

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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'Tis the time for contrarians?

Never have so many tried to anticipate the end of the recession afflicting North Americans using so little hard evidence and so much wishful thinking.

"Recession receding" blasted the headlines of Toronto's most widely circulated daily — to be followed (next morning) by "Bankruptcy blues" and subtitled "Recession relief too late for thousands of Ontario firms." A survey of 58 US professional forecasters found 11% believing that the recession had ended, 60% expecting it to end by June 30, 27% by September 30, and only 2% expecting it to go into the fourth quarter or beyond.

Admittedly, some improvement has been detected in a number of statistics: The civilian unemployment rate in April was 6.6%, down slightly from the 6.8% rate in March; sales of new single-family houses rose 1% in March following an 18.6% rise in February; and the composite index of leading indicators rose 0.5% in March after rising 1.2% in February and declining in each of the previous six months. Mere straws in the wind.

Lost in the excitement, however, is the fact that recessions are not, and never were, straight line affairs. Chart 1 is instructive. The 16-month-long 1973-75 recession, easily the most severe one since the Great Depression, experienced a deceptively interesting five-month bounce before crashing headlong to its ultimate trough eight months later. The not-as-severe 1981-82 recession also experienced a sharp mid-way bounce, followed by a gentle but painful contraction that found bottom only nine months later.

There are at least two reasons for this non-linear behavior.

One is the imperfection in gathering economic statistics as well as the problem in determining what constitutes the most ideal proxy for observing economic change (should it be real GNP or the combination of indicators used by the National Bureau of Economic Research which includes employment, industrial production, real business sales, and real personal disposable income?).

Two is the fact that human beings do not enjoy perfect foresight and somewhere along the line they attempt to anticipate — much too early — the end of the contraction. Obviously, 20/20 vision would cause extremely severe — but extremely short — economic adjustments. And, of course, with 20/20 vision there would never be a *need* for adjustments, for the economy would always travel at its equilibrium rate.

One need not go further than to look at the chart of *any* bull market or any bear market and see that the path to the ultimate peaks and troughs is littered with "reactions," the product of incorrect calculations, greed, fear, euphoria, and depression — that is, human nature. And if markets can have "bounces" and "reactions," why not the economy as a whole?

What, then, is one to do? When is a "bounce" the beginning of a turn and when is it a mere bear market rally? Being members of the human race too, we cannot presume to have *the* answer. It helps, however, to rephrase the question: Has there been a sufficient change in the underlying fundamentals to warrant the current optimism?

This question is *slightly* easier to answer. Let us see:

1. Yes, consumer confidence improved rather sharply once the US forces were seen to be victorious in the Gulf war. But the extraordinary jump in the Consumer Confidence Index did not lead to a corresponding jump in consumer expenditures (except first-time buyers of homes). The May pace of car sales, 5.6 million units on an annualized basis, is shockingly low, especially after we take into

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Also: Friedberg Capital Markets, The Exotics, and Forex Rates & Update.

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

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account the size of customer rebates. Consumer confidence, it now appears, was heavily influenced by rising stock prices.

2. The fall in the unemployment rate may be a statistical quirk. Non-farm employment declined at a 1.4% annual rate in April, after falling at rates of 3.1% and 2.6% respectively in February and March. Since June 1990, there has been a cumulative loss of no less than 1,667,000 jobs!
3. The consumer continues to stay away from new debt and what's worse, may have just begun to take this task seriously. Consumer credit fell at a 1.5% annual rate in March, following a revised fall of 0.3% in February. Since December, credit has fallen at an 1.8% annual rate. Given that nominal disposable incomes are growing at much less than half of what they did in the 1981-82 recession, it stands to reason that installment debt use should contract in real terms by similar proportions. This could spell a double-digit nominal annual contraction.
4. Order backlog in the non-defense capital goods sector (excluding the erratic and volatile sales of commercial aircraft) fell 3.5% in the March-April period. This is not a tenable situation. Without a quick rebound in demand, companies will need to make substantial production cuts in coming months.
5. Inventory/sales ratios are rising, debunking the myth that inventory liquidation was not going to aggravate the down-

turn. In fact, while real inventories declined 1.3% in the IVQ1990 and IQ1991 (accounting for more than half of the decline in real GNP), spending on goods and structure fell 3.2%, raising the I/S ratio to 1.57 from 1.48 six months earlier. Falling industrial prices are likely to accelerate the coming liquidation of inventories. (We thank Joseph Carson, Chief Economist for Chemical Bank for the last two observations).

6. While the Federal Reserve has eased rather significantly, over the past six months, we have already posited (in earlier issues) that monetary policy cannot but have a very ephemeral effect on real economic growth.

What is worse, the increases in the Fed-controlled monetary base have exceeded M1 growth for well over one year, resulting in higher current and prospective inflation.

7. Finally, fiscal policy has not become stimulative, as it did during the course of the past two recessions, when tax cuts acted as powerful catalysts for renewed expansion.

In short, we have not been able to detect an improvement in the underlying "fundamentals" to warrant the extraordinary claims being made by popular media and professional economists alike to the effect that the recession's end is imminent. *Tout la contraire*, there is *some* evidence that the decline is about to gather momentum, at least in the US.

'Tis the time for contrarians?

Chart 1

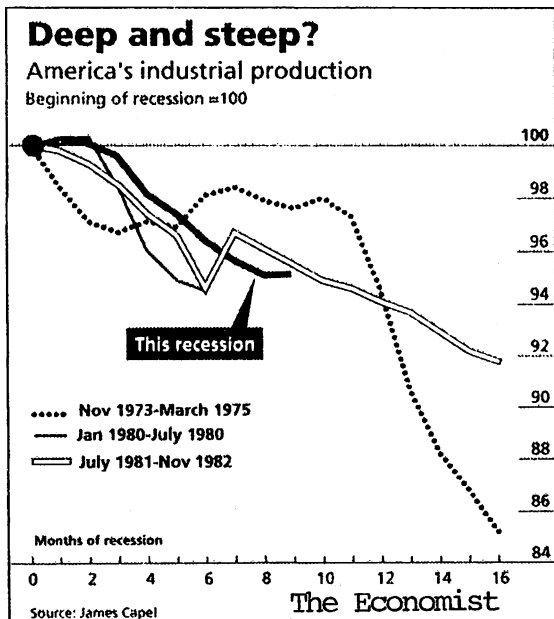
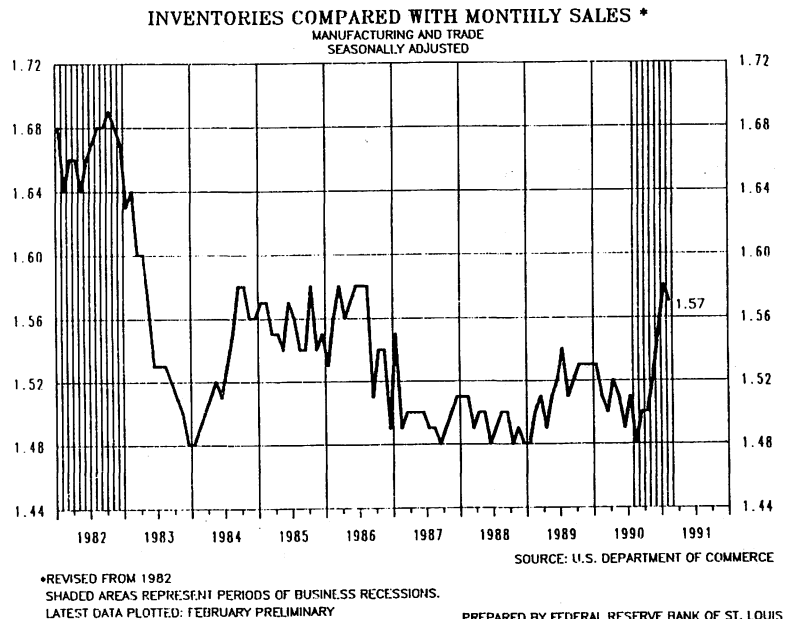


Chart 2



US DOLLAR**The game is up**

Last month we discussed the concept of the indeterminacy proposition that rules foreign exchange markets. To recapitulate briefly, we sided with a view espoused over a decade ago by Dr. Neil Wallace of the Federal Reserve of Minneapolis that currency markets, in the absence of government intervention and binding restrictions on currency holdings, were determined not in part by speculation, but entirely by speculation.

A speculative run beginning at a point that a particular trend is exhausted — e.g., a story that becomes so well-known that it stales — is nourished, at first, on no stories (it may merely be the “discounting” mechanism), later on a *variety* of stories reinforced by destabilizing speculation, i.e., chart buying or selling, even later on *one* particular story, and finally, when all or most of the believers have acted on it, it dies of staleness.

We do not mean to imply that currency rates are so indeterminate that they can be *anywhere*. Not at all. Strong countervailing forces are set off when currency rates *go to extremes, over longer periods of time*. As speculators begin to perceive the gathering of countervailing forces (e.g., a huge surplus on trade and tourism and/or a massive inflow of capital when real prices in the devaluing country become too cheap), they create the reversal — and a new story is born.

Let us be more specific. Within extremely wide ranges (30%, 50%, 100%?) there are no *specific* levels that represent equilibrium prices. Within those ranges (destabilizing) speculators will reign supreme, creating, and responding to, “stories” and “perceptions,” exaggerated by “buyers on strength” and “sellers on weakness,” focussing mindlessly on price patterns, i.e., charts, to the exclusion of common sense. And so it is possible for the \$/yen and the \$/DM to enjoy fluctuations of 14% and 22% in the short span of three months, unaccompanied by a significant economic, least of all earth-shaking, event, when during this same period, the dollar/cruzeiro rate enjoyed a “modest” 9.8% fluctuation despite *monthly* inflation rates of 15% to 20%. The former were at mercy of “players,” the latter was tempered by Central Bank intervention.

Last month we concluded that the dollar's rise had no substance but that it was heading still higher based on the fact that bullish perceptions had not finished focusing on “a” particular story, making it difficult to “stale” the reason for advance. Subsequent to a “hands-off” G-7 meeting and communique, the dollar spiked to DM1.7780 in Asian trading, a new recovery high. Later that day (when *does* the trading day start?) it began to recede as traders sensed the Bundesbank's

continued determination to fight inflation via tight money. Despite the collapse in East Germany's economy. Despite the “uncertainty” caused by the Soviet economic collapse. And despite a weak global economy that was pleading for concerted interest rates reductions.

The “story” of coming West German weakness (and the consequent convergence of interest rates and economic activities with the US) was not allowed to die peacefully. The rumors of Karl Otto Poehl's resignation as the head of the Bundesbank, and the final confirmation, one or two weeks later, kept the pot boiling. The resignation, it seemed, hid deep differences of opinion over a strong currency, West Germany's coming role in the EMU, and so on. It confirmed, to those who had still not subscribed to the thesis that West Germany's star was in descendance and, as a result, that America's was in ascendance. Poehl's actual resignation hardly budged the \$/DM rate. The story was “staling.”

On a different front, the Soviet Union's coming collapse was stopped, at the last moment, by a political alliance between Gorbachev and Yeltsin. That, too, had ceased, at least temporarily, to depress the DM.

The dollar bulls tried to muscle their position one last time. The Swedish Riksbank's decision to uncouple the krona from a basket of currencies in which the dollar carried the most weight, 21.9%, and link it to the ECU, caused short-covering of dollars (used to fund net long krona deposits) and the sale of DM. The announcement was made at the most inopportune time possible: Friday, at the close of European business, ahead of the Whit Monday holiday. In thin New York trading, the DM slumped 3.6% as traders bandied estimates of \$15-\$20 billion of potential short-covering. By Tuesday morning, the panic had subsided and the dollar eased back to DM173.15, well below Friday's intra-day high of DM1.7613.

Short of a new and powerful story, the bullish case for the US dollar — or rather the bearish case for the DM — has collapsed. Instead, speculators will begin focusing on continued US economic weakness (see cover article) and the appointment of Helmut Schlesinger, a monetarist hawk, to the Presidency of the Bundesbank. A new speculative run will commence — this time against the US dollar.

STRATEGY: On April 30, via the *Hotline Update*, we reinstated short positions in the US dollar via purchase of DM futures. At the time, the June '91 DM traded at 57.49.

Place stops at 56.50, close only. We also view favorably other European currencies (see “*Forex Rates and Update*”).

THE CANADIAN DOLLAR**Foreseeably firm**

The following is the text of a speech given by Albert D. Friedberg on May 14, 1991, to the Quebec Chapter of The Young Presidents' Organization at the Public Policy Forum in Montreal, Quebec, Canada.

QUESTION: What is the most common — and most frequently asked — question posed by Canadian investors in recent months?

ANSWER: When do you think the Canadian dollar will take the "plunge"?

Implicit in this question is the certainty that the Canadian dollar is overvalued and/or that the Canadian economy would be better off with a cheaper dollar.

When I came here today I was not sure that I — as a speaker — should take the role of a forecaster or merely that one of an analyst/observer. As an analyst, I would have been forced to use such phrases as "on the one hand," "on the other," and "alternatively," and so on. Very soon, I would have lost most of my audience.

As a forecaster, on the other hand, I had two choices: a safe forecast, i.e., "the Canadian dollar will fluctuate" or a bit more daring "the Canadian dollar will trade in the range of 80 to 90 cents" — that was one choice.

The second choice was to be unequivocally bullish or unequivocally bearish — some might prefer unambiguously bullish or unambiguously bearish — and risk being wrong no sooner the markets opened on the very next day.

Gentlemen, I am not a speaker — I am a trader, and as such, I risk being wrong every minute of the day — so what's new?

Here is, then, my unambiguous message: Take the Bank of Canada seriously — at least until early 1993 — and I am assuming that the Conservatives won't call an election until November 1993.

What exactly does that mean? First and foremost, it means that the BOC has learned quite well the hard lessons of a lax monetary policy. From 1985 onwards, the broad monetary aggregate M2 grew well in excess of what is warranted to attain price stability.

The BOC was blinded by extraneous circumstances, such as the collapse of oil prices in 1986, strong worldwide competitive pressures on globally traded goods, and a widening current account deficit starting in 1988 that acted as an anti-inflation valve in much the same way as lifting the cover of a boiling pot releases pressure. The BOC was blinded, then, and did not realize that an inflationary monster had been unleashed.

Many of you here today must be asking yourselves what I mean by an inflationary monster: After all the GDP deflator

did not exceed an annualized 4.9% in any of the years. I say to you: Many of you who had to buy a house from 1987 to 1989 know exactly what I mean. And even the BOC, in their excellent 1990 Annual Report, admitted it when it talked about the "acceleration in the price of existing assets": The average house price jumped by about 50% during the period. House prices do not jump by an average 50% unless credit creation is excessive.

The deficit on current account — now at 2.4% of GDP — is another sign that underlying inflation is worse than meets the eye. Finally, it is a fact that wage settlements over the past year far exceeded the inflation in consumer prices — and they are still rising at 6% per annum, a most unpleasant phenomenon in circumstances of rising unemployment.

The BOC has repented. Its 1990 Annual Report is a major monetarist document, in substance if not in name. It narrows the focus of monetary policy to that one of achieving price stability above all else. It *never, I repeat never*, suggests that monetary policy can be calibrated to stimulate economic growth — something that we continuously hear south of the border, from Allan Greenspan & Co. Listen to these words: "The lasting effect that monetary policy can have on interest rates and the exchange rate comes about through the influence the Bank exerts over the supply of money and the resulting effect on confidence in the value of money. Confidence is the essential element that the Bank of Canada can provide to lenders and borrowers when they make judgments on interest rates and on the exchange rate. It influences what they think money lent or borrowed now is likely to be worth in the future and what value they can see in the Canadian dollar as opposed to some other currency."

Or this one:

"The Bank of Canada can certainly encourage an increase in the supply of money. Indeed, it is uniquely placed to do so. But what it cannot guarantee is that there will be willing holders of an additional supply at an unchanged price, that is, an unchanged value of money. The trouble comes when confidence in the value of money begins to fade, or fade faster, and the market actions of borrowers and lenders push interest rates up as a result. In that situation, printing money even faster obviously does not help. It would make the value of money drop even faster and add further fuel to the adverse response in financial markets."

There it is. The Bank of Canada has refocused its objective: attaining price stability. Not stimulating economic growth through the manipulation of interest rates and/or exchange rates. But price stability. And it has, courageously, advanced a clear, unambiguous, and easy-to-measure chronogram for the achievement of price stability — which it defines as a constant-state rate of inflation below 2% per annum. The

formal chronogram says it will shoot for 3% inflation by the end of 1992, 2½% by the middle of 1994, and 2% by the end of 1995 — these targets are mid-points of a band of +/- 1%. Admirable.

What about the exchange rate? You heard that the Bank of Canada is concerned only with price stability. Listen again: "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 loss 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 a care for its value internally."

We hear two things *clearly*: 1) a monetarist policy is in force; therefore the exchange rate cannot be controlled — (economists in the room know that it is impossible to control simultaneously the quantity of money and the exchange rate — it's either one or the other — and the BOC has chosen the quantity of money); 2) monetary policy is designed to guard against losses of confidence in the dollar — that is an important statistic.

In other words, separatist noises — to the extent they may influence adversely the Canadian dollar must elicit a strong reaction by the BOC — in the form of active intervention and/or a temporary tightening.

Anti-growth provincial budgets — to the extent that they provoke capital outflows and possible crises of confidence in the currency — must elicit a strong reaction by the BOC, again via intervention and/or a temporary tightening. In short, confidence is a significant factor in the attainment of price stability.

On a practical level, the staff of the BOC believes that price stability can be achieved by lowering money supply growth and maintaining it — at 5% per annum. At this time, year-over-year growth exceeds 8.5%. Clearly, the path ahead is one of disinflation, squeezing down the broad monetary aggregates until they reach a 5% rate of growth.

On the fiscal front, while it is true that Ottawa's deficit has narrowed in recent years — at least as a share of GDP — Provincial budgets have moved the other way. Ontario and Quebec, principally the former, have moved aggressively to counteract the effect of the recession and have resorted to implementing massive deficit spending policies for as long as the foreseeable future.

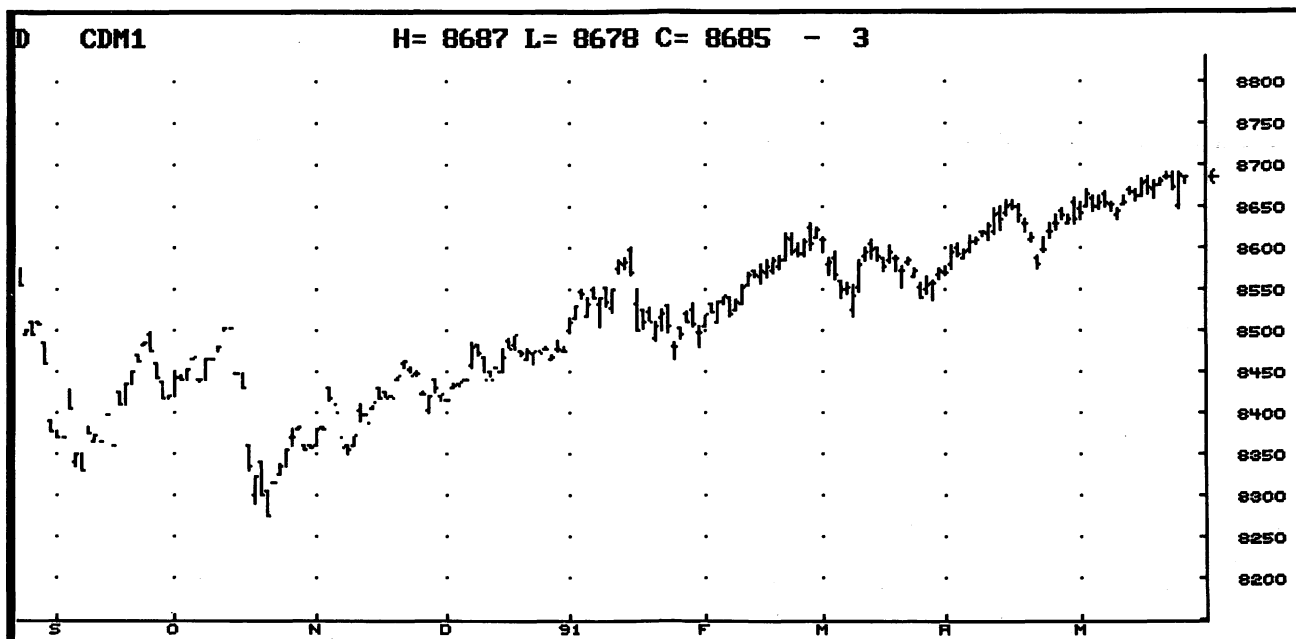
These provincial deficits will act as gigantic vacuum cleaners of foreign currency, as no doubt they will prefer to borrow abroad on cheaper terms than in the Canadian money market. It is no surprise that during the first quarter of 1991, provinces placed abroad \$6.1 billion of securities, almost five times as much as they placed in the first quarter of 1990 and more than the *total* placed during all of 1990.

In short, as I see it today, the Canadian dollar outlook for the balance of 1991 and 1992 is conditioned by two supporting influences: a tightening monetary policy and a loose, federal-provincial combined, fiscal policy.

The net result should be a firm Canadian dollar for quite some time yet.

STRATEGY: On May 14, via a flash update in our Hotline service, we recommended the purchase of September '91, December '91, and March '92 Canadian dollar call options. Remain long.

Chart 4 — Canadian dollar



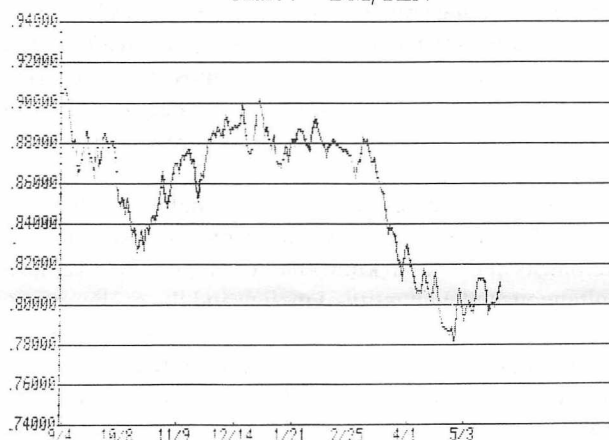
JAPANESE YEN

Reinstated cross

On May 13, via the Hotline Update, we reinstated the long DM/short yen positions.

STRATEGY: Place stops at 7790, basis the cross rate.

Chart 7 – DM/YEN



STOCK INDEXES

The clock is ticking...

Once again, the turnaround in corporate profits is coming...but not just yet! Once again, Wall Street, rather conveniently, is willing to ignore the ongoing collapse in earnings to focus on the wonderful world of next-quarter. Excess liquidity helps, to nourish such noble thoughts.

At some point, however, valuations will have gotten so out of line that the inevitable adjustment will take place. Last month we ran a set of comparative statistics that supported the notion that equities were *still* superior to bonds. This dynamic but simple model will signal a reversal if any or all of the following happens: a) Bond yields rise and/or b) annualized inflation for the *current quarter* decreases and/or c) stock prices continue to rise and/or d) earnings continue to plummet. Of the four, (b) and (d) are almost certain, and (a) is quite possible if the dollar begins to weaken, as we expect (see next section) and combined fiscal/states deficits continue to widen.

Valuation model implications aside, a number of indicators are denoting serious total damage and/or loss of momentum. Chief among them is the alarming breakdown in the new highs/advances ratio (Chart 8). Particular attention should now be paid to the behavior of this ratio on the next rally attempt. A failure to confirm the highs could signal the end of the bull move. The insider sales/buy ratio, distorted by late and massive filings to beat SEC deadlines, remains negative. Also noteworthy is the extraordinary degree of bullishness recently shown by odd lot purchasers (Chart 9). Not to be ignored is the Treasury/junk yield spread, which may be the first sign that the smart money is *not* betting on a quick

recovery (see Chart 10). Finally, there's the very hot new issues market, very reminiscent of the 1969 and 1983 tops, occurring at a time that the market can least afford it (see the net new issues Chart 11).

In the *very near* term, the market may still mount a successful attack on the elusive Dow Jones Industrial 3000 level, given decent breadth and low professional short selling. Nevertheless, the clock is ticking away...

STRATEGY: Retain call options, but be prepared to bail out on a quick and short-lived rally.

Chart 8

NEW HIGHS / ADVANCES
10-DAYS MOVING AVERAGE

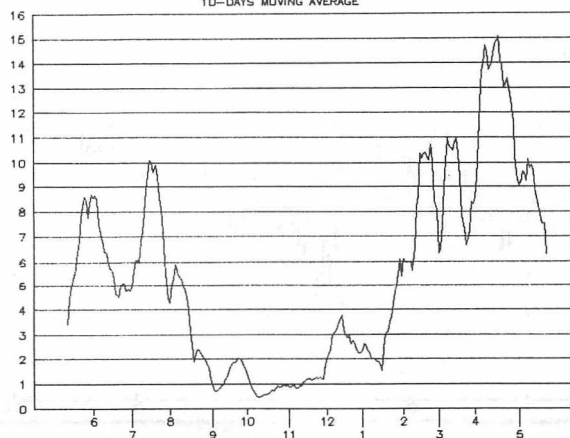
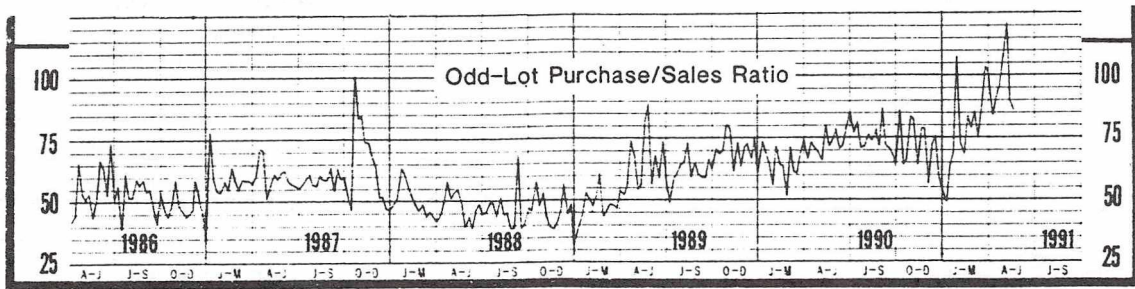
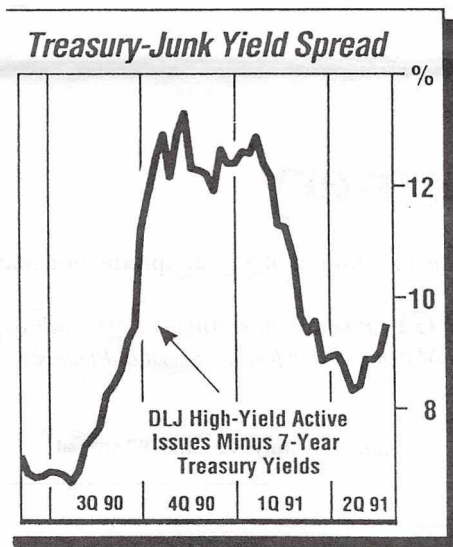


Chart 9



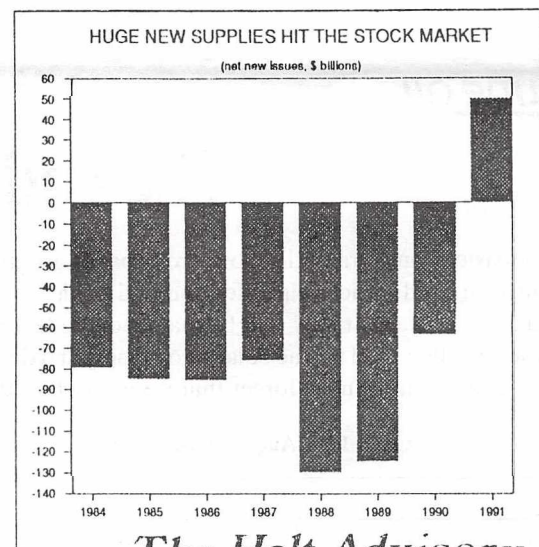
Daily Action Stock Charts, Trendline

Chart 10



Barron's / Donaldson, Lufkin & Jenrette

Chart 11



The Holt Advisory

GOLD

A new bull?

Gold is definitely groping for a bottom.

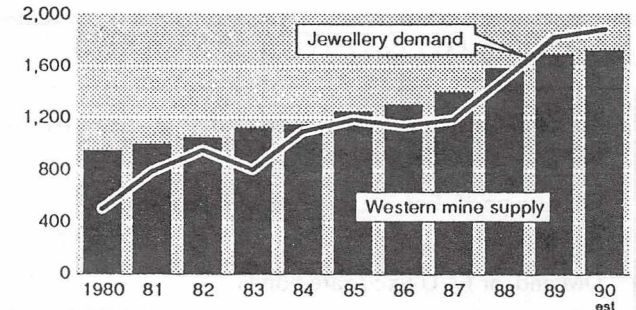
Low real prices had a dramatic impact on consumption (see Chart 14), while production increases are past history. Anticipated weakness in the US dollar may trigger the first leg of an old fashioned bull market.

STRATEGY: Call options are too cheap to ignore and so we said it in our Hotline Update of April 12. Even futures are a screaming value, as they trade below carrying charges. Place stops at 34950, basis nearby Comex, close only.

Chart 14

Gold

Metric tonnes



Source: Gold Fields Mineral Services

Financial Times, London

Chart 15

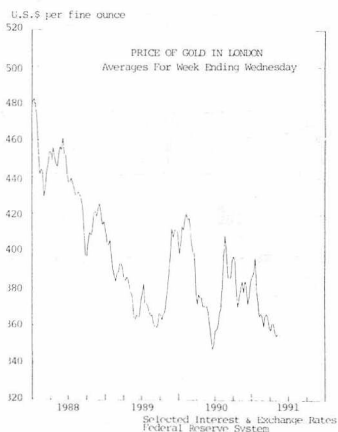
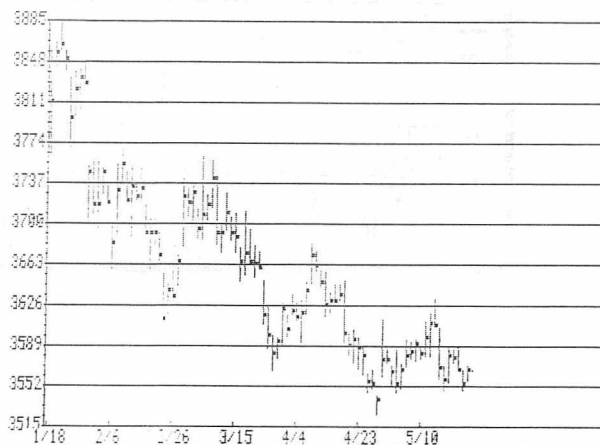


Chart 16 - Gold June '91



CRUDE OIL

The end of the recovery

The persistent and dramatic move from backwardation to contango in crude prices signalled the end of the recovery begun late February. It may well be that Iraqi crude, soon to be allowed to flow, will tilt the balance of supply and demand. And of course one cannot forget that we are just a little bit

closer to the resumption of Kuwaiti production and exports.

STRATEGY: Remain short August 1991 crude as per Flash Update of May 13 in our hotline service. Place stops at 2205, close only.

Chart 17 - Aug '91 Crude Oil

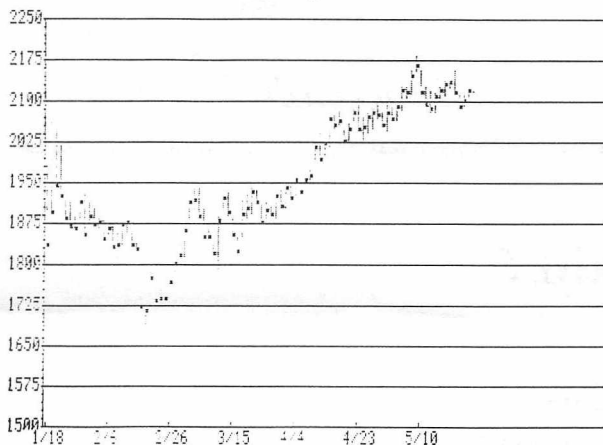
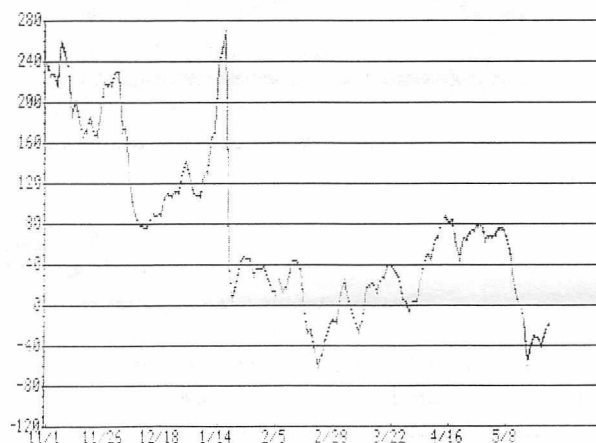


Chart 18 - July '91 - Jan '92 spread



FRIEDBERG CAPITAL MARKETS

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 19 – Foreign Currency Bonds

Date: May 24, 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 1/4	- 96	8.54%	01/02/92
EUROPEAN INV. BANK 5 1/2% 9/8/93	93 3/4	- 94 1/2	8.33%	09/08/91
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	85 3/4	- 87 1/2	8.86%	07/05/92
WORLD BANK 5 7/8% 4/2/97 RRSP eligible	88	- 88 3/4	8.44%	04/02/92
SWISS FRANC DENOMINATED BONDS				
GOVT. OF AUSTRALIA 5% 30/10/98	88 1/2	- 90 1/2	6.66%	30/10/91
DANISH KRONE DENOMINATED BONDS				
KINGDOM OF DENMARK 9% 20/11/92	99	- 99 3/4	9.12%	20/11/91
ECU DENOMINATED BONDS				
UNITED KINGDOM 9 1/8% 21/02/01	100.72	- 101.47	8.88%	21/02/92
BRITISH POUND DENOMINATED BONDS				
KGDM of SWEDEN 9 3/8% 14/4/93	97 7/8	- 98 5/8	10.19%	14/04/92
FRENCH FRANC DENOMINATED BONDS				
EUROPEAN INV. BANK 8 3/4% 12/7/95	99 3/4	- 100 1/2	8.59%	12/07/91
JAPANESE YEN DENOMINATED BONDS				
GOVT. OF CANADA 23/7/93 5 5/8% RRSP eligible	97 1/4	- 98	6.64%	23/07/91
CANADIAN DOLLAR DENOMINATED BONDS				
ONTARIO HYDRO 10 7/8% 08/01/95 (semi annual)	102 7/8	- 103 5/8	10.13%	08/07/91
GOVERNMENT OF CANADA (semi annual) 01/09/91 9%	99.65	- 99.95	9.00%	01/09/91
NEW ZEALAND DOLLAR DENOMINATED BONDS				
CDN. IMP. BANK OF COMMERCE 27/07/92 14% RRSP eligible	104	- 104 3/4	9.40%	27/07/91
TOURIST HOTEL 0% 04/06/93	81 3/4	- 82 1/2	10.04%	matures 04/06/93
AUSTRALIAN DOLLAR DENOMINATED BONDS				
General Electric 11/07/92 14 1/4% (semi)	103 1/2	- 104 1/4	10.35%	11/07/91
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	106 1/4	- 107	11.17%	01/07/91
WORLD BANK 15/03/93 12 3/4% RRSP eligible	103 3/8	- 104 1/8	10.06%	15/03/92
U.S. DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @\$38 p/sh	73	- 75 1/2	11.90%	15/06/91
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @\$39.75 p/sh	18	- 22 1/2	35.02%	15/11/91
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @\$27.45 p/sh call in 1995 @100	74 1/2	- 76	15.28%	01/09/91
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @\$39.50 p/sh	28	- 32 1/2	18.79%	01/09/91
BURNUP & SIMS 12% 15/11/00 (semi) CV @\$19.25 p/sh	55	- 59 1/2	23.77%	15/05/91
U.S. DOLLAR DENOMINATED FIXED RATE BONDS				
ALBERTA 7 3/8% 9/12/91 RRSP eligible	100	- 100 5/8	5.94%	09/12/91
SOUTHMARK 12% 10/8/97 (semi)	58 1/2	- 62 1/2	7.88%	10/08/91
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES				
UNITED KINGDOM 24/9/96 3 mo. LIBID-1/8 (qtly)	100	- 100.30	6 3/16%	28/06/91
REPUBLIC OF ITALY 30/4/93 3 mo Lincan(qtly)	99.50	- 99.90	6 1/8%	30/07/91

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/MICHC

Chart 20
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, SF, DKr, BP, FFr, Cdn, ECU) or revalue (JY) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. Rates as of May 23, 1991.

	U.S. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT	CANADIAN DOLLAR
1 year	6.09%	CIBC 14% 27/7/92, yields 9.4% (.561 NZ/US)	Gen. Elect. 14%, 92 yields 10.35% (.728 A/US)				Denmark 9% 20/11/92, yields 9.12% (6.79 Dkr/US)				
2 year	6.75%	Tourist Hotel 0%, 93 yields 10.04% (.544 NZ/US)	World Bank 12%, 93, yields 10.06% (.713 A/US)	E.I.B. 5%, 93 yields 8.33% (1.765 US/DM)		Canada 5%, 93, yields 6.64% (137.57 US/JY)		Sweden 9%, 14/4/93 yields 10.19% (1.628 BP/US)			
3 year	7.08%		CBA 14%, 93, yields 11.17% (1.677 A\$/US)								
4 year	7.31%			Sweden 7 1/4%, 95, yields 8.54% (1.794 US/DM)				EIB 8 3/4%, 95, yields 8.59% (6.09 FFr/US)			
5 year	7.68%			Bk. of Nova Scotia 5%, 96, yields 8.86% (1.81 US/DM)							Ontario Hydro 10%, 96, yields 10.13% (1.285 US/CD)
6 year	7.75%			World Bank 5%, 97 yields 8.44% (1.781 US/DM)							
7 year	7.94%				Australia 5%, 98 yields 6.66% (1.339 US/SF)						
10 year	8.08%									UK 9%, 2001 yields 8.88% (1.113 ECU/US)	
Spot Exchange Rate	N/A	.5785	.7573	1.714	1.4565	137.86	6.602	1.735	5.815	1.1985	1.1487

*For example, since a US\$-based investor would receive 80 basis points (888-808) by holding the U.K. ECU bond, the ECU can depreciate to .113 ECU/US from the present spot exchange rate of 1.1985

ECU/US 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.

THE EXOTICS

Swedish Krona

Sweden's ruling social democrats have been facing an excruciating political dilemma: How to bring wage inflation — which had been running at close to 11% year over year — down to a more reasonable competitive rate of 5% to 6%, without creating substantial higher unemployment. What's more, the serious lack of competitiveness accumulated over the past number of years of runaway wage inflation must also be redressed without a significant collapse in economic activity. The problem has been compounded by the krona's appreciation versus its main trading partners, itself the result of the recent high interest rate policy.

The Swedes would like to eat their cake and have it too: A falling inflation rate, a gain in trade competitiveness, and a mild soft economic landing. The solution? Fixing to the ECU. On May 17 the Riksbank linked the krona to the ECU within a narrow band of +/- 1.5% with a fixed central rate of SEK7.40054 per ECU, implying that theoretically the SEK/DEM rate can fluctuate between 3.46770 and 3.73783. In relation to the computed bilateral SEK/DEM parity of 3.59973, the SEK may fluctuate by about 3.75% on both sides of the DEM.

The solution, of course, is not painless. The Riksbank loses its freedom of action in the monetary area, and over time the state must realign its fiscal policy and social programs with those prevailing in the EMS, lest it risk inordinately large capital outflows.

Moreover, despite the present momentum behind wage increases and the monopolistic structure of labor negotiation existing in Sweden, the adjustment can come only via severe losses in employment. As it is, unemployment has climbed from a modest 1.3% of the labor force to 2.3%, a doubling in a period of less than one year. Analysts have projected increases to as high as 4% to 5% of the labor force. In sum there ain't no free lunch.

As far as the currency is concerned, the new link will assure a stability in the period ahead. But given the serious inflation problem, it is not at all clear that Sweden can effectively anchor its currency to the ECU for longer than six months.

STRATEGY: *Our previous short position against the DM has not borne fruit. It now would be better to cover it and stand aside. Remain long vis à vis US dollar as per our flash update of April 30, where we recommended selling US dollars.*

Chart 21 — Spot Exchange

Spot	1 Month	3 Month	6 Month	12 Month
6.1180 - 6.1230	6.1435 - 6.1510	6.1935 - 6.2030	6.2625 - 6.2775	6.3660 - 6.3860

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: 1.7080)</u>
Australian dollar	.7555-.7562	.7474-.7485	.7287-.7314	Neutral	Neutral
*Belgian franc	35.08-35.12	35.31-35.39	35.82-39.06	Remain long	Neutral
*Danish krone	6.5450-6.5530	6.5990-6.6160	6.7165-6.7425	Remain long	Neutral
*Dutch guilder	1.9210-1.9220	1.9348-1.9373	1.9675-1.9705	Remain long	Neutral
Finnish markka	4.0470-4.0490	4.1000-4.1050	4.2190-4.2330	Neutral	Remain short
Greek drachma	187.16-187.45	192.15-196.45	207.15-224.95	Neutral	Neutral
Hong Kong dollar	7.7600-7.7650	7.7805-7.7935	7.8100-7.8400	Neutral	Neutral
*Irish punt	1.5705-1.5712	1.5550-1.5567	1.5220-1.5237	Remain long	Neutral
*Italian lira	1268-1269	1284-1286	1327-1331	Remain long	Neutral
Malaysian ringgit	2.7536-2.7546	2.7646-2.7696	2.7950-2.8050	Neutral	Neutral
New Zealand dollar	.5809-.5818	.5753-.5767	.5628-.5658	Remain long	Remain long
*Norwegian krone	6.6500-6.6580	6.7115-6.7245	6.8480-6.8710	Remain long	Neutral
*Portugese escudo	148.90-149.10	150.55-151.10	157.90-160.10	Remain long	Remain long
Saudi Arabian riyal	3.7500-3.7510	3.7500-3.7520	3.7535-3.7565	Neutral	Neutral
Singapore dollar	1.7669-1.7679	1.7664-1.7699	1.7644-1.7754	Neutral	Neutral
*Spanish peseta	105.70-105.80	107.30-107.70	111.60-111.90	Remain long	Neutral

Explanatory Notes

*As per hotline update April 30, 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**Tuesday, April 23:**

Market letter is in the mail.

Friday, April 26:

No changes or new recommendations. Please tune in Monday, after the currency opening for a possible flash, given the G7 meeting this weekend.

Flash update, Monday, April 29:

Liquidate long SF short/JY spread position at market.

This is the second flash update today 1:00 p.m. Liquidate long DM put options at market purchased as per the last letter.

The first flash this morning recommended liquidating long SF/short JY spread positions at market.

Flash update, Tuesday, April 30, 9:30 a.m.:

Yesterday on our flash update we recommended liquidating the DM put options. Today we have a new recommendation. We would like to reinstate our bearish positions in the dollar. Therefore, you may buy DM, SF, JY, and other EMS currencies at market. Our trading preference is the June DM.

Tuesday, April 30:

1. As per our flash update Monday morning, we have liquidated long SF short/JY spread positions.
2. As per our flash Monday at 1:00 p.m., we have liquidated long DM put options, purchased as per our latest letter.
3. As per our flash update this morning, we have reinstated our bearish positions in the dollar. Therefore, we recommended to buy DM, SF, JY, and other EMS currencies. Our trading preference is the June DM.

Friday, May 3:

A wrapup of the week's activities:
Repeat of Tuesday as above.

Tuesday, May 7:

No changes or new recommendations. One reminder: As per our update of Friday April 12, we have bought December 380 gold calls.

Friday, May 10:

No changes or new recommendations.

Flash update, Monday, May 13:

We have the following three new recommendations:

1. Reinstate short positions in crude oil. Sell August crude oil at market, placing initial stops at 2205, close only.
2. Reinstate long DM short/JY spread. Try, if possible, to equate the dollar value of the spread.
3. In our last issue we recommended the purchase of the Canadian dollar on 50 to 75-point dips. We would now like to take a more aggressive posture: Buy September, December, and March call options at the market.

Tuesday, May 14:

As per our flash update of Monday afternoon, we have made the following three recommendations:

1. Reinstate a short position on August crude oil at market, placing initial stops at 2205, close only.
2. Reinstate long DM/short JY equating the dollar value on each side of the spread.
3. Take a more aggressive posture in the Canadian dollar, which you are currently long as per last market letter, and purchase September, December, and March call options at market.

I would like to remind you that you are long, as of April 30, EMS currencies with our trading preference residing in the DM.

Friday, May 17:

There are no changes or new recommendations.

Tuesday, May 21:

There are no changes or new recommendations.

Friday, May 24:

A recap since our last market letter April 21.

New positions:

1. Long June DM, SF, JY, and other EMS currencies at approximately 5749, basis June 91 DM, with stops at 5650, close only. As per our flash Tuesday April 30.
2. Long December 380 gold calls as per our flash of April 12.
3. Short August 1991 crude at approximately 2115 with initial stops at 2205 close only, as per our flash of May 13.
4. Long the DM/short JY spread (dollar weighted) as per our flash of May 13.
5. Long September, December, and March call options in the Canadian dollar as per our flash of May 14.

No other changes or new recommendations. We remind you that US markets are closed on Monday. Have a nice long weekend.

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