

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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### Bull markets

On Tuesday, August 20, in the immediate wake of the failed coup attempt in the Soviet (dis)Union, the Commodity Research Bureau Futures Index fell to a three-year low of 205. Despite ongoing and generally successful efforts by Central Banks to battle inflation, an economy that ambulates at a limp, and gold prices, formerly the barometer of commodity prices in general, that have, since the coup failed, reached fresh five-year lows, we are prepared to declare the following:

*Commodities are in the incipient stage of a major bull market. Leading the parade will be grains and oilseeds and tropical commodities. Of these we favor most: cocoa, sugar, and wheat.*

#### Cocoa

The market has been in a persistent downtrend for 13 years. The relentless decline has acted as the classic invisible hand, directing consumers toward confectionary counters while arresting producers from planting sufficient new crops and/or maintaining adequate husbandry of existing ones.

Over the past 10 crop years (ending in 1990), world absorption of cocoa increased from 1,512,000 metric tonnes to 2,277,000 metric tonnes, or by 50%. The annual rate of increase works out to a compounded annual rate of 4.1%. We should not be surprised to note that over the past three years, consumption increases have been consistently closer to the arithmetic 10-year average, the implication being that a habituated demand base has been created. Applying the 10-year average of increases in grindings (demand) to the 1991 and 1992 crop years, we estimate the former at 2,368,000 metric tonnes and project the latter at 2,462,000 metric tonnes.

Cocoa supply has exceeded demand in all but two of the past 10 years: 1982 and 1983. The accumulated surplus is estimated by the trade at 1.5 mln tonnes. This surplus represents an extremely onerous eight-month supply. However, what is unknowable is how much of these stored stocks remain unspoiled. Certainly any revision of cocoa inventory, were there to be one, would be expected to be toward the downside.

Cocoa production is concentrated in seven countries: Brazil, Cameroon, Ghana, Indonesia, Ivory Coast, and Malaysia. Malaysia is a recent addition to the group having increased its production by 250% over the past five years. This year (1990-91) Malaysian production is estimated to

drop — by 11,000 tonnes to 230,000 tonnes — for the first time since plantings began in that country in the 1960s. The implication is that Malaysian production has achieved a plateau.

Brazil, the world's second largest producer behind Ivory Coast is expected to harvest 26% fewer beans this year than last, which would put their final output at approximately 265,000 tonnes. The shocking decline comes as a direct result of crop neglect and substitution, both caused by uneconomical prices. Given the long growing cycle of the cocoa plant — it takes four years to mature and then yields fruit for an average of 20 years — it is not inconceivable that Brazil could lose its status as a major producing nation much in the same way Ghana did beginning 15 years ago. That country, which produced in the neighbourhood of 400,000 tonnes in the early 1970s, shed 60% of its production by 1983. It was undoubtedly the market's early perception of Ghana's emerging inability to produce that was one of the salient factors that inspired the bull market of 1974-75. Seasoned clients will recall gleefully our capture of the better part of that move.

Which leaves us with Ivory Coast. The Ivory Coast became the world's largest Cocoa producer at Ghana's ex-

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Contributions by Albert D. Friedberg, David B. Rothberg, 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.

pense. Lagging the decline in Ghanaian production by a period of two years, harvests in Ivory Coast increased steadily: from 150,000 tonnes in 1969-70 to a peak of 850,000 tonnes in 1988-89. Since that time Cocoa harvests have declined. The major reason for the decline has been a halving of the producer price the government paid to growers from CFA Fr. 400. At current levels the producer price is hardly competitive with free-market levels. The incentive to produce is now no greater than it is anywhere else in the world and neglect can be expected to become a factor as it has in Brazil.

If we assume that demand growth has been institutionalized so to speak at an annual rate of 4%, where, other than from the accumulated surplus, is the supply going to come from to meet it? At a 4% rate, consumption will increase by about 100,000 tonnes a year. If, as is not at all unlikely, Brazil and Ivory Coast suffer production declines of 10% annually from current levels, availability will be reduced by approximately another 100,000 tonnes a year. In 1991-92 the accumulated surplus of 1.5 mln tonnes would become 1.3 mln tonnes or 56% of consumption. In 1992-93 the surplus would be reduced to 1.1 mln tonnes or to 44% of consumption. And in 1993-94 the surplus would be reduced to 900,000 tonnes or to 35% of consumption. It is at this point that the market is left extremely vulnerable.

The question is now begged: Why, if it will take three years for the market to work off the current stock overhang to

vulnerable levels should we be buyers today? And the answer is: The market is too efficient to allow us an entry level offering anything approximating the risk/reward ratio currently available. Cocoa prices at current levels are, on an inflation adjusted basis, cheaper than they have been at any time since 1965, save for the values descended to during the past three months of 1991. In addition the scenario described above is, if anything, conservative.

We subscribe to a private weather forecasting service called Atlas, based in Urbana, Illinois. The company makes the case that the eruption of Mount Pinitubo in June has shrouded the earth's stratosphere resulting in deflection of solar radiation of 10% to 15% back into space. Weather is expected to be cool and wet beginning in the current crop season, which is beginning now in the Southern Hemisphere. Nothing could be worse for cocoa. Cold, wet weather acting upon inadequately husbanded crops would reduce yields such that world availability could easily decline by 200,000 tonnes a year as it did in 1972, '75, and '76 (equal on a year-over-year percentage basis).

With every possibility for error being in support of the bullish case, and the price being as low as it is, a commodity speculator not long cocoa is missing an opportunity not seen since the days of disco.

**STRATEGY:** We strongly advise purchase of 1992 contracts at market in the expectation of a dizzying climb higher.

Chart 1  
N.Y. Cocoa

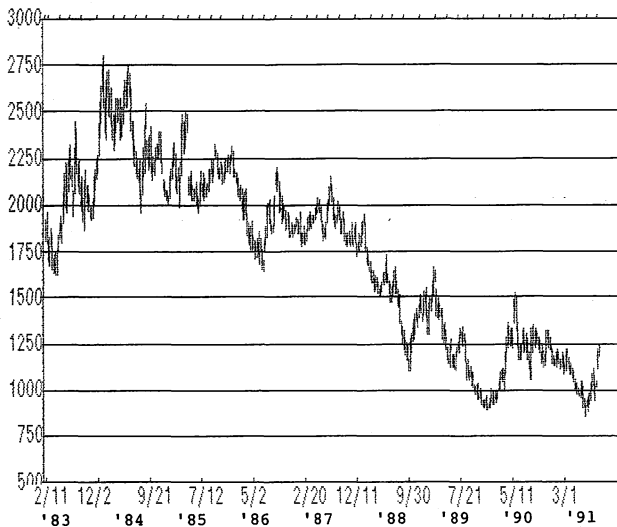
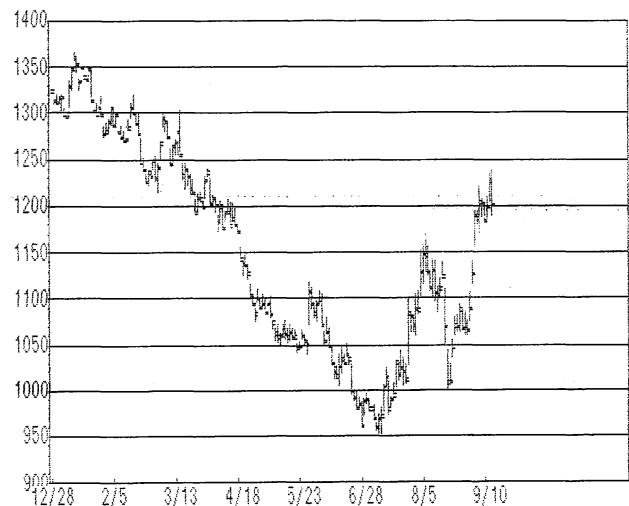


Chart 2  
N.Y. Cocoa Dec '91



**Sugar**

The case for sugar was made in our last month's issue. Since then, Czarnikow and E.D. & F. Mann (both respected industry statisticians) have issued estimates for the upcoming

1991-92 crop year. The former predicted a 100,000 tonne deficit, the latter, on Sept. 12, a 2.1 mln tonne surplus. In response the market has held steady near the top of the trading range as though gathering strength before testing the

mid-summer highs, volume is modest, open interest remains steady at a relatively unencumbered 100,000 lots (approximate), the October/March switch has narrowed as October moves into liquidation, and a slight premium has developed in March/May.

What does this mean? Why have futures not oscillated wildly in response to the projected numbers. A 2.1 mln tonne surplus is unquestionably fodder for bears. If we believed it, we could not justify holding the long position we do — let alone the fantasies the position represents.

We don't believe it and neither, evidently, does the market. The caveats to reliability this year are simply too large. They are weather and how it will effect the EEC beet crop and the Indian cane crop and, of course, the Soviet (dis)Union.

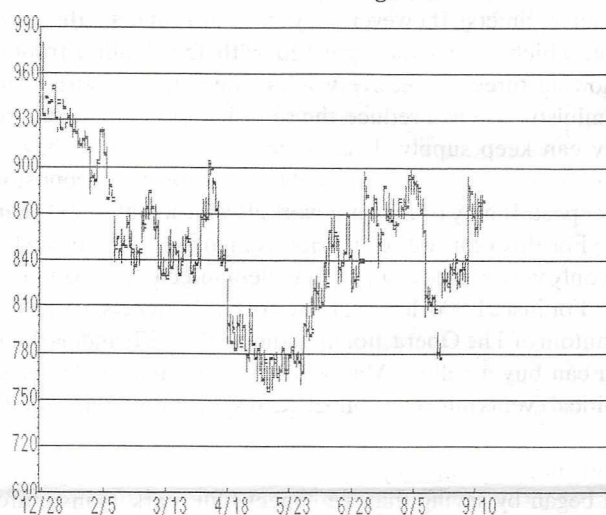
The Soviets consumed, last year, 13.6 mln tonnes of sugar — they are the world's largest consumers. Of that amount, 9.0 mln tonnes they produced themselves and 4.6 mln tonnes they imported, from Cuba. Now the Soviets have decided not to renew the agreement they've had with Cuba. In addition, given the economic chaos, the consensus is that what scarce capital is available will be devoted to grains, not to sugar imports, which in the minds of the West, are luxuries not befitting a nation on the verge of starvation. Soviet consumption is therefore expected to decline. Worse, the Cuban/Soviet purchasing agreement has not been renegotiated, and Cuban sugar is expected to be dumped onto the world market.

This scenario is laughably ill-conceived. The sugar the Soviets got from Cuba was purchased in exchange for oil. The swap was arranged at subsidized prices highly favorable to Cuba. In effect, the Soviets have been paying Cuba approximately four times the world price for the commodity. The net effect of the Soviet factor should be that Boris Yeltsin *et alius* will have four times as much money available in their sugar budgets to help mollify populations now habituated to the sweetener, and Cuba will have one quarter the incentive to maintain its current production, which at 7.5 mln tonnes is the fourth largest in the world behind the EEC, India, and the Soviet Union.

On the weather front, poor growing conditions in the April-June period have resulted in lower sugar content in European beet plantings. As mentioned in our discussion of cocoa, we are advised of imminently adverse growing conditions as a result of the eruption of Mt. Pinatubo. We note that in the growing seasons immediately following the last major eruption — of Mt. Chicon in 1981 — Indian cane production fell from 10.8 mln tonnes to 9.5 mln tonnes and the next year to 7.0 mln tonnes, while Thai production fell from 2.75 mln tonnes to 2.3 mln tonnes. Declines by equivalent percentages today in those two countries alone would put supply as low as 107 mln tonnes and create a deficit of as much as 6 mln tonnes.

**STRATEGY:** Roll previously recommended outright October positions into March. May and July 10 cent call options represent excellent investments for the risk averse.

Chart 3 – N.Y. #11 Sugar Mar '92



## Wheat

The current Soviet situation evokes recollections of that first time the Soviets were in need of food supplies in 1972 and came to the United States asking for help. The Americans were more than happy to employ food as a political tool; they sold the better part of the 500 mln more bushels than they exported the year before to the Soviets and the price of wheat spurted nearly 500% from \$1.50 to \$6.50 a bushel.

This year (1991-92) the Soviets are expected to harvest 85.5 mln tonnes, 22.5 mln tonnes less than they did last year. Given that the EEC crop, at 88.5 mln tonnes is 20% less than last year's; Australia's, at 11.5 mln tonnes, is 24.5% less than last year's; and Argentina's, at 9.0 mln tonnes is 14% less than it was last year; and taking into account the credit risk, which among wheat producing nations it is in no country's interest other than the EEC's, Canada's, and the USA's to assume, where, other than Canada and the US, will the Soviets find willing sellers of food desperately needed to feed populations in a state of potentially tragic transition this coming winter?

Assuming Canada satisfies as much as 7.0 mln tonnes of wheat — a not unreasonable estimate given that at 32.5 mln tonnes we are the only major wheat exporting nation whose crop compares with last year — and assuming further that the republics curtail consumption by a further 5.0 mln tonnes, to 113.0 mln tonnes usage, this leaves demand from the US at 10.0 mln tonnes.

In 1972, stocks as a percentage of disappearance stood at an extremely onerous 58%. Today, stocks as a percentage of disappearance stand at 18%, the lowest in a quarter century. Exports of an additional 10.0 mln tonnes would reduce the stocks-to-usage ratio to unheard of levels. What will the USA do?

It's a political call. Our opinion is that food will be used as a political tool just as it was nearly 20 years ago; that the Bush administration will bypass the banks — who are so wary of international lending to high-risk Third World economies that they will not accept guarantees of 98% of the principal and 4.4 percentage points of the interest — and force the American taxpayer or perhaps Japanese bondholder — to

accept the risk in order to gain a) an entree into the new Soviet regime(s) (however they develop), and b) the farm vote, which is less than pleased with the Administration, following three successive years of declining exports. The Administration will reduce the set-aside program, assuming they can keep supply/demand-inspired inflation at bay by allowing farmers, next year (1992-93) to plant fencepost to fencepost. It may or may not work. Besides, that's next year.

For this year, we see a price as high as \$6.00 a bushel as the only way to ration supply and demand back to normal.

For just \$1,000, less than the cost of 10 tickets to see The Phantom of The Opera, not including PST, GST, and parking, you can buy a call on May wheat futures and render these political events into a once-in-20-year speculative opportunity.

**Conclusion**

We began by saying that we expect bull markets in futures prices, and we have evoked throughout discussion of our favorite markets recollections of the early '70s, the era in which nearly the entire futures board soared to record highs. Not so much to qualify, but rather to put into perspective the

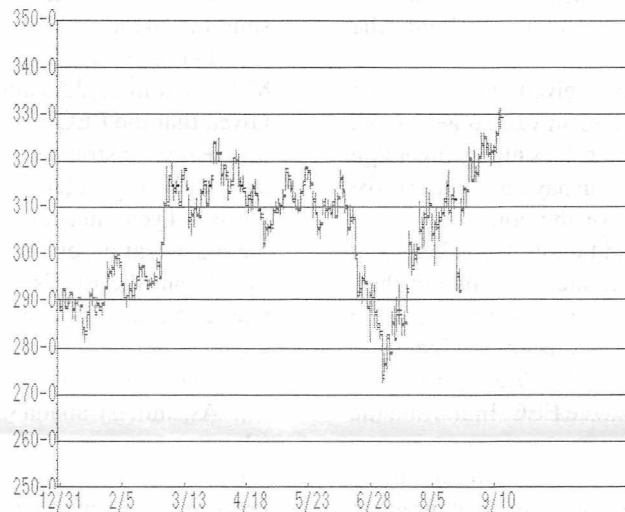
current situation, we must point out, as we did last month in our discussion of sugar, that the early '70s were a period in which the dollar was, in effect, devalued against the currencies of the major economic nations by nearly 50% in the wake of Richard Nixon's dismantling of Bretton Woods, and inflation began its upward spiral, dragging along with it interest rates, which by 1982, finally reached 22%.

Today's environment is different. International traders have accommodated themselves to floating currencies, and inflation is down to 3% to 4% in the major industrialized nations.

But, currencies still oscillate such that dollar-denominated assets must continually be revalued. And inflation, with money supply continuing to grow, shows no sign at all of abating altogether. In a world of generally rising prices wherein some assets depreciate — witness real estate, the most dramatic example — others must rise. Cocoa, wheat, and sugar, all of which have fundamentals similar to those which affected them in the early '70s, are three such markets and harbingers of what's to come.

— David B. Rothberg

Chart 4  
CBT Wheat Dec '91



**US DOLLAR**

**Still, a long way down**

The trap has been firmly shut on dollar bulls; multinational corporations and institutional investors are about to pay dearly for their pseudo-sophistication. Building on the theme of economic convergence, i.e., a coming US recovery and the onset of a West European, primarily German, recession, superimposed on Soviet instability, these megabuck investors bid up dollars with abandon. The case for DM1.90 to DM2.10 looked particularly good based on flimsy purchasing power

parities that can be used to justify practically anything.

During those trying spring/summer months, we stressed that the dollar rise was a bubble, waiting to be pricked by serious and determined Central Bank action. Interestingly enough, it took only one bout of concerted intervention (July 12) to reverse this speculative play, as we had anticipated (see our June 20, 1991, issue "Will they (finally) prick the bubble" and August 5, 1991, "CAV\* OK!").

Who were the *sellers* of dollars? It now appears that the supply came primarily from individual investors, enticed by favorable yields and too stupid to foresee the all-too-obvious change in economic fundamentals. This is a typical money-in-the-pocket phenomenon, and here is how it works. In the spring and summer, DM deposits were yielding 300 to 350 basis points more than US deposits, but were *expected* to lose this favorable yield spread and then more as their economy lost steam *vis à vis* the US. Sophisticated investors (believers of this scenario) would place their bets with the US dollar while unsophisticated investors (agnostics) would enjoy the extra returns available on DM and press for proof that a change was indeed in the offing.

In economic matters, non-believers who can put some money in their pocket while they entertain a bet on a future event are almost always better off than their counterparts. And, of course, the greater the opportunity cost, the more difficult the task for the bettor who bets on a change of trend.

While the speculative bandwagon is in force and the dollar can fall 7% per month as it did in the January to April span, it is not too difficult to ignore an annual 325 basis point disadvantage. It is an entirely different situation when the greenback is on the defensive. The burden of proof on the dollar bulls is now so heavy as to strain the credibility of the least reasonable investor.

In fact, economic *momentum* in West Germany and the US continues to diverge. Defying gravity, the West German economy presses ahead: Data for second quarter GNP show a year-to-year real gain of 4.3%, industrial production and retail sales maintain their upward momentum, while inflation fails to subside with year-over-year CPI at 4.1% and year-over-year average hourly earnings rising 6.6%.

At the same time, economic activity in East Germany seems to have stopped deteriorating: For the first time since reunification, the numbers out of work *fell* 5,400 to 1.06 million, leaving overall the official jobless tally at 12% of the workforce. However, the number of workers on short time fell 160,000 to 1.45 million. According to Matthias Wissman, economic head of the governing CDU/CSU parliamentary faction, through mid-1991, 375,000 new companies had been established, 2.4 million people had found new jobs between the end of 1989 and March 1991 and nearly a million jobs had been created in the period. More importantly, he was especially encouraged about the recent interest foreign companies have shown in investments in East Germany.

As a direct result of the domestic boom, Germany's current account surplus has all but disappeared. In the year to July '91, the trade surplus narrowed to \$23.3 billion. With the prospect of recovery in East Germany, investment requirements are likely to exceed domestically-generated savings; a widening current account deficit should accommodate these financing requirements. Alternatively, the Bundesbank will

be forced to raise interest rates again, to promote a higher savings rate and more accelerated capital inflows.

The US economy, on the other hand, continues mired in recession despite official pronouncements that the recovery is on. Prospects for a genuine re-expansion are *exceedingly poor*. Consumers, burdened with record debt (see Chart 5) and apprehensive about continuous layoffs (which for the third quarter have already exceeded the record of 110,000 job reductions announced in the first quarter — as reported by Chemical Bank's chief economist Joseph Carson in the *Weekly Review and Outlook* of Sept. 13 are exhibiting very sluggish behavior. Over the past three months to August, nominal retail sales show no growth; early September car sales came in an annual rate of 5.5 million units, down sharply from the 6.9 million units at this time last year.

In fact, the case for a long, drawn-out recession/depression is *stronger* than the case for a recovery. Not only is the consumer overburdened with debt, but his real earnings are lower today than they were at the bottom of the 1981-82 recession (see Chart 6)!

In retrospect, the large rise in real disposable income in 1983-84 caused by the domestic fall in inflation of the early '80s (from an annual rate of 15% to below 2%) and the Reagan tax cuts, jump-started the economy into the longest expansion in history. It was fuelled by easy credit and the willingness of lenders to ignore the absolute ratios of debt/income so long as disposable income was growing. By way of contrast, real earnings in August 1991 were down 0.6% from a year earlier despite the 1.1% uptick from July '91.

*Disposable* income is likely to be even weaker as state and municipal taxes in the US are on the rise. Lenders are becoming increasingly wary despite rising lending margins, as default rates swamp historical rates. Should consumer credit contract in earnest — and there is every reason to believe it could, given weak and falling real income, record levels of consumer debt, skyrocketing default rates and continued layoffs — the recent sluggishness in consumption will turn into a rout.

Aware of this danger, the Fed is likely to ease again and again, but to no avail. Repeating what we have said *ad nauseam*, easy money can only bring about asset and/or price inflation. It cannot turn around the real economy.

Clearly, all hopes of economic convergence between the US and Germany are premature, at best. The dollar bulls should focus their minds, instead, on the prohibitive cost of selling forward nearly every major currency in the world. And leave the theorizing to academic and government economists.

**CONCLUSION:** *Remain firmly short US dollars. Our preferred vehicles remain the DM, the remaining EMS currencies, the Japanese yen and the Swiss franc, in that order. Lower stops to DM1.75/\$, NY close only.*

Chart 5

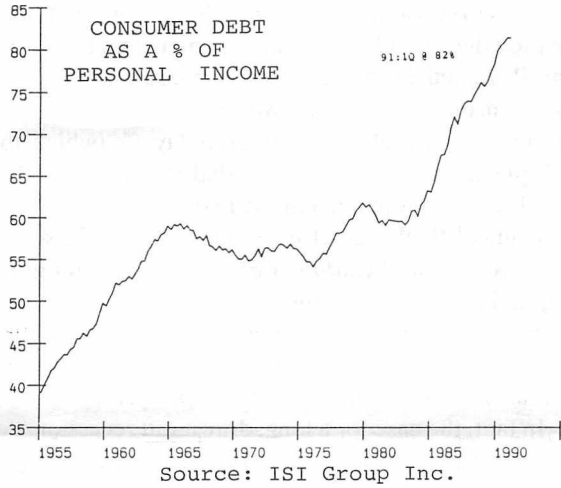


Chart 6

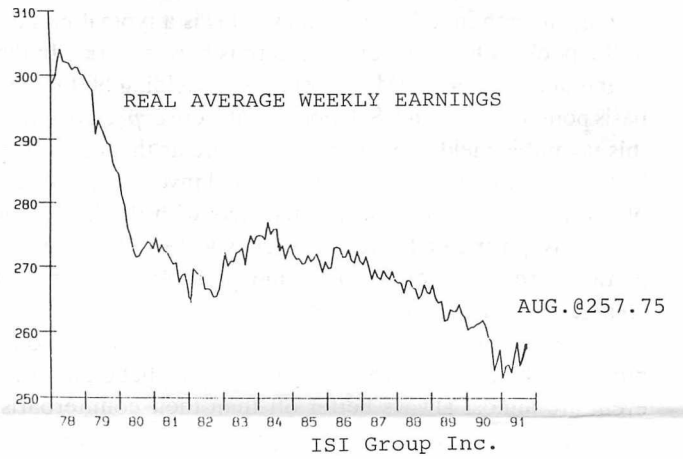


Chart 7  
CME Deutsche Mark

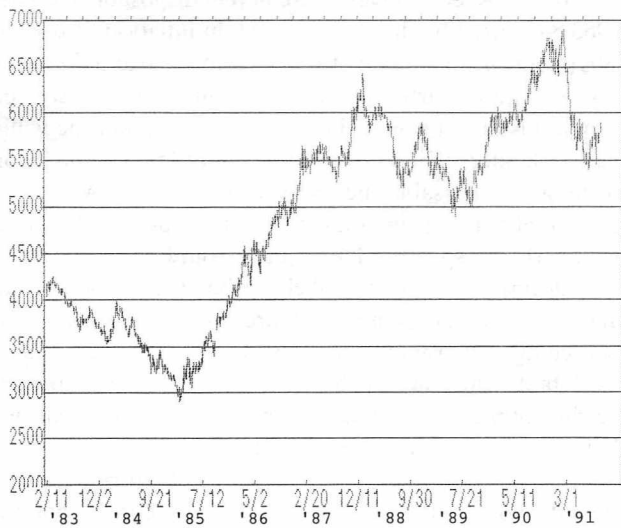


Chart 8  
CME Japanese Yen Sep '91

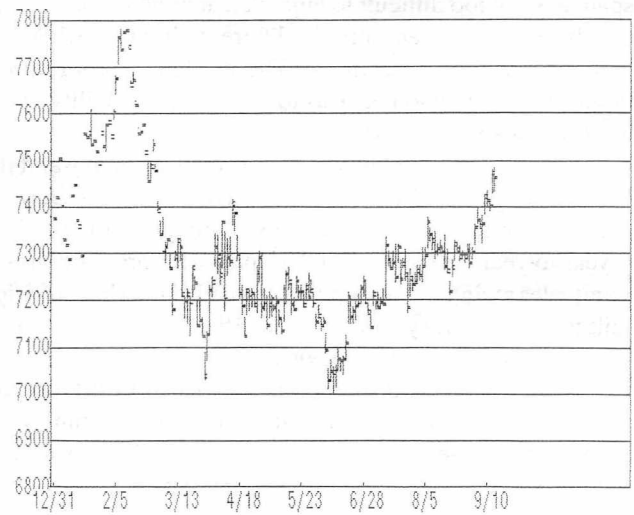
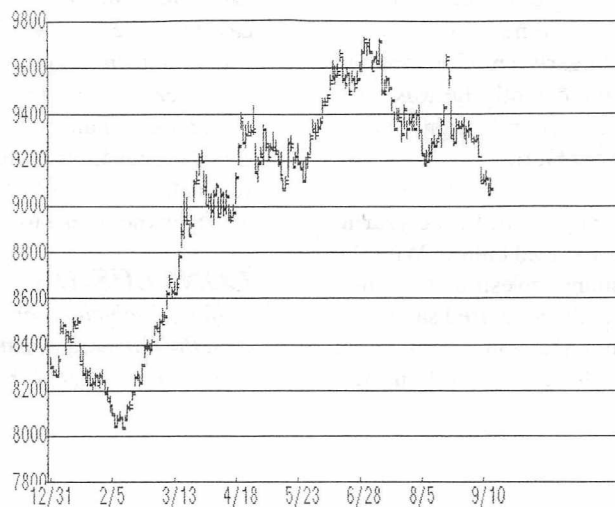


Chart 9  
CEC US D Index Spot



**CANADIAN DOLLAR**

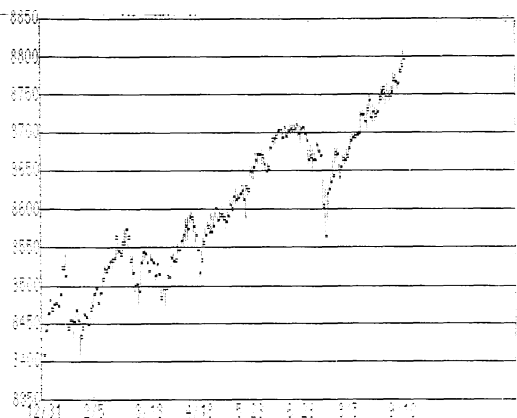
# Strength continues

The implicit monetarist target imposed by the Bank of Canada forces it to sterilize US dollar sales undertaken to smooth the powerful uptrend of the Canadian unit. As a result, yield spreads remain favorable to Canada and M2 year-over-year growth continues to moderate (see Chart 11).

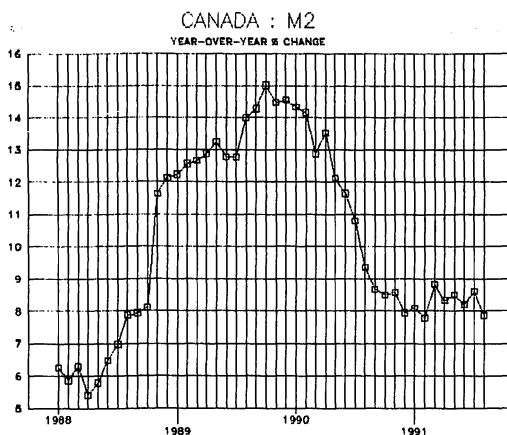
At the same time, federal (see Chart 12) and provincial budget deficits continue to widen. Thus, all the ingredients are present for a strong currency.

**STRATEGY:** *We remain long via futures and (still very) cheap call options.*

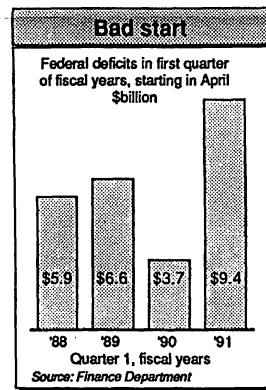
**Chart 10**  
CME Can. Dollars Sept '91



**Chart 11**



**Chart 12**



Source: The Globe and Mail

**T-BONDS**

# Danger point

Our economic scenario (see Page 4) calls for continued weakness, with a possible *downside acceleration* in momentum over the coming months. Inflation remains stuck at around 4% to 5% per annum, with *little* or no chance of deflation on a year-over-year basis.

In desperation, the Fed may allow short-term rates to fall to the low 4% range, at which point, interest rates become negative, the dollar collapses, and inflation reaccelerates.

While for now 30-year T-bond yields at 7.93% still look attractive, it is a fool's game. More and more, the present scenario is reminiscent of the early '70s, when a sluggish economy was injected with ever increasing doses of money. Witness the most recent year-over-year rates of growth of the Adjusted Monetary Base (8.4%) and M1 (6.2%) — in disregard of the long lags operating in the money supply/inflation causation formula.

**CONCLUSION:** *Remain long half positions (we were unable to purchase the other half as per our limit of 94½ or better) established last month at just under 96, basis September '91; roll over to December '91 and place stops at 96, close only.*

**Chart 13**  
CBT T-Bond (day) Dec '91



**STOCK INDEXES**

# Benefit of the doubt

Sensing *reflation*, not recovery, stock prices float in the stratosphere, devoid of any fundamental support.

The speculative juices flow unabated; the small-capitalization-dominated Value Line Index, which handily outperformed the staid S&P 500 during the first six months of the year, threatens to break out again into a new high (see Chart 14). Medical and bio-technology issues continue their mania-like advance, scoring, as a group, almost daily highs.

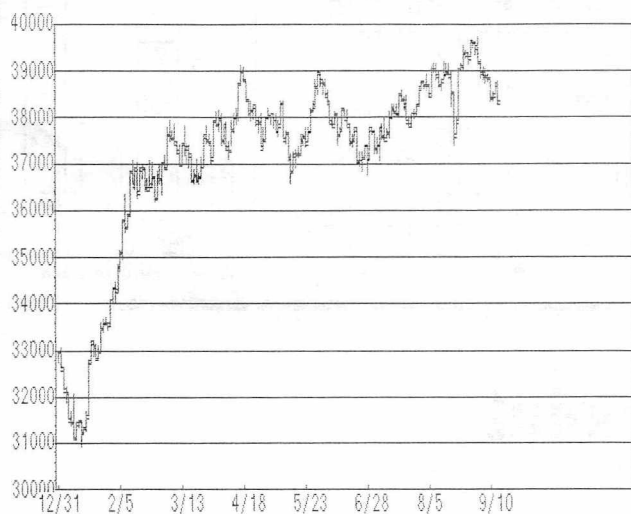
The most recent sell-off is disturbing in that it began after

widely watched indexes had barely reached new highs. Given the superior performance of the junior indexes and overall breadth, we are giving this bull market the benefit of the doubt, provided it does not close below 375.00, basis cash S&P 500.

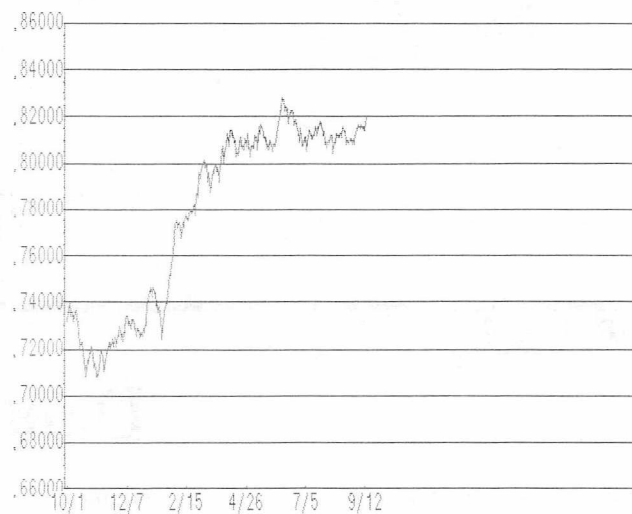
**STRATEGY:** Retain call options as long as our 375.00 stop is not violated.

Retain profitable long Value Line/short S&P 500 dollar weighted spread (see Chart 15).

**Chart 14**  
CME S&P 500 Index Nov '91



**Chart 15**  
Value Line / S&P



**FRIEDBERG CAPITAL MARKETS**

## Alliant Computer Systems Corporation

Alliant 7¼%, due 15/05/2012, convertible  
Recent price: 20½  
Yield to maturity: 38.5%

The company put in a rather poor performance for the quarter ended July 1991. The losses from operations of \$2.0 million in the second quarter and \$4.9 million in the first half of 1991, compared with a loss of \$0.6 million and income of \$0.7 million in the corresponding period of 1990, were a function of lower than expected sales of the FX/2800 system

family, the effects of which were somewhat mitigated by reductions in expense levels. As an example, selling, general and administrative operating expenses dropped from \$8.5 million at June 30 1990 to \$5.8 million as at July 1, 1991.

While losses persist, the company's cash position remains relatively healthy at \$14.9 million. Net working capital as of July 1, 1991 stands at \$18.5 million, which compares favorably with total long-term debt of \$39.2 million (the entire convertible bond issue, which is now being valued by the market at a mere \$8 million) plus \$2.5 million in lease obligations.

# Pacific Scientific Co.

**Pacific Scientific 7¾%, due 15/06/03, convertible**  
**Recent price: 76½**  
**Yield to maturity: 11.76%**

Sales in the first half of 1991 were \$88.6 million, which represents a 3% decline in sales from the same period in the prior year. This decline in sales was primarily due to the overall weak demand by intermediate manufacturers who are one of the primary users. The company believes that internally-generated funds will provide sufficient capital resources to finance operations, fund planned capital expenditures, pay interest and dividends on outstanding debt and preferred stock, and reduce outstanding debt.

### Recommended bond portfolio allocation for new portfolios

For new portfolios, we recommend the following investments:

DM and/or ECU fixed-rate bonds	60%
US dollar high-yield or convertible bonds	25%
New Zealand dollar bonds	15%

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**Chart 17**  
**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, SAR, DKr, BP, FFr, Cdn, ECU) or revalue (for JY, SF) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. **Rates as of September 13, 1991.**

	US. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT	CANADIAN DOLLAR	SOUTH AFRICAN RAND***
1 year	5.56%	CIBC 14%, 27/7/92. yields 8.39% (.5696 NZ/US)	Gen. Elect. 14%, 92 yields 8.85% (.7721 A\$/US)				Denmark 9%, 92. yields 9.32% (6.750 Dkr/US)				Canada 10%, 92 yields 8.17% (1.179 US/CD)	
2 year	6.20%	Tourist-Hotel 0%, 93 yields 9.14% (.5538 NZ/US)	World Bank 12%, 93 yields 9.09% (.7545 A\$/US)	E.I.B. 5½%, 93 yields 8.01% (1.746 US/DM)		Canada 5½%, 93. yields 5.85% (133.57 US/JY)		Sweden 9%, 93 yields 9.48% (1.640 BP/US)				ESCOM 11%, 93.** yields 15.99% (.2656 US/SAR)
3 year	6.53%		CBA 14%, 94. yields 10.85% (.6790 A\$/US)									
4 year	6.76%			Sweden 7¼%, 95 yields 8.55% (1.804 US/DM)					EIB 8¼%, 95. yields 8.57% (6.149 FFr/US)			
5 year	7.16%			Bk. of Nova Scotia 5%, 96. yields 8.81% (1.822 US/DM)							Ontario Hydro 10% 96. yields 9.58% (1.271 US/CD)	
6 year	7.33%			World Bank 5½%, 97 yields 8.76% (1.828 US/DM)								
7 year	7.51%				Australia 5%, 98 yields 6.34% (1.369 US/SF)							
10 year	7.69%									UK, 9¼%, 21/2/01 yields 8.75% (1.10 ECU/US)		
Spot Exchange Rate	N/A	.5849	.7962	1.688	1.4787	134.45	6.518	1.732	5.749	1.2131	1.1367	.3169

\*For example, since a US\$-based investor would receive 979 basis points (1599-620) by holding the ESCOM SAR bond, the SAR can depreciate to .2656 US/SAR from the present spot exchange rate of

.3169 US/SAR over the next 2 years for the SAR investment to break even with current US\$ rates of interest. Assumes that bonds are held to maturity, and coupons are reinvested.

\*\*\*NOTE: These bonds pay interest in commercial rand, which presently trades at a premium to the financial rand used for this table.

# FRIEDBERG'S

## Chart 16 Foreign Currency Bonds

Date: September 12, 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 Maturity	NEXT PAY DATE
<b><u>SOUTH AFRICAN RAND DENOMINATED BONDS</u></b>				
FSCOM 11% 31/10/93 (semi)	90.55	-81.30	15.99%	Oct. 31
<b><u>DEUTSCHE MARK DENOMINATED BONDS</u></b>				
KINGDOM OF SWEDEN 7 1/4% 1/2/95	95 1/2	-96 1/4	8.55%	Feb. 1
EUROPEAN INV. BANK 5 1/2% 9/8/93	95	-95 3/4	8.01%	Aug. 9
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	87 1/2	-88 1/4	8.81%	May. 7
WORLD BANK 5 7/8% 4/2/97 RRSP eligible	87 1/4	-88	8.76%	Feb. 4
QUEBEC HYDRO 5 1/2% 1/5/96 RRSP eligible	85 1/2			May. 1
<b><u>SWISS FRANC DENOMINATED BONDS</u></b>				
GOVT. OF AUSTRALIA 5% 30/10/98	90 1/2	-92 1/2	6.34%	Oct. 30
<b><u>DANISH KRONE DENOMINATED BONDS</u></b>				
KINGDOM OF DENMARK 9% 20/11/92	98.85	-99.60	9.32%	Nov. 20
<b><u>ECU DENOMINATED BONDS</u></b>				
UNITED KINGDOM 9 1/8% 21/02/01	101 1.2	-102 1/4	8.75%	Feb. 21
<b><u>BRITISH POUND DENOMINATED BONDS</u></b>				
KGDM of SWEDEN 9 3/8% 14/4/93	99	- 99 3/4	9.48%	Apr. 14
<b><u>FRENCH FRANC DENOMINATED BONDS</u></b>				
EUROPEAN INV. BANK 8 3/4% 12/7/95	99 3/4	-100 1/2	8.57%	Jul. 12
<b><u>JAPANESE YEN DENOMINATED BONDS</u></b>				
GOVT. OF CANADA 23/7/93 5 5/8% RRSP eligible	98.85	- 99.60	5.85%	Jul. 23
<b><u>CANADIAN DOLLAR DENOMINATED BONDS</u></b>				
ONTARIO HYDRO 10 7/8% 08/01/96 (semi annual)	103	-104.45	9.58%	Jul. 8
GOVERNMENT OF CANADA (semi annual) 05/09/92 10 3/4	101.58	-102.33	8.17%	Sep. 5
<b><u>NEW ZEALAND DOLLAR DENOMINATED BONDS</u></b>				
CDN. IMP. BANK OF COMMERCE 27/07/92 14% RRSP eligible	103 1/2	-104 1/4	8.39%	Jul. 27
TOURIST HOTEL 0% 04/06/93	85 3/8	- 86 1/8	9.14%	matures Jun. 1993
<b><u>AUSTRALIAN DOLLAR DENOMINATED BONDS</u></b>				
General Electric 11/07/92 14 1/4% (semi)	103 1/2	-104 1/4	8.85%	Jul. 11
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	106 3/8	-107 1/8	10.85%	Jul. 1
WORLD BANK 15/03/93 12 3/4% RRSP eligible	104	-104 3/4	9.09%	Mar. 3
<b><u>U.S. DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS</u></b>				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03 (semi) CV @\$38 p/sh	74 1/2	- 76 1/2	11.76%	Dec. 15
ALLIANT COMPUTER 7.25% 15/05/12 (semi) CV @\$39.75 p/sh	19 1/2	- 20 1/2	38.56%	Nov. 15
COOPER CO'S. 10 5/8% 01/03/05 (semi) CV @\$27.45 p/sh call in 1995 @100	82 1/2	- 84	13.63%	Mar. 1
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @\$39.50 p/sh	24 1/2	- 27	22.43%	Mar. 1
BURNUP & SIMS 12% 15/11/00 (semi) CV @\$19.25 p/sh	53	- 55 1/2	25.78%	Nov. 15
<b><u>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</u></b>				
SOUTHMARK 12% 10/8/97 (semi)	57 1/2	- 64	7.86%	Jan. 15
<b><u>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</u></b>				
UNITED KINGDOM 24/9/96 3 mo. LIBID-1/8 (qly) *callable @100 09/91	99.80	-100.10	5 15/16	Sept. 30
REPUBLIC OF ITALY 30/4/93 3 mo Limean (qly)	99.37	- 99.77	6 1/32	Oct. 31

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

**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: 1.6870)</u>
Australian dollar	.7967-.7972	.7889-.7896	.7667-.7682	Neutral	Neutral
Belgian franc	34.72-34.77	35.01-35.11	35.81-36.01	Remain long	Neutral
Danish krone	6.5000-6.5050	6.5655-6.5765	6.7385-6.7585	Remain long	Neutral
Dutch guilder	1.8955-1.8965	1.9132-1.9149	1.9595-1.9625	Remain long	Sell
*Finnish markka	4.1100-4.1150	4.1850-4.1980	4.3032-4.3161	Neutral	Neutral
Greek drachma	186.70-187.00	191.70-196.00	210.70-221.00	Neutral	Neutral
Hong Kong dollar	7.7480-7.7495	7.7440-7.7485	7.7755-7.7870	Neutral	Neutral
Irish punt	1.5860-1.5875	1.5685-1.5740	1.5260-1.5400	Remain long	Neutral
Italian lira	1.260-1.261	1.278-1.280	1.332-1.336	Remain long	Neutral
Malaysian ringgit	2.7550-2.7570	2.7800-2.7880	2.8080-2.8500	Neutral	Neutral
New Zealand dollar	.5855-.5865	.5804-.5817	.5673-.5693	Remain long	Remain long
*Norwegian krone	6.6000-6.6050	6.6755-6.6855	6.8710-6.8910	Buy	Neutral
Portugese escudo	144.60-144.80	147.10-148.30	156.10-158.80	Buy	Remain long
Saudi Arabian riyal	3.7500-3.7508	3.7493-3.7513	3.7515-3.7538	Neutral	Neutral
*Singapore dollar	1.6980-1.6995	1.6970-1.7010	1.6930-1.7045	Buy	Neutral
Spanish peseta	105.80-105.90	107.53-107.71	112.00-112.30	Remain long	Neutral
*Swedish krona	6.1200-6.1250	6.1905-6.2000	6.3840-6.4040	Buy	Neutral

**Explanatory Notes**

\*New Recommendation.

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, August 6:**

There are no changes or new recommendations.

**Friday, August 9:**

There are no changes or new recommendations.

**Tuesday, August 13:**

There are no changes or new recommendations. Keep in close contact with the Hotline service for possible re-entry into the long side of sugar at the market.

**Flash Update, Wednesday, August 14, 1:37 p.m.:**

This is a flash update to reinstate immediately long positions in October sugar at the market. Risk a close below 8.10.

**Friday, August 16:**

There are no changes or new recommendations. Repeating the flash update for Wednesday, August 14, 1:37 p.m., reinstate immediately long positions in October sugar at the market. Risk a close below 8.10.

**Flash update, Tuesday, August 20, 9:50 a.m.:**

Reinstate short positions in December crude oil at the market. Place stops at 2273, anytime.

**Flash Update, Tuesday, August 20, 11:05 a.m.:**

Buy September D-mark at the market, currently trading at 5548. Please keep in close contact for further information. Repeating this morning's flash update at 9:50 a.m.: Reinstate short positions in December crude oil at the market. Place stops at 2273, anytime.

For Tuesday, August 20, we repeat this morning's flash updates at 9:50 a.m.; reinstate short positions in December crude oil at the market; place stop at 2273, anytime. Flash Update at 11:05, buy September D-mark at the market, currently trading at 5548. Please keep in close contact for further information. There are no other changes or new recommendations.

**Thursday, August 22:**

Buy October sugar at the market. Place stops at 792, close only.

**Friday, August 23:**

Good afternoon. There are no changes or new recommendations. The following is a repeat of the Hotline Update for the past week. For Tuesday, August 20, 9:50 a.m., reinstate short positions in December crude oil at the market; place stops at 2273, anytime. At 11:05 am Tuesday, buy September D-mark at the market, currently at 5548. For Thursday August 22, 1991, buy October sugar at the market; place stops at 792, close only. Have a great weekend.

**Tuesday, August 27:**

Good afternoon. There are no changes or new recommendations. Place stops on long D-Mark positions at 5555 stop close, basis September. These positions were established on August 20.

**Friday, August 30:**

There are no changes or new recommendations. The following is a repeat of the Hotline Update: For Tuesday, August 27, there were no changes or new recommendations. We placed stops on the D-mark positions at 5555 stop close, basis September. These positions were established on August 20. Have a wonderful long weekend.

**Tuesday, September 3:**

Good afternoon for Tuesday, September 3. There are no changes or new recommendations.

**Friday, September 6:**

Good afternoon for Friday September 6. There are no changes or new recommendations. The next update will be Wednesday, September 11.

**Wednesday, September 11:**

There are no changes or new recommendations.

**Flash Update, Friday, September 13, 9:55 a.m.:**

Good morning. This is a Flash Update for Friday, September 13. Cover short crude oil positions at the market.

**Friday, September 13:**

This is a complete summary since our last market letter dated August 5, 1991, of all liquidations of open positions, and new recommendations that remain outstanding.

On August 14, we reinstated long positions in October sugar at approximately 8.55; stops were placed at 810, good anytime.

On August 20, we reinstated short positions in December crude oil at approximately 2205; we placed stops at 22.73, good anytime. Also on August 20, we purchased September DM at approximately 5548.

On August 22, having been stopped out of our previous October sugar long positions, we reinstated it at 8.57, placing stops at 792, close only.

This morning, Friday, Sept. 13, at 9:55 a.m., we advised covering all short positions in crude oil at market. December was trading at 21.50.

Have a great weekend! Thank you for calling.

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