3/8	-104 1/8	10.98%	11/07/91
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	105	-105 3/4	11.72%	01/07/91
WORLD BANK 15/03/93 12 3/4% RRSP eligible	102 3/4	-103 1/2	10.67%	15/03/92
U.S. DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @\$38 p/sh	71	- 73 1/2	12.27%	15/06/91
SUNRISE MEDICAL INC. 7.25% 26/6/96 CV @\$17 5/8 p/sh	137	-142 1/2	5.09%	26/06/91
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @\$39.75 p/sh	17 1/2	- 20	39.56%	15/05/91
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @\$27.45 p/sh call in 1995 @100	72	- 73 1/2	15.85%	01/09/91
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @\$39.50 p/sh	30	- 34 1/2	17.75%	01/09/91
BURNUP & SIMS 12% 15/11/00 (semi) CV @\$19.25 p/sh	58	- 62 1/2	22.43%	05/15/91
U.S. DOLLAR DENOMINATED FIXED RATE BONDS				
ALBERTA 7 3/8% 9/12/91 RRSP eligible	99 3/4	-100 1/4	6.85%	09/12/91
SOUTHMARK 12% 10/8/97 (semi)	57	- 63 1/2	7.39%	10/08/91
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES				
UNITED KINGDOM 24/9/96 3 mo. LIBID-1/8 (qtlly)	Bid 99.75	Offer - 100.05	Current Coupon 7 15/16%	28/06/91
REPUBLIC OF ITALY 30/4/93 3 mo Limean(qtly)	98.92	- 99.32	7 3/32%	30/04/91

Although we monitor these issues specifically, we also can fill any order in any foreign currency bond.

For further information and current prices please call:
FRIEDBERG CAPITAL MARKETS (416) 364-2700 F/MICHIG

THE EXOTICS

Finnish markka

Finland has run into rough waters.

Three years ago Finland enjoyed a growth rate of over 5%. But last year the economy was stagnant, and this year the economy is likely to contract by 1.5%. Unemployment is likely to set a multi-year high at over 6%. While inflation is rising at only 4.7%, the Current Account Deficit has widened to FM25.5 billion in 1990, 4.8% of GDP.

The country suffers from two major ills: An inflexible and monopolistic labor scene that negotiates national wage agreements well in excess of inflation and productivity; hourly earnings in industry have increased 48% since 1985, compared with a 23% increase in West Germany over the same period, one of its largest trading partners.

The other major problem is a bloated public sector, where this year central government spending looks set to

grow by as much as 7.5% in real terms due to improved social benefits. This combination has produced extremely high interest rates and a very overvalued FM. At the end of 1990 a trade-weighted real exchange rate measure shows the markka to have gained no less than 62% since 1985.

Given the inflexibility of wages, and the national aversion to the already high unemployment rate, it would appear that the new political realignment arising out of last week's election will be forced to choose a 10% to 20% devaluation coupled with continued austerity.

STRATEGY: Sell three-month forward Finnish markka against a purchase of a high-yield EMS currency. Stay neutral vis à vis the US dollar, as the cost of a forward sale makes the trade too risky.

Chart 16 - Rates

Spot	1 Month	3 Month	6 Month	12 Month
3.9150 - 3.9170	3.9447 - 3.9477	-3.9935- 3.9985	4,0485 - 4.0555	4.1400- 4.1520

Chart 17

Year	Foreign Assets (Min US\$)	Current Account As % of GNP	Cumulative 12 Qtr. Current Account (Min US\$)
1977	-423	-.32	-3365
1978	+811	+1.93	- 548
1979	+801	-.39	+ 400
1980	+ 63	-2.73	- 905
1981	+516	-.76	-1964
1982	-185	-1.50	-2558
1983	-824	-1.89	-2083
1984	-225	-.00	-1708
1985	-1065	-1.40	-1711
1986	-3289	-1.03	-1507
1987	-6354	-2.03	-3309
1988	-9654	-2.61	5305
1989	-14544	-4.77	-10086
1990	-22193	-4.80	-13643

Chart 18

Year	MARKKA PER U.S. DOLLAR (Period)	U.S.	
		1983 = 1.00	1983 = 1.00
1977	4.0294	0.7571	0.8557
1978	4.1173	0.7723	0.9415
1979	3.8953	0.7567	0.9879
1980	3.7301	0.7369	1.0171
1981	4.3153	0.8398	1.0128
1982	4.8204	0.9082	0.9930
1983	5.5701	1.0000	1.0000
1984	6.0100	1.0504	0.9594
1985	6.1979	1.0593	0.9561
1986	5.0695	0.8665	0.8973
1987	4.3956	0.7513	0.8598
1988	4.1828	0.7149	0.8531
1989	4.2912	0.7334	0.8202
1990	3.8235	0.6535	0.8052

=====BASKET =====			
U.S.	11%	JAPAN	9%
GERMANY	26%		
FRANCE	9%	SWEDEN	26%
		U.K.	19%

Above 1.00 = Undervalued Below 1.00 = Overvalued

FOREX RATES & UPDATE

<u>Currency</u>	<u>Spot</u>	<u>3-Month</u>	<u>12-Month</u>	<u>Comments</u> <i>vis à vis US\$</i>	<u>Comments</u> <i>vis à vis DM</i> <i>(Spot DM: 1.6400)</i>
Australian dollar	.7725-.7732	.7629-.7639	.7410-.7427	Neutral	Neutral
*Belgian franc	33.95-34.00	34.17-34.27	34.62-34.79	Neutral	Neutral
*Danish krone	6.3000-6.3050	6.3515-6.3635	6.4585-6.4810	Neutral	Neutral
*Dutch guilder	1.8560-1.8570	1.8682-1.8698	1.8935-1.8960	Neutral	Neutral
Greek drachma	177.50-178.00	182.00-187.20	195.50-212.00	Neutral	Neutral
Hong Kong dollar	7.7828-7.7838	7.7988-7.8028	7.8153-7.8263	Neutral	Neutral
*Irish punt	1.6210-1.6225	Not available	Not available	Neutral	Neutral
*Italian lira	1226-1227	1240-1244	1279-1284	Neutral	Neutral
Malaysian ringgit	2.7439-2.7449	2.7559-2.7619	2.7679-2.7789	Neutral	Neutral
New Zealand dollar	.5950-.5960	.5872-.5886	.5670-.5700	Neutral	Neutral
*Norwegian krone	6.4000-6.4050	6.4625-6.4775	6.6200-6.6425	Neutral	Neutral
*Portugese escudo	144.00-144.30	145.80-147.95	153.00-156.80	Neutral	Remain long
Saudi Arabian riyal	3.7500-3.7510	3.7485-3.7510	3.7535-3.7580	Neutral	Neutral
Singapore dollar	1.7650-1.7660	1.7592-1.7622	1.7445-1.7555	Neutral	Neutral
*Spanish peseta	102.35-102.45	104.13-104.31	108.30-108.60	Neutral	Neutral
Swedish krona	5.9800-5.9850	6.0362-6.0670	6.2600-6.2800	Neutral	Remain short

Explanatory Notes

*As per hotline update March 14, 1991

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, Tuesday 26, 10:30 a.m.:**

Reinstate short S&P positions. Sell March S&P at market, placing stops at 368.10, good anytime, and/or purchase S&P put options.

Friday, March 1:

All short futures positions in S&P have been stopped out. Nevertheless, retain put options as advised in the last market letter. Also retain long KC Value Line/short S&P spread positions.

Tuesday, March 5:

No changes or new recommendations.

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

Liquidate long DM and EMS currency positions at the market. Retain long DM/short JY cross trade.

Flash update, Friday, March 8, 8:30 a.m.:

Reinstate long DM and EMS currency positions.

Flash update, Friday, March 8, 9:30 a.m.:

Buy June Canadian dollar at the market.

Friday, March 8:

A Wrapup of the week's activities: Two flash updates this morning.

1. At 8:30 a.m. we recommended to reinstate long DM or other EMS currency positions at market.
2. At 9:30 a.m. we recommended to buy June Canadian dollar at market.

Tuesday, March 12:

As per previous recommendations, you have purchased S&P put options. Since a major market decline is imminent and since the decline will be rapid, we advise aggressive traders to purchase April put options, 350 and 360 strikes, which cost a modest amount of money. A

reminder, that as per Friday's update you are long June Canadian dollar at approximately 8532, and long June DM at approximately 6385, and other EMS currencies.

Flash update, Thursday, March 14, 9:00 a.m.:

Liquidate long DM and other EMS currency positions at market.

Flash update, 1:00 p.m.:

This is the second flash update today. Liquidate long DM/short JY cross trade at the market. As per our flash at 9:00 a.m. this morning, we recommended liquidating outright long DM and other EMS currency positions.

Friday, March 15:

As per our two flash updates yesterday, we have liquidated long DM at around 6310, basis June, and other EMS currency positions. As well, we have liquidated the long DM /short JY cross trade at around 8610, basis spot.

Tuesday, March 19:

No changes or new recommendations.

Friday, March 22:

Outstanding positions initiated over the past month's updates:

1. You have added to S&P put option positions via April 350s and 360s.
2. You have reinstated long Canadian dollar positions as per flash on March 8 at around 8532, basis June.

During the month, we liquidated the following positions:

1. Long June DM on March 14 at around 6310 and other EMS currencies.
2. You have liquidated the long DM/Short JY cross trade on March 14 at around 8610.

No new recommendations.

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