FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.

Volume 12, No. 4 April 21, 1991

New Zealand: Once in a generation?

New Zealand is about to reap the benefits of seven long years of restructuring and liberalization. And we are being offered a rare and unusual opportunity to cash in on the coming prosperity.

Rare because dramatic turnarounds of this type come only once a generation; unusual because in an era of "vulture" funds, arbitrageurs, and super-sophisticated money managers, it is unusual to still find so-called "bargains."

In years past we documented extensively New Zealand's turnaround, initiated in 1984 by the Labor government and led by its finance Minister Roger Douglas. We benefited handsomely, at the time, by purchasing three-year to five-year NZ$ bonds yielding much as 20% per annum; we enjoyed high yields and a currency appreciation averaging 20%. The dismissal of Roger Douglas from the Lange cabinet in 1988 led us to believe that the extraordinary experiment in the free market had come to an end.

Deprived of its leader, the Labor government groped to its electoral defeat, not before leaving behind a new institution: an independent Central Bank committed to the *single goal of price stability* and accountable in the only meaningful way: The loss of the Bank governor's job if it failed to attain its specifuc inflation target: 0% to 2% by the end of 1993.

Early signs of success: Inflation for the first quarter of 1991 came in at 4.5% year-on-year compared with last year's 7%. What is more, the quarterly rate of 0.6% compared quite favorably with last year's 0.9%, and was the lowest quarterly rate since 1969. For the first time in 17 years, New Zealand's inflation rate will be lower than the OECD average (see Chart 1).

In line with the reducing inflation rate, money market rates have fallen dramatically with 90-day money market rates yielding 11¾%, down from over 15% late last year and five-year Treasury bonds yielding 11⅛%. Thus, the yield curve has flattened out, relieving pressure from the heavily indebted sectors of the economy.

The Labor government was unable to correct two areas: labor rigidities with its centralized pay-award system, which prevented wages from adjusting to market conditions, and the incredibly generous welfare state. Fortunately, the "reformed" National Party under the leadership of Finance Minister Ruth Richardson has boldly undertaken to correct these mistakes. With unemployment rising to 9%, union leaders have been forced to accept a new bill that will outlaw compulsory trade unionism and abolish the centralized pay-award system, allowing employers and employees to negotiate directly with each other. This will result, in turn, in smaller and more flexible pay rises.

In the welfare area, Richardson has cut unemployment benefits by 10% and tightened eligibility rules. Incentive to work should improve as the gap between wages and the dole opens up. In the future, social benefits will no longer be an entitlement but rather a safety net. Coming next: revision and reform in pension, education, and health. The secondary and very salutary effect of these welfare reforms will be to reduce the year's fiscal deficit of NZ$1.4 billion, equivalent to 1.9% of GNP (and down from 10% of GNP when Labor began its reform program in 1983-84).

In all, New Zealand is positioned to reap the benefits of the massive transformation of its economy: from a socialist, highly protected, cradle-to-grave society to a capitalistic and open one, enjoying a "hard currency" and a free-trade agreement with its much bigger neighbor, Australia.

New Hotline Number

The new Hotline Update number is included on a card enclosed with this issue.

In this issue

2 **US dollar**
No substance but still heading higher

6 **Currencies**
Canadian dollar

7 **Stock Market Indexes**
More life left in the bull

9 **Crude Oil**
Market going up

9 **Friedberg Capital Markets**
A long-term policy

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

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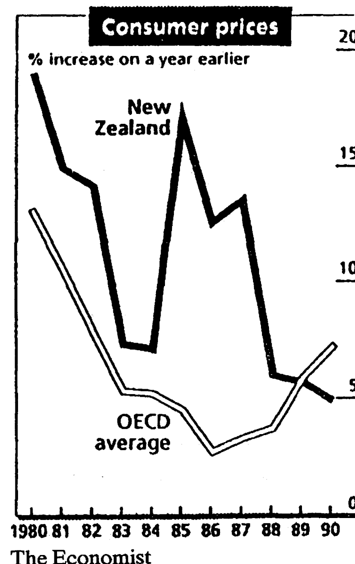
How can we share in this bonanza? For one thing, bonds are still attractive, yielding in excess of 11%. New Zealand is in a virtual dollar bloc and thus should benefit from the US dollar's rise. Moreover, the Central Bank's single-minded determination to bring inflation down to 0% to 2% by end of 1993 should support the NZ$ and possibly effect a *slight currency appreciation.*

Finally, the NZ stock market is very attractively priced: P-E ratios below 8x, average dividend yields of 8%+ and price-to-tangible net worth of under 0.80. Unfortunately, Barclays Index Futures are very thinly traded and will not allow traders to position beyond June '91. Instead, we have been able to purchase options on the Barclays Index issued in London and for periods of one year. We invite inquiries.

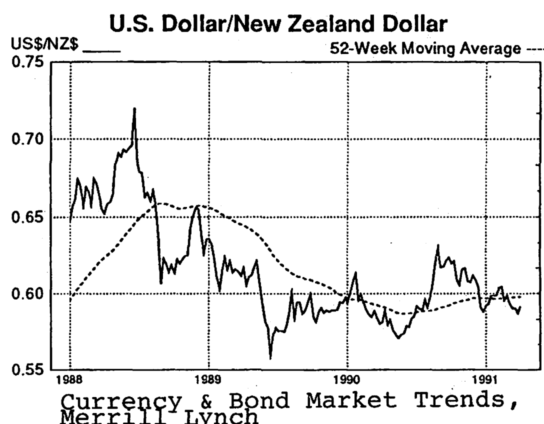
STRATEGY: *New Zealand is on the verge of a major economic upswing. We strongly recommend participating via the forward purchase of currency, the purchase of bonds, as well as futures and options on the Barclays Share Index.*

Chart 1



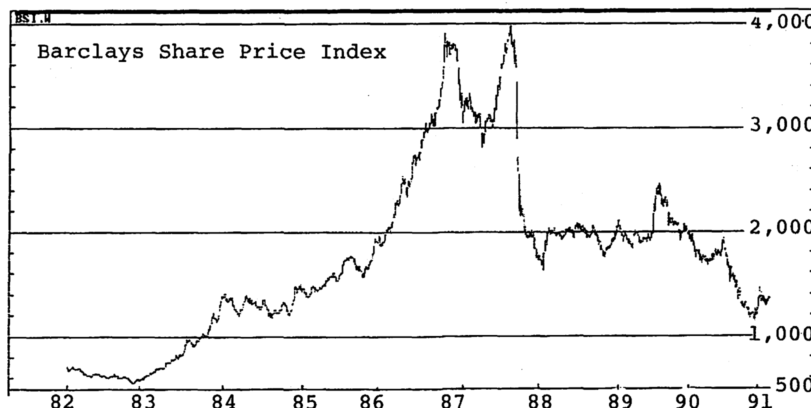
The Economist

Chart 2



Currency & Bond Market Trends, Merrill Lynch

Chart 3



US DOLLAR

No substance but still heading higher

Stronger than, but as insubstantial as, originally anticipated. That, in short, is our present assessment of the most recent 20% dollar appreciation.

Writing in a Fed Reserve Bank of Minneapolis *Quarterly Report* in the Fall of 1979 ("Why Markets in Foreign Exchange Are Different From Other Markets," Vol. 3, No. 4, pp 1-7) Dr. Neil Wallace made an accurate observation regarding foreign exchange rates: "For fiat currencies, there are no inherent fundamentals that determine equilibrium exchange rates. Without binding legal restrictions on asset holdings that prevent one currency from being substituted for another either directly or indirectly via international borrowing and lending, demands for different currencies are determined not in part by speculation, but entirely by speculation. One consequence is an indeterminacy proposition: *Without government intervention in foreign exchange markets and without binding restrictions on currency holdings, exchange rates, price levels, and in general all prices are indeterminate.*"

Capital controls, legal-tender laws, and actual and anticipated intervention are methods of introducing a certain degree of determinacy. The EMS is an excellent example: Despite enormous freedom of capital (and therefore the possibility that any one currency represent a greater portion of the overall EMS money supply as per this indeterminacy proposition), fixed exchange rates backed up by an impressive intervention commitment has kept these currencies in a remarkably steady relationship to each other.

Not so the US dollar. Chart 4 shows the extraordinary

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fluctuation of the *real value* of the American unit over the past 20 years. Neil Wallace's indeterminacy proposition rings even more true today than when first annunciated in the (final) days of 1979.

What causes these extraordinary fluctuations? What could make the US money supply, denominated in European currencies, be worth 20% more in the short span of three months? Have *real* factors — relative productivity, after-tax incomes, real rates of return on capital — accounted for such a spectacular change? Or have monetary factors — a huge jump in US inflation and/or the money stock — been responsible? The answer is, neither. As Wallace put it, "demands for different currencies are determined not in part by speculation, but entirely by speculation."

What type of speculation? As best as we can reconstitute it, the process worked as follows: A downward trend of the US dollar had been accentuated by unfavorable movements in interest rates, a product itself of the ongoing recession. Some genuine currency substitution occurred in its investment area: Investors switched to currencies providing relatively higher real interest rates than US dollars. Currency traders (including ourselves) saw this as an unending process, one that could come to an end only when the Fed reversed its easy money policy and the Bundesbank, in turn, eased its tight-fisted policy.

As the trend's *raison d'être* became ever more recognized, more and more currency traders sold US dollars. Of course, the amount of dollars in the system remained unchanged, but as in a game of passing about a hot potato, the receiver/buyer of US dollars did so only on downticks. This accelerated the downtrend. The "news" became well-known; so well known that it became stale.

At the margin, the urge to convert to US dollars was lessening, because a) the investment demand had been satisfied and/or more importantly b) speculators had sensed that the unfavorable interest rate spread was about to narrow.

The start of the war brought about a change: The number of speculators believing that the US economy was about to enter a recovery in short order began to exceed those marginal speculators who still believed that in real terms, interest rate spreads (and generally *return on capital* spreads) would remain unfavorable to the US.

The hazy, tenuous perception of the new speculators need not be correct, or even generalized. It need only have been believed by more traders than the status quo opinion held by the bears. As in all economic matters, the change took place *at the margin.*

The bullish traders reinforced their armor and advanced a number of other arguments, arguments that we rejected in previous issues as being illogical and incorrect. But, unlike commodity prices — governed by production costs and consumption schedules — and unlike asset prices — governed by rates of return — foreign exchange prices, we have seen, can fluctuate over wide, indeterminate ranges. (Trade effects are minimal when compared to capital flows. Therefore, trade effects cannot put an end to a particular trend. Perceptions of an upcoming change in trade balance, on the other hand, *can* put an end to a particular trend because it involves capital flows.)

Foreign exchange prices will continue in the same direction until any of Wallace's conditions are met (intervention, actual or anticipated, capital controls, or change in legal tender laws) or until a *perceptual* change takes place, at the margin, that can overcome the ongoing rationale for this trend.

Before we examine our last proposition, it is important that we make a comment about intervention. It is by now well-known lore in forex circles that intervention is ineffective in accomplishing its objective. Often, trades welcome intervention as a way of obtaining cheap currency. This received wisdom is not entirely correct. There are times when currency interventions are effective — that's when they are *serious.* When accompanied by other, complementary, measures (particularly when they are not sterilized) such as was the case in the UK in 1976, Sweden in 1991, Australia repeatedly throughout the '80s and so on. Of course, the lack of a pre-announced exchange rate target makes the effort to convince traders all the more strenuous. Against these occurrences, witness the relative ease and excellent results of intervention in the EMS. Their commitment to an established exchange rate is well-known; their interventions are credible and, therefore are highly effective and easy to carry out.

The selling of US dollars by the Bundesbank in 1984 was ineffective because it was not perceived to be *serious.* Not so the Plaza Accord of early 1985. The unambiguous determination to bring down the dollar at that time was overwhelmingly agreed upon by all relevant Central Banks, and therefore, well understood by the market. The Plaza Accord put an end to the irrational dollar bubble of 1983-85. Wallace was right.

Coming back to the 1990-91 period, it is interesting to note that aside from the generally vague Louvre Accord, there was little in the way of clarity of intention regarding a proper US$/DM and US$/yen rate. As the dollar was bumping against historic lows last October (Y123.75 and DM1.4910), "steps were taken toward dispelling the impression of a lack of official concern. Treasury officials made clear in statements to the press that the Administration was concerned about the dollar, and rejected suggestions that the decline was welcomed. At about the same time, market rumors of US intervention served as a reminder to market participants of the possibility of official action to support the dollar. In fact, the US monetary authorities did not intervene during the three months under review." (*FRBNY Quarterly Review*, Winter 1991, page 89). Yet, as we pointed out above, the bear story was getting increasingly stale. With little or no intervention, perceptions of a future narrowing of returns began to gain ascendancy, and the trend was reversed.

What does this model tell us for the future? The bull trend will not end at a logical terminal point, i.e., there is no magic $/DM rate that will induce sufficient compensating trade flows to reverse the wave of capital flows. One of two

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things will need to happen before we see the trend reverse: Either the Central Banks get *serious* about "proper" exchange rates and announce these unambiguously and collectively, or the bull argument becomes stale.

Let's take it in parts. Will Central Banks object to the continued rise of the US dollar? Probably yes. Certainly, the Bundesbank and the Bank of Japan, anxious to avoid imported inflation will begin making louder noises. But is it serious enough? Probably not. Or not until the rest of the EMS and the US feel threatened by the rise. The US, in particular, cannot be very unhappy about a rising dollar and the opportunity afforded it to lower interest rates without immediate punishment.

The rising dollar signifies neither that monetary policy is too tight (it isn't) nor that real factors have become very favorable to the US (they haven't). It merely signifies that a speculative bandwagon is in motion; serious intervention can put an end to this game. The Fed, however, will not follow this course, for now preferring to accept the market's verdict as an assessment that money is still too tight. Therefore, the US will not join, *as yet*, the chorus of those wanting to stop the joy ride.

When will the bullish argument become stale? But first, what is the bull argument? Contrary to popular belief, there is no single bullish argument. And herein lies the strength of this move. Since no particular argument holds sway, there is little or no possibility of "its" becoming stale. Therefore, we may still be some way off from the top.

Let us see. To some, the US dollar is "cheap." But when dealing with indeterminate ranges, it is not possible to use words such as "cheap" or "dear." Nevertheless, we will concede that (a) the US dollar, in real terms, is just off the bottom of the 20-year range and (b) traders cannot be faulted for believing that, indeed, it appears to be cheap. Most Purchasing Power Parity (PPP) studies try to identify overvaluation or undervaluation that will help in forecasting eventual trade movements. But, as we explained, even trade movements are not significant in a world of unhindered — and massive — capital mobility. A not-so-serious PPP indicates that the US dollar is "undervalued" by 13% with respect to the DM and 20% with respect to the yen (see Chart 5), although academic studies have tended to corroborate these numbers. The naivete (and absurdity) of these numbers can be seen with reference to Britain: It indicates that the dollar is 24% undervalued *vis à vis* Sterling. If £1.35 is anywhere near a "correct" equilibrium price, God save the Queen.

This apparent "cheapness" is rapidly coming to an end as the real dollar approaches the high range reached in the post-1974 recession and the 1989 highs. The lack of the dramatic fundamentals present during the early Reagan years (tax cuts, new ERA, growth) all but eliminates the possibility of seeing again the values reached at that time.

The second bullish argument is West Germany and the East German mess. The DM's reaction to Poehl's statement that unification was a "disaster" implies some causality between East Germany's poor prospects and the direction of the currency. The argument, though, lacks force. The greater the East German "problem," the greater West Germany's fiscal deficit, which in turn means that the Bundesbank must remain tight. Bullish for the DM, not bearish. The dollar bulls, nevertheless, argue that social instability (a hazy term) is bearish for the DM. Sooner or later West Germany will learn to handle the "problem," and perceptions will change. To us, it appears that *this argument alone* is insufficient already.

The third bullish argument relates to the chaotic state of the Soviet economy. Again, this argument is well known and lacks force. If the Soviets turn inwards again — undoing perestroika and returning to dictatorship — Western Europe will have to relive some of the tension of the '80s. The economic effect on West Europe would be minimal, as the Soviets are significantly weakened and the Warsaw Pact is history. If, on the other hand, the Soviet Union disintegrates and refugees flood Western Europe, economic *uncertainty* would rise. Depending on how it is handled, the short-term impact could be negative while medium to long term, Western Europe would benefit from the new immigration and the decentralization of the Soviet empire.

This *uncertainty* is, temporarily, a bearish (although not clear cut) argument for the EMS currencies, the other side of the bullish safe haven argument for the dollar. Either the Soviet dilemma and response will be decided in the very near future or the argument will lose force if used often enough in the next few weeks.

The fourth bullish argument for the dollar relates to the decline in West Germany's current account position and the contemporaneous impact on the US balance of trade. We dismiss the relevance of these developments because of the minuscule weight that current accounts have in the totality of capital flows between highly industrialized countries. We do not dismiss the importance — albeit diminishing — that those events command on the minds of most forex traders.

Short of a very dramatic worsening in West Germany's case or a dramatic improvement in the US case, both rather unlikely occurrences, the current account argument is "already in the market" and by itself should no longer impact favorably the US dollar.

We leave to last the most important bullish argument for the US dollar — to wit, that relative rates of economic growth will move in fear of the US economy: As the US enters a expansion, West Germany is about to enter a contraction (see Chart 6). This unsynchronized cycle, if about to take place, would strongly favor the US dollar, as capital inflows would occur to take advantage of business opportunities and rising interest rates.

It either happens, or doesn't happen. Since the dollar began rising in early January, and the advance has been rather large, it stands to reason that the cyclical argument should become visible very soon. Otherwise it runs the risk of being perceived as a false forecast. In our opinion, the US economy will not recover very soon; Instead it will continue to suffer from stagnation accompanied by accelerating inflation (see last month's issue). This will become evident by

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mid-year. If, instead, we are proven wrong, the recovery is likely to carry the US unit higher and longer than just a few weeks or months. It will require some time before the "story" becomes universally known and accepted — and stale.

This "cycle" argument must be monitored closely. If upcoming US statistics do not soon project economic strength, perceptions will begin changing, slowly at first, and the trend may be halted. Each piece of evidence negating a recovery will damage the dollar bulls until the stage will be set for a reversal.

If the cyclic argument were the sole bullish argument, our task would be relatively simple: Monitor US economic strength, Western Europe's weakness. The shifting array of arguments, however, makes it more difficult to focus on "the" story. It is for *this* reason that we believe that the final top of this US dollar rally may still be ahead of us — in time and in extent.

We conclude that *near term*, that US dollar is likely to continue to rise. The bullish arguments have not become *focused* enough for them to become stale and, therefore, at the margin, bulls in the US dollar are likely to outnumber bears. At the same time, we are not convinced that the G-7 are yet ready to commit forcefully to a policy of concerted intervention. The indeterminancy of exchange rates makes it very difficult to project a target, although it would appear that — at least the cheapness argument — would begin losing quite a bit of strength at the DM1.85 level.

STRATEGY: *We advised liquidating Swissie and other EMS long positions at market over the Hotline Update this past Friday.* Short-term traders *may wish to go long dollar via put options in European currencies, particularly DM.*

Chart 4

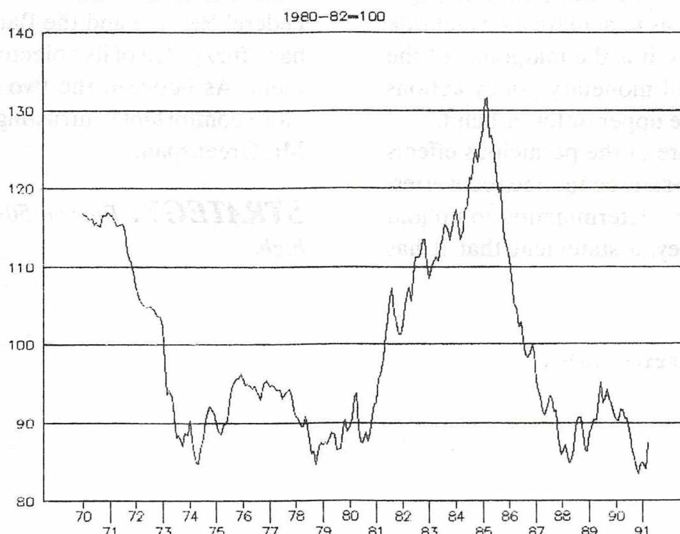


Chart 5

The real test

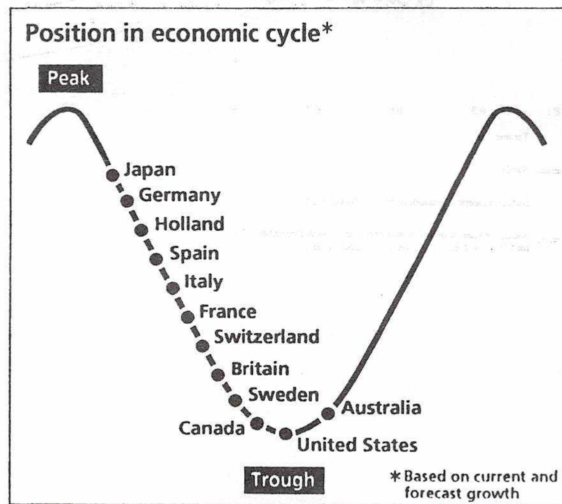
Hamburger prices

Country	Price* in local currency	Implied PPP† of the dollar	Actual exchange rate 9.4.91	% over(+) or under(−) valuation of the dollar
Australia	A$2.45	1.09	1.27	+17
Belgium	BFr100	44.44	34.50	−22
Britain	£1.67	0.74	0.56	−24
Canada	C$2.35	1.04	1.15	+11
Denmark	DKr26.75	11.89	6.42	−46
France	FFr18.00	8.00	5.65	−29
Germany	DM4.30	1.91	1.67	−13
Holland	Fl5.25	2.33	1.88	−19
Hong Kong	HK$8.90	3.96	7.79	+97
Hungary	Forint115	51.11	75.12	+47
Ireland	I£1.40	0.62	0.62	—
Italy	Lire3600	1600	1239	−23
Japan	¥380	169	135	−20
Singapore	S$2.80	1.24	1.77	+43
S.Korea	Won2100	933	721	−23
Soviet Union	Rouble10	4.44	1.74**	−61
Spain	Ptas350	155	103	−34
Sweden	SKr26	11.56	6.04	−48
United States††	$2.25	—	—	—
Yugoslavia	Dinar32	14.22	15.12	+6

* Prices may vary locally. ** Commercial rate † Purchasing-power parity in local currency: local price divided by dollar price †† New York, Chicago, San Francisco and Atlanta Source: McDonald's; Economist correspondents

The Economist

Chart 6



The Economist

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CURRENCIES

Canadian dollar

As noted in the Bank of Canada release date Feb. 26 1991, the Governor and the Minister of Finance "jointly announced the setting of targets for reducing inflation and reaching price stability in Canada. These targets provide for a year-over-year rate of increase of the consumer price index of 3% by the end of 1992, 2½% by the middle on 1994, and 2% by the end of 1995 (see Chart 9). Thereafter the objective is further reduction in inflation until price stability is achieved.

"The bank clarified that the target rates of inflation should be regarded as the mid-points of a target band of plus or minus one percentage point. This use of a band reflects both the fact that a myriad of short-term erratic movements affect the price index and the reality that policy changes cannot be calibrated so precisely as to achieve an exact rate of increase in prices. Nonetheless, it is the midpoints of the range that will be the objective of monetary policy actions taken by the Bank, rather than the upper or lower band."

Clearly the bank is well aware of the pernicious effects of using monetary policy to jump-start economic recoveries. Further, the bank has shown great determination to uphold confidence in the value of money, a statement that it has repeated time and again throughout all the Governor's speeches. As an example, we quote from the recently released annual report of the Governor: "In this general regard, let me underline that the confidence the Bank of Canada seeks to foster is that the Canadian dollar will retain its stability. It is also worth noting firstly, that this is not the same as having the exchange rate at any particular level, and secondly, that while monetary policy must of course guard against losses of confidence in the Canadian dollar, *the most basic contribution* that monetary policy can make to protecting the external value of our currency is to have care of its value internally."

In this context there is then no match between the US Federal Reserve and the Bank of Canada. While the former has a fuzzy idea of its objectives, the latter is quite clear about them. As between the two of them, we would clearly feel more comfortable entrusting our money to Mr. Crow than to Mr. Greenspan.

STRATEGY: *Buy on 50-point to 75-point dips from any high.*

Chart 9

Total Consumer Price Index

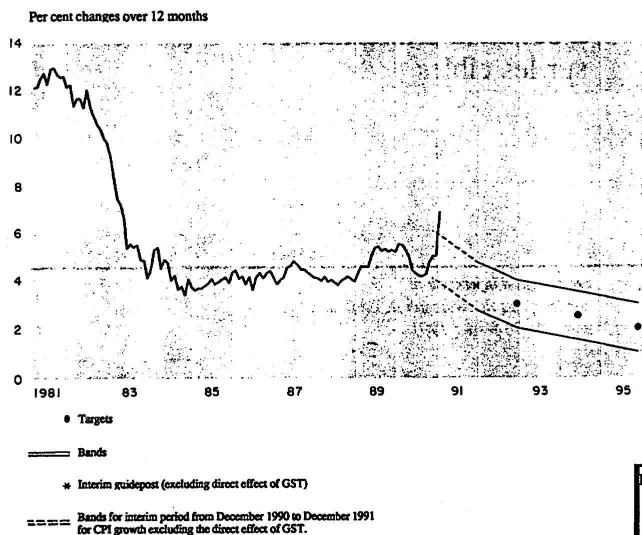
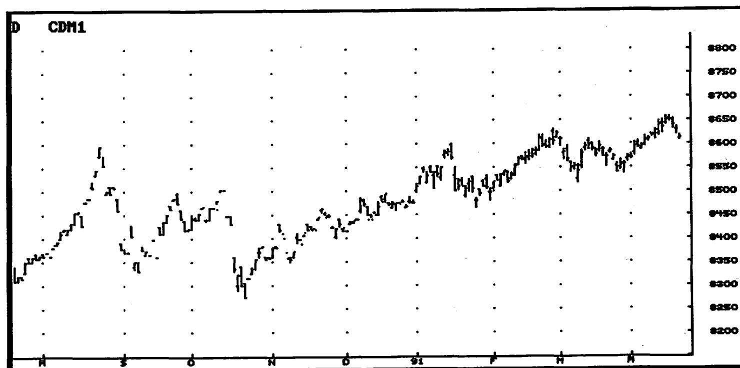


Chart 10
CAN$ JUN '91



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STOCK MARKET INDEXES

More life left in the bull

We cautioned last month that the bearish case resting as it did on collapsing corporate earnings had to make itself felt no later than the week ending April 12. There was no magic to this date; simply it allowed the market to review a substantial number of first-quarter earning reports. Except for sporadic negative reactions, the market ignored the bad news, and most major indexes went on to record new historic highs. Smaller capitalization issues continue to gain from institutional favor and outpaced large capitalization stocks.

There is now little doubt that this bull market is for real, although one wonders whether entire bull market/bear market cycles will be compressed henceforth into much shorter timespans.

Technically there is litte in the way of worries (although perhaps that is worrisome): Breadth is good, the list of 52-week new highs has plateaued a little above 100 on a 10-day moving average basis, new highs as a percentage of advancing issues continues to improve (see Chart 11), odd lot short sales remain stubbornly high. On a slightly more negative note, the percentage of stocks above their own 30-day moving average has reached 90%, denoting a very overbought condition, although going by historical precedent, it will appear that we are still months away from a significant top. Finally, sentiment remains decidedly bullish but perhaps not at extreme levels yet.

STRATEGY: *This bull market has more life left to it, but in view of our strong reservations about a recovery and our concern about accelerating inflation, we recommend only two conservative courses of action: The purchase of call options, as recommended in our Hotline Update of April 12, and the retention of the long Value Line/short S&P dollar-weighted spread.*

Chart 11

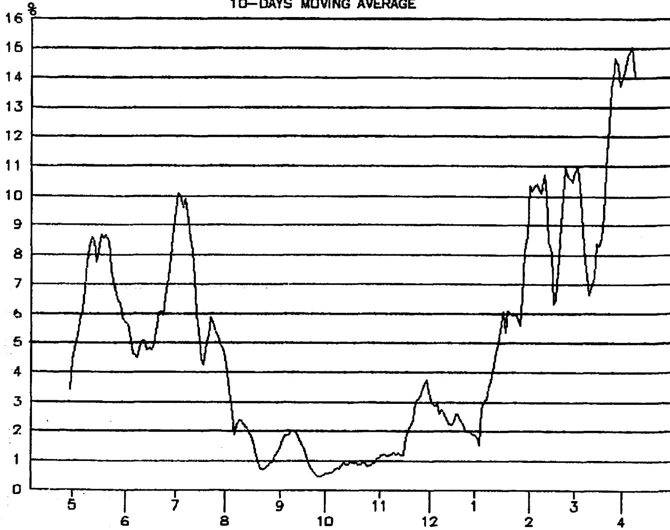

Chart 14

SWITCH MODEL
Still bullish for stocks.

	E/P	BOND YIELDS	CPI	SIGNAL
89.1	8.47	9.69	5.32	2.01
89.2	7.93	9.48	5.91	2.77
89.3	6.80	8.97	2.81	2.74
89.4	6.45	8.89	3.95	-0.63
90.1	7.00	9.19	7.65	0.47
90.2	6.06	9.40	3.89	3.31
90.3	6.37	9.40	6.88	-0.14
90.4	6.85	9.29	6.95	3.44
91.1	6.02P	8.93		3.04P

1) POSITIVE NUMBER IS BULLISH FOR STOCKS; NEGATIVE IS BEARISH FOR STOCKS

2) BUY AND/OR SELL SIGNALS FOR STOCKS ARE EFFECTIVE FOR FOLLOWING QUARTER.

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Chart 12
S&P 500 Index

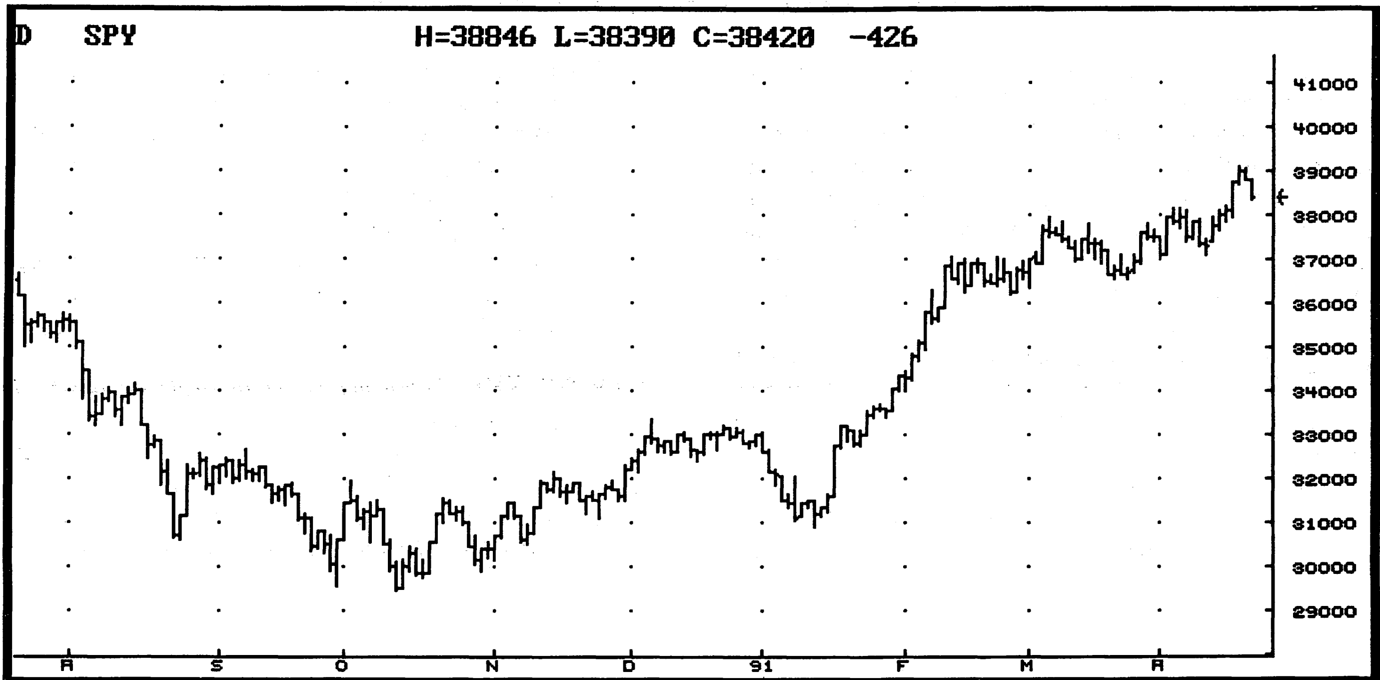
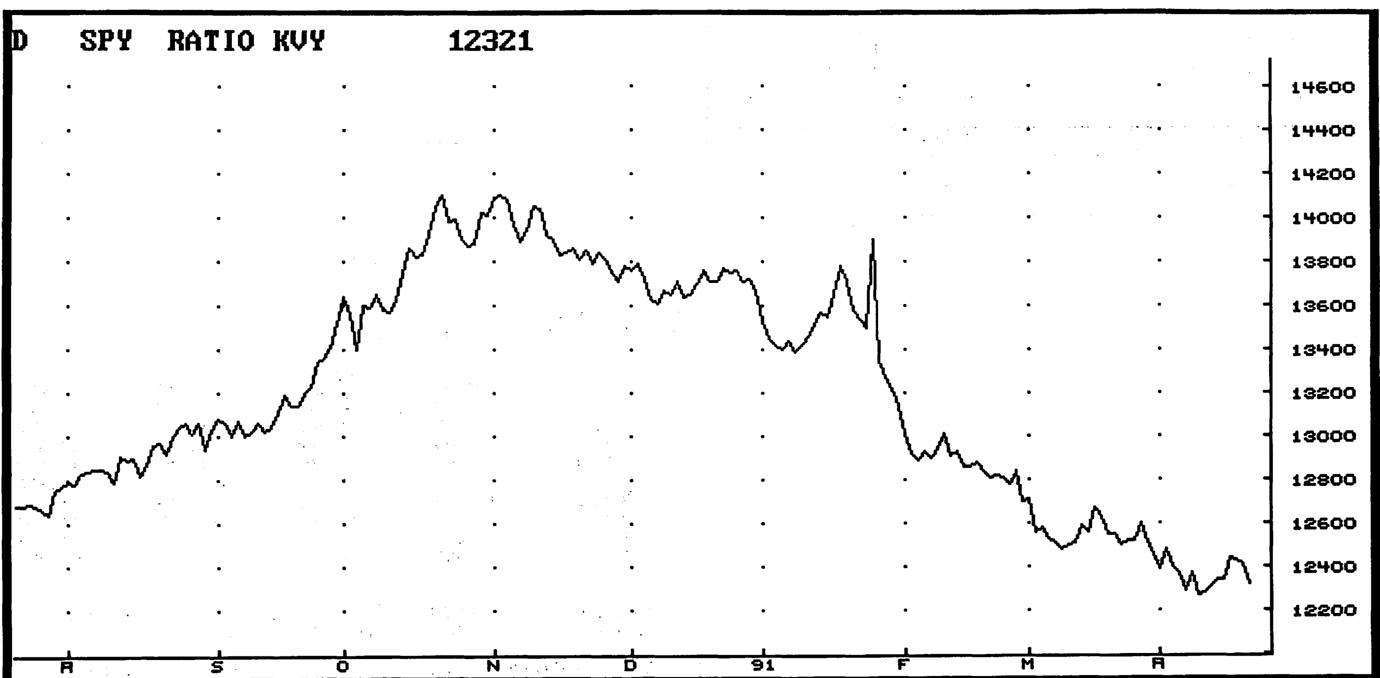


Chart 13
S&P/Value Line



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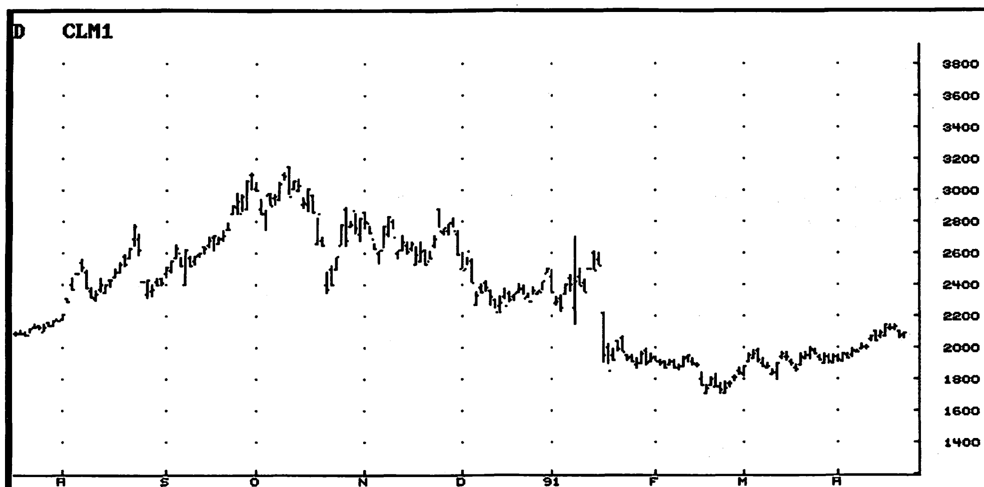
CRUDE OIL

Market going up

Tightening gasoline supplies in the US and the serious unpredictability of Soviet export supplies have helped crude prices to finally break out of their large head and shoulder bottom. This market looks like it's going higher and thus we have recommended (Hotline Update April 12) covering all short positions.

Chart 15
CRUDE OIL/JUN '91



FRIEDBERG CAPITAL MARKETS

A long-term policy

Readers of this issue will take note that we have changed our short-term forecast of the US dollar *vis à vis* European currencies. At this time we feel that the rise in US dollar is highly speculative and totally unsubstantiated by real and/or monetary factors. Still, it is likely to move high in the near term.

Bondholders following our preferred allocation recommendation will find themselves in a quandary: Should they sell their European-denominated bonds and seek the refuge of dollar-bloc currencies (US$, C$, NZ$, A$), should they hedge their European currency denominated bonds via forward sales, or should they stand pat?

We would like to narrow your choice to only the last two options. This is because transactional costs (bid/ask spreads) make it expensive to trade in and out of bonds. Furthermore, we assume that the bond investor has a longer-term horizon than the foreign exchange trader, and it is precisely because of this that we fashion an allocation policy that is neither too radical nor too fast-changing. We truly believe that in the long run, above-average returns will be obtained from following bond portfolio allocations over the medium to long term without making dramatic changes.

Traders who already have experienced the fast moving world of currency futures and forwards and who would like to take advantage of shorter-term fluctuations may choose to hedge their European currency bonds via the sale of one single currency. Of course, a mistake in timing the hedge will compound the error.

Recommended bond portfolio allocation for new portfolios

For new portfolios, we recommend the following investments:

DM and/or ECU fixed-rate bonds	50%
US dollar high-yield or convertible bonds	25%
New Zealand dollar bonds	25%

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Chart 16
Foreign Currency Bonds

Date: April 19, 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	94 1/2	-	95 1/4	8.77%	01/02/92
EUROPEAN INV. BANK 5 1/2% 9/8/93	93	-	93 3/4	8.60%	09/08/91
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 **RRSP eligible**	85	-	85 3/4	9.30%	07/05/91
WORLD BANK 5 7/8% 4/2/97 **RRSP eligible**	87	-	87 3/4	8.65%	04/02/92
SWISS FRANC DENOMINATED BONDS					
GOVT.OF AUSTRALIA 5% 30/10/98	88	-	90	6.73%	30/10/91
DANISH KRONE DENOMINATED BONDS					
KINGDOM OF DENMARK 9% 20/11/92	98.27	-	99.07	9.60%	20/11/91
ECU DENOMINATED BONDS					
UNITED KINGDOM 9 1/8% 21/02/01	100.35	-	101.10	8.94%	21/02/01
BRITISH POUND DENOMINATED BONDS					
KGDM of SWEDEN 9/3/8% 14/4/93	96 7/8	-	97 5/8	10.77%	14/04/91
FRENCH FRANC DENOMINATED BONDS					
EUROPEAN INV.BANK 8 3/4% 12/7/95	98	-	98 3/4	9.10%	12/07/91
JAPANESE YEN DENOMINATED BONDS					
GOVT.OF CANADA 23/7/93 5 5/8% RRSP eligible	96.40	-	97.15	7.03%	23/07/91
CANADIAN DOLLAR DENOMINATED BONDS					
ONTARIO HYDRO 10 7/8% 08/01/91 (semi annual)	103 3/8	-	104 1/8	10.00%	08/07/91
GOVERNMENT OF CANADA (semi annual) 01/09/91 9%	99.60	-	99.90	9.1%	01/09/91
NEW ZEALAND DOLLAR DENOMINATED BONDS					
CDN.IMP.BANK OF COMMERCE 27/07/92 14% **RRSP eligible**	102	-	102 3/4	11.40%	27/07/91
TOURIST HOTEL 0% 04/06/93	78 3/4	-	79 3/4	11.33%	matures 04/06/93
AUSTRALIAN DOLLAR DENOMINATED BONDS					
General Electric 11/07/92 14 1/4% (semi)	103 3/8	-	104 1/8	10.77%	11/07/91
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	105 1/8	-	105 7/8	11.64%	01/07/91
WORLD BANK 15/03/93 12 3/4% **RRSP eligible**	102 1/2	-	103 1/4	10.72%	15/03/92
U.S.DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS					
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @$38 p/sh	74	-	76 1/2	11.69%	15/06/91
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @$39.75 p/sh	18	-	22 1/2	35.01%	15/05/91
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @$27.45 p/sh call in 1995 @100	73 1/2	-	74 1/2	15.62%	01/09/91
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @$39.50 p/sh	30	-	33 1/2	18.26%	01/09/91
BURNUP & SIMS 12% 15/11/00 (semi) CV @$19.25 p/sh	61	-	64 1/2	22.09%	05/15/91
U.S.DOLLAR DENOMINATED FIXED RATE BONDS					
ALBERTA 7 3/8% 9/12/91 **RRSP eligible**	99.90	-	100 1/2	6.36%	09/12/91
SOUTHMARK 12% 10/8/97 (semi)	59	-	62 1/2	7.76%	10/08/91
U.S.DOLLAR DENOMINATED FLOATING RATE NOTES	**Bid**		**Offer**	**Current Coupon**	
UNITED KINGDOM 24/9/96 3 mo.LIBID-1/8 (qtly)	99.90	-	100.20	6 3/16%	28/06/91
REPUBLIC OF ITALY 30/4/93 3 mo Limean(qtly)	99.03	-	99.45	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/MICHCM

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FOREX RATES & UPDATE

Currency	Spot	3-Month	12-Month	Comments vis à vis US$	Comments vis à vis DM (Spot DM: 1.7230)
Australian dollar	.7727-.7734	.7633-.7644	.7417-.7444	Neutral	Neutral
*Belgian franc	35.23-35.27	35.46-35.54	35.99-36.13	Sell	Neutral
*Danish krone	6.5850-6.5900	6.6400-6.6510	6.7670-6.7870	Sell	Neutral
*Dutch guilder	1.9350-1.9360	1.9270-1.9285	1.8895-1.8935	Sell	Neutral
Finnish markka	4.0130-4.0150	4.0371-4.0400	4.2370-4.2490	Neutral	Remain short
Greek drachma	185.70-186.00	190.50-195.00	203.70-219.50	Neutral	Neutral
Hong Kong dollar	7.7920-7.7930	7.8000-7.8040	7.8220-7.8330	Neutral	Neutral
*Irish punt	1.5555-1.5560	1.5415-1.5430	1.5075-1.5110	Sell	Neutral
*Italian lira	1268-1269	1274-1276	1326-1330	Sell	Neutral
Malaysian ringgit	2.7460-2.7480	2.7570-2.7630	2.7800-2.8000	Neutral	Neutral
*New Zealand dollar	.5887-.5897	.5822-.5836	.5647-.5677	Buy	Buy
*Norwegian krone	6.6925-6.6975	6.7580-6.7680	6.9155-6.9345	Sell	Neutral
*Portugese escudo	148.30-148.40	150.60-151.00	157.70-159.10	Sell	Remain long
Saudi Arabian riyal	3.7500-3.7510	3.7500-3.7520	3.7535-3.7565	Neutral	Neutral
Singapore dollar	1.7700-1.7710	1.7660-1.7700	1.7550-1.7660	Neutral	Neutral
*Spanish peseta	106.00-106.10	107.85-107.98	112.01-112.15	Sell	Neutral
Swedish krona	6.1550-6.1600	6.2465-6.2560	6.4800-6.5000	Sell	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	

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HOTLINE UPDATE

Flash update, Thursday, March 28, 9:00 a.m.:
Liquidate long Canadian dollar positions established as per Hotline recommendation on March 8 at 9:30 a.m., at around 8530.

Thursday, March 28:
As per our flash update at 9:00 a.m. today, you have liquidated long June Canadian dollar positions at around 8570. No other changes or new recommendations.

Tuesday, April 2:
Stock market strength is clearly ignoring the extremely poor first quarter earning reports — which at this time is not a secret, as can be witnessed from the massacre of IBM and Digital Equipment.

We therefore advise liquidating immediately the April S&P 350 and 360 puts as well as any of the June puts, trying to recover whatever value is left of them.

Retain the profitable long KC Value Line short S&P weighted spread. It made a new high today.

Thursday, April 4:
This will replace the regular Friday update for this week only. One change this week. As per our update of Tuesday, April 2, we have liquidated April and June 350 and 360 put options in the S&P. We have retained the very profitable long KC Value Line/short S&P spread. The next regular update Tuesday, April 9.

Flash Update, Tuesday, April 9, 8:50 a.m.:
We are going short the US$ once again, and select the SF as the best trading vehicle. Buy June SF at market. In addition buy SF and sell JY on a spread basis.

Flash Update, Wednesday, April 10, 2:25 p.m.:
Buy April 370 S&P put options at the market.

Flash Update, Friday, April 12:
Cover short crude oil positions at market and stand aside.

Flash Update, Friday, April 12, 1:30 p.m.:
Liquidate April 370 put options in the S&P at market purchased as per our recommendation Wednesday, April 10. Also note this morning's flash to cover short crude oil positions at market. There will be a wrapup this evening.

Friday, April 12:
A wrapup of this week's activities plus two new trade recommendations.

1. As per our flash update Tuesday a.m., we are long the June SF. We have also bought June SF and sold June JY on a spread basis.
2. As per our flash Wednesday at 2:25 p.m., we bought April 370 S&P put options, liquidated them this afternoon as per our flash.
3. As per our flashupdate this a.m., we have covered our short crude oil positions.

Our two new recommendations:

1. Buy June 390 S&P call options at market.
2. Buy December 380 gold call options at present levels.

Tuesday April 16:
I will repeat our recommendations from last week. No new ones.

1. As per our flash update last Tuesday, we are long June SF. In addition we are long SF/short JY on a spread basis.
2. As per flash update Friday, we have covered short crude oil positions.
3. We recommended Friday to buy June 390 S&P call options at market.
4. As per Friday, we recommended to buy December 380 gold call options at market.

Flash Update, Friday, April 19, 11:10 a.m.:
Sell long June SF at market.

Friday, April 19:
As per our flash this morning, we have liquidated our long June SF positions. Have a good one!

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Subscription Enquiries for
Friedberg's Commodity & Currency Comments
347 Bay Street, 2nd Floor
Toronto, Ontario, Canada
M5H 2R7
(416) 364-1171

Trading and Managed Accounts
All enquiries concerning trading accounts should be directed to:

In Canada
Friedberg Mercantile Group
347 Bay Street
Toronto, Ontario M5H 2R7
(416) 364-2700

In U.S.
Friedberg Mercantile Group Inc.
67 Wall St., Suite 1901
New York, N.Y. 10005
(212) 943-5300

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