

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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Fleeting images of another great depression

As the months go by and the post-war euphoria recedes into history, one begins to wonder about the unending and, by all objective accounts, deepening economic malaise gripping almost the entire globe.

The recession that first affected the Anglo-Saxon countries is not going away despite their governments' and leading forecasters' best wishes. What is worse, it is spreading like a plague: Italy, the Scandinavian countries (where major banking failures are an every-day occurrence), and now Japan, where industrial production in August decreased 2.5% from the previous month, opening up the possibility — provided September was down more than 0.5% — that the July-September quarter would show negative growth from the previous quarter. This decline would constitute the *third* quarter-on-quarter fall in industrial production, the first such consecutive string since 1974.

Finally, Germany's strong economic growth, topped off by a post-unification consumption surge, has begun to moderate (collapse?). Retail sales in August fell 2.2% (in volume terms) in the 12 months to August, the first such decline in two years. Clearly, Eastern Germany's pent-up demand has been satisfied, and reality has set in. Moreover, the costs of reunification — which expanded the cyclically adjusted budget by 3% of GDP in each of the past two years — is now being paid via rising taxes. As a result, the fiscal stance will tighten — according to OECD projections — by around 1.5% of GDP. Can the semi-artificial boom turn into bust?

It was not supposed to have happened this way. The Anglo-Saxon economies, soaked in debt, were to have surfaced for air long before the EC/Japan economies turned down. Instead, unsuspected by the great majority of economists and laymen alike, we may be slipping into the vortex of a synchronized world contraction.

These are for now but fleeting images. The signs are worrisome. Western governments, particularly the US, have misdiagnosed the disease and applied, so far, wrong policies. They have failed to see that the root of our problems lies in excessive credit, excessive regulation and an excessive tax burden. They have insisted on reducing credit costs (the cost of credit in the US has been reduced 15 times (!) in two years) and inflating money in the hope of restarting the engine. But the engine is exhausted and needs a rest. It needs to liquidate debt via genuinely higher disposable income and savings.

With debt/income ratios at an all-time historic high, one needs to be a reckless lender to extend more credit. Thus, the now famous credit crunch. How may these governments go about breaking the vicious circle of less credit, less income, less credit, and so on? Disposable income — which has been nearly flat for three years — must increase dramatically. How? Via substantial tax cuts and cutbacks in regulatory, dead weight, costs.

In an economic "system" built on easy credit — as are all of the OECD countries — a credit "implosion" can have devastating consequences (see our Sept. 17, 1989 issue, "Debt growth falters: Is liquidation next?"). In fact, the system requires ever-larger doses of credit to keep running, given that today's consumption was already consumed yesterday, and yesterday's the day before.

The post-war period presents a picture of ever-rising debt/income ratios, built on lender confidence that the borrower will eventually repay.

No one, and surely we don't pretend to be the only ones, can determine in advance that debt/income ratio threshold

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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.

beyond which no lender will cross. But the historical post-war record indicates that lenders will resume their credit extension only once they have witnessed an increase in disposable incomes.

The cyclically-adjusted fiscal expansion of 1974-75 and the Reagan tax cuts of 1981-83 provided just such increases. The very weakened condition of lenders today makes it all the more important to grow incomes first via tax cuts and the easing of regulatory burdens before we see a resumption of lending.

The point can be made even more succinctly. Namely, while it is true that credit economies require ever-increasing amounts of credit to grow (a point well understood by governments), new credit will be extended only if income is perceived to be growing. (No amount of coaxing and arm-twisting will stop lenders from reliquifying, i.e., liquidating debt and adding to their investment portfolios.)

Since income cannot be lifted up by its own bootstraps, it sags and then falls some more by the effects of a liquidation of credit. This vicious cycle is not understood by the authorities who insist on inflating the monetary base in the hope of rekindling new credit extensions.

If income cannot be lifted up by its own bootstraps, then Keynesians and the supply siders must come to the rescue, before the truly awesome momentum of credit liquidation wipes us all out. (Note that the same cannot be said about smaller, open economies where the external sector can lift them out of economic depression once credit liquidation has run some distance.)

Even allowing for slightly lower inflation in 1990-91 relative to the '70s and '80s, Chart 1 is frightening. Not because debt liquidation is bad *per se* (it isn't) but because our credit

economies cannot withstand it without causing a depression.

In large credit economies, all economic analyses and forecasts must begin and end by focusing on the ebbs and flows of credit. If lenders are confident and credit flows, the economy will move ahead; if not, the economy will contract. All other prisms are irrelevant. Income growth, or at least its perception, must lead the flow of credit. Only large fiscal deficits, primarily via tax cuts, can generate the right pre-conditions for this phenomenon to occur.

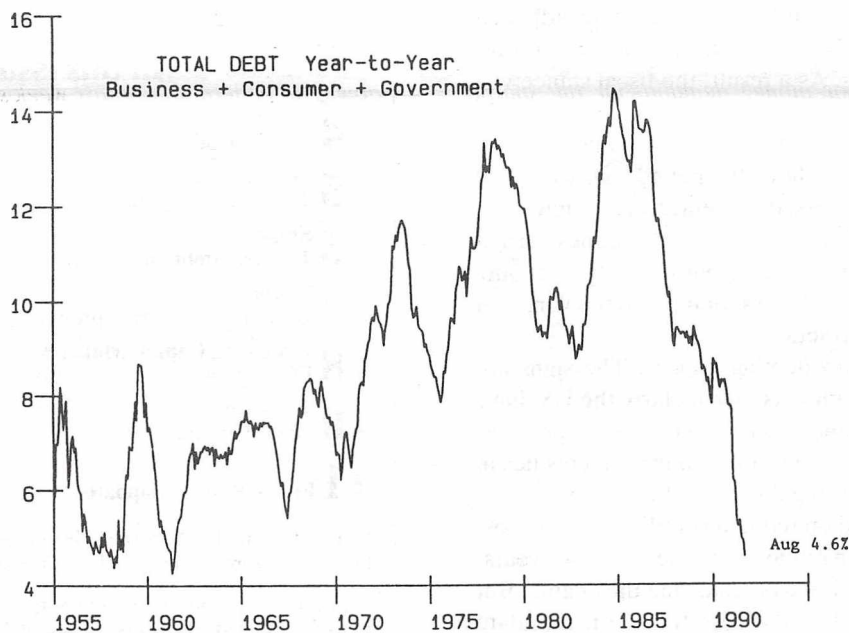
There are other worrisome signs, not least of which is the unhealthy increase in speculative activity in world bourses, somewhat reminiscent of the late '20s when the junior markets continued to score new highs while the more senior stock markets had already peaked. Or the extraordinary interest in junk bonds (despite the huge increase in the default rate) and the consequent mindless narrowing of the quality yield spread. Or the madness in US biotechnology and computer software stocks.

For now, disappointments follow disappointments, once-off writeoffs follow other once-off writeoffs, and layoffs follow other layoffs, all in the context of a slower, and we might say almost "gentle," economic decline.

But with Japan and perhaps Germany joining the contraction, the decline could gather steam. One need not go much further than noting that the renewed expansion of the US trade deficit came about because of a \$1 billion drop in exports, a sign that perhaps its trading partners are retrenching too.

A synchronized, worldwide economic contraction is for now a fleeting image. Unless Mr. Bush (and Mr. Mulroney and Mr. Major) gather the courage to cut taxes — very soon and in a big way — our credit economies will surely come tumbling down.

Chart 1



ISI Group Inc.

S&P 500

STRATEGY: The S&P 500 is exploding upwards in the face of weakening fundamentals. This has been anticipated in recent issues and reaffirmed by the support found above 375.00, in spite of the announcements of poor quarterly earnings streaming in, beginning with the first week of October.

The market is grossly and unsustainably overvalued but may be in the latest stages of a final blow-off that could lift it off a few hundred Dow Jones points.

Retain call options for what may be a wild ride. If history is any guide, it almost certainly will be.

Retain long Value Line/short S&P 500 spread.

Chart 2 – Dow Jones Industrials

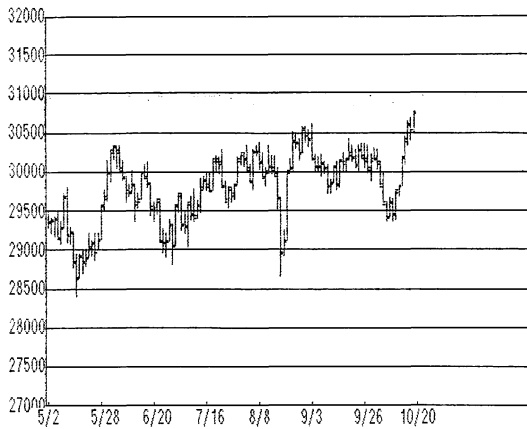
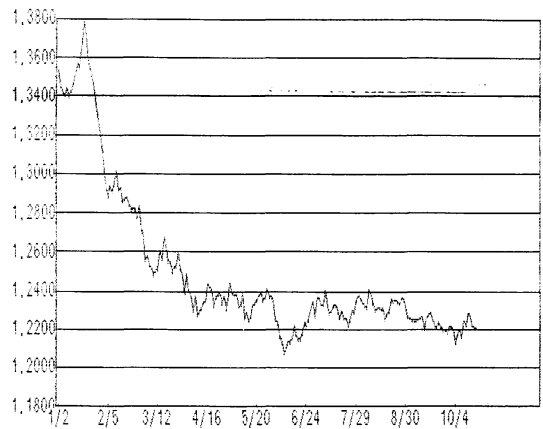


Chart 3 – S&P/V.L. (Cash)



T-BONDS

STRATEGY: Continued economic weakness and the consequent powerful process of reliquification of the banking system are providing good support to the bond market. On a more negative note, the Fed is highly expansive: Contrast the fast pace of growth of the adjusted monetary base, a proxy for money supply (8.2% August '91 over August '90) with the much slower pace of growth of M1 (5.9% over the same period), a good proxy for money demand. Or the sharply

sloping yield curve (see Chart 4).

It is particularly worrisome that the authorities have resorted to monetary stimulation rather than fiscal stimulation to revive the moribund economy. It is certain to rekindle inflation while doing nothing for real economic activity, a prospect ill-suited for holders of long-term bonds.

Keep a close watch, on the CRB (Chart 5) and/or any downside penetration of last week's low as a sign to exit this profitable position.

Chart 4

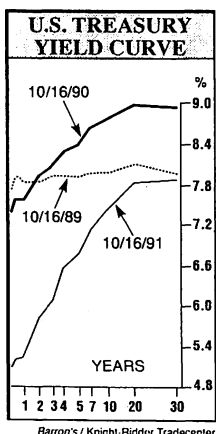


Chart 5 – CRB INDEX

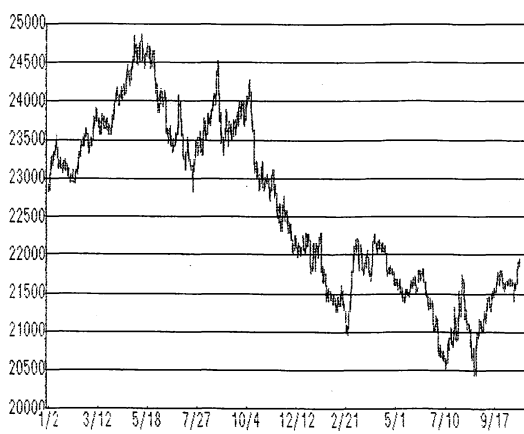
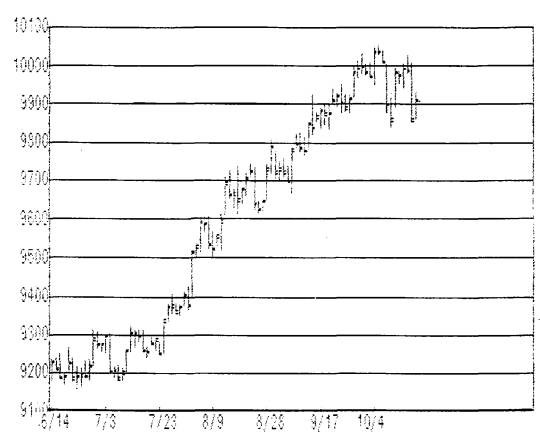


Chart 6 – US TREASURY BONDS, DEC. '91



CURRENCIES

US dollar still weak

The US dollar continues to lose ground, albeit grudgingly, against European currencies and the Japanese yen.

The most noteworthy development of the past month has been the relative strength of the yen *vis à vis* the DM, as Japan's current account surplus in August soared to \$5.48 billion from \$850 million the year earlier. The unadjusted trade surplus in August was \$8.25 billion, more than double the year before at \$4.06 billion.

While the official discount rate is expected to be lowered once again by one half percentage point, the BOJ has steadfastly fostered a negative yield curve by maintaining a tight rein on overnight funds. The slumping economy is certain to widen the trade surplus, embarrassing Japanese authorities.

In the absence of a much more accommodative BOJ, the

choice narrows to two alternatives: fiscal pump-priming (the public sector, made up of central and local government and social security, is running a surplus of 2.7% of GNP), which will take some time to design and implement; a rise in the yen, which, although ineffective (unless taken to extremes such as ¥ 110 or 100/\$) has the advantage of stilling trade protectionists for a few months.

The US dollar should fall further as the Japanese yen leads the charge.

STRATEGY: Remain long December '91 yen, placing stops at 76.25, close only, and December '91 DM, placing stops at 57.95, close only (as well as other EMS and EMS-related currencies).

Chart 7 - CME Japanese Yen DEC '91

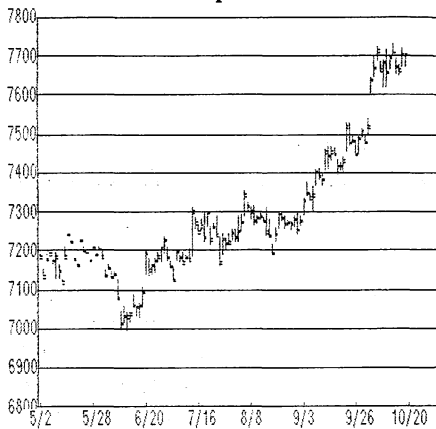


Chart 8 - CME Deutsche Mark DEC '91

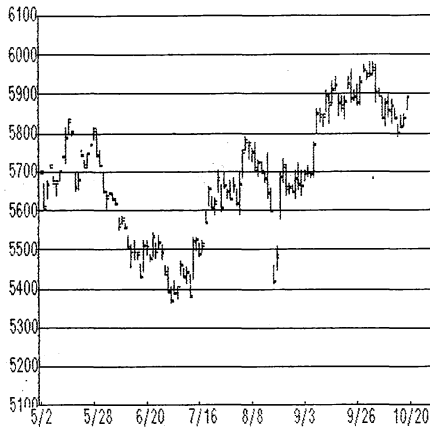
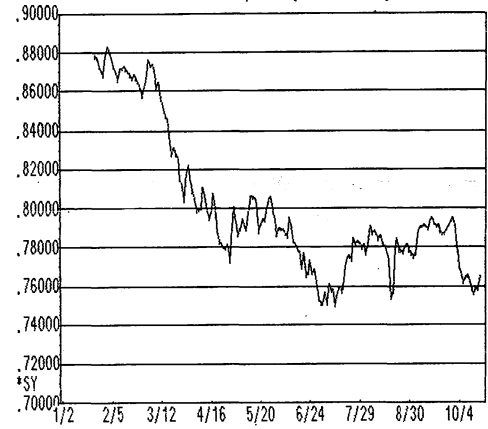


Chart 9 - DM/JY (DEC '91)

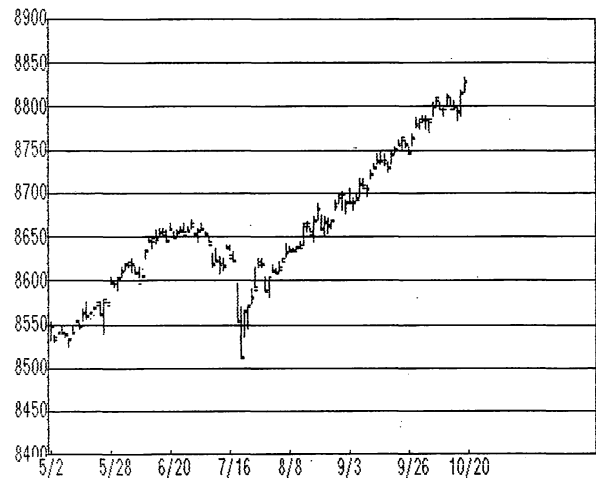


Canadian dollar

Rising bullish sentiment, an unusually long and uninterrupted period of rising quotes (13 weeks) without meaningful profit-taking indicating a technically overbought condition, and an unusual jump in chartered banks free liquid assets prompted us to advise nailing down the substantial profits accumulated on our long outright and call option positions.

STRATEGY: Remain sidelined until further notice.

Chart 10 - CME CAN. DOLLARS DEC '91



BULL MARKET MONITOR**Wheat**

The most recent USDA (US Department of Agriculture) report on wheat was issued last Thursday, Oct. 10. It was interpreted very bullish. Wheat futures closed 5¢ higher the day after the report despite soybeans, ending their sessions at near limit down. Values have climbed 10.5¢ per bushel higher since.

Somewhat surprisingly, the USDA left estimates of Soviet production and imports virtually unrevised from its previous estimate made in September. That estimate called for production of 85.5 million tonnes and imports of 21 million tonnes.

All indications are they will produce less and need to import more. Private forecasters have already downgraded USDA estimates of total Soviet grain production to 175 million tonnes from 190 million tonnes. At the conference held last week in Bankog to discuss the economic consequences of the crisis in the Soviet Union, Soviet officials asked USDA Secretary Madigan for an allocation of \$5.0 billion in credits — a full \$3.1 billion, or 150% more than they were granted last year. Credit allocations of \$585 million scheduled for February have already been advanced. And administration officials have raised guarantees to banks who finance exports to the Soviets to a full 100% of principal from the paltry 98% noted here last month.

Clearly we are not alone in expecting the Soviets will absorb more wheat and thus reduce carryover of free market supplies that even without the Soviets' coming to the free market for help, are projected near historically low levels. The bulge in open interest that has accompanied this initial bull market surge suggests large speculative interest and

presumably hedge buying by millers and other processors who for years now have cultivated a just-in-time method of assuming inventory and now fear getting caught short.

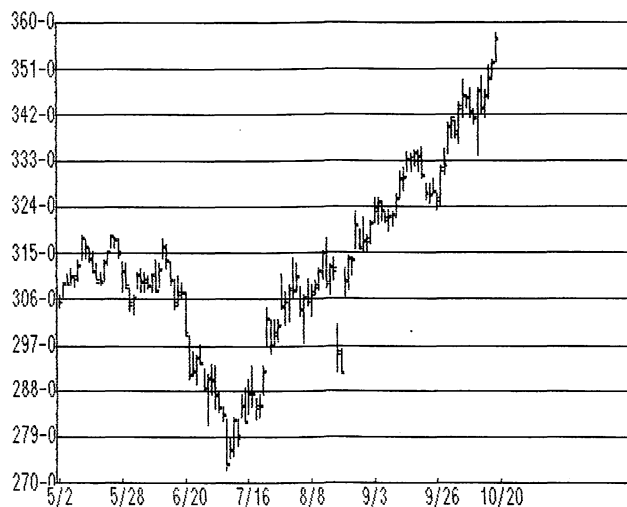
Where we differ from the market is in our assumption of how the West and the US in particular is going to respond should the Soviet crisis develop to tragic proportions. All discussion we have had the privilege of noting falls within a conventional context of financing. Germany holds \$60 billion of Soviet debt and will therefore try to slough off any more credits to its Western partners. The Western partners are waiting for an accord of the republics so as to have an entity with which they can draft a contract. Peripheral talk of ruble backing is also a factor here.

In our opinion this so much hokum. If starvation and economic chaos should loom, the West will provide aid regardless of how or when or even whether it will get repaid. Why? Because it will be cheaper to do so. Chaos in the Soviet Union will result in a migration from the East that will be way beyond the West's capacity to cope. We had only to see how much Italy wanted hungry Albanians in order to have a sense of what effect millions of refugees straggling toward Berlin would have.

The large open position coupled with the market's focus on will we?/will-we-not? give credit suggests this will be a very bumpy ride. We continue to recommend calls on the July delivery and not outright positions.

We remain of the opinion wheat has the potential to rise by as much as 50% or even more from present levels.

Chart 11 – CBT WHEAT DEC '91



Sugar

During the past month, the market has assumed the aspect of a trading affair presided over by floor brokers. They have waggled values between 790 and 950, basis March, frustrating both us and the bears. Disappointed by the market's reluctance to extend itself beyond the narrow range and, in the process, define itself one way or another, many traders have abandoned their positions altogether.

The open interest has declined by approximately 15,000 contracts to less than 90,000 lots; the lowest level of participation in recent memory. Today's (Oct. 17) closing price of the March delivery is exactly a single basis point higher than it was when I last sat down to write about the sweetener for our September issue.

We remain comfortable with our long position. A premium of the spot delivery to the back months still exists and is evidence of ongoing tightness in available supplies. And the minuscule degree of speculative interest makes the risk of any sudden collapse unlikely.

The question, of course, is this: What will it take to propel prices higher?

F.O. Licht, the doyen of sugar statisticians, has offered its first estimate of the production/consumption balance for 1991-92. It is very little changed from last year. The resultant ending stocks are projected by Licht to increase by 850,000 tonnes, or by 2.5%. If accurate, ending stocks as a percentage of consumption — the number considered the critical variable — would remain virtually unchanged from 1990-91 (31.29% vs. 31.17%).

It is safe to say that the estimates made by Licht and other trade statisticians are the market's estimates. In other words, until proven otherwise, the market prices sugar by applying historical values to an endings stocks-as-a-percentage-of-usage ratio of around 31%. However, estimates made by any trade house cannot assume any radical change in production or usage due to extraordinary circumstances that may or may not develop. It is to our advantage as speculators to do so.

As Licht allows in an editorial comment appended to its estimate, changes in the Soviet Union and the consequences those changes are having, and will continue to have, upon the production of sugar by Cuba are major factors in this year's market. To these we must add the weather.

Regarding the Soviet Union: In the market are the following numbers: that production will be 2.4% lower than last year at 8.913 million tonnes; that consumption will be 5.4% lower than last year at 12.826 million tonnes; and that the imports making up the difference will be made up of 1.94 million tonnes of free market sugar (both raws and whites) and 1.84 million tonnes of what is called protocol sugar — i.e., sugar delivered according to trading arrangements made with countries like Cuba and those that previously constituted COMECON.

Our scenario: We speculate that Soviet production, given that the dislocations there are still worsening, will be reduced by considerably more than just 2.4% from last year. Let's say, using the decline in Soviet production of crude oil, for example, as a guide, that production will fall by at least 5% and perhaps by as much as 20%. Since not dissimilar problems are operating against its old communist state trading partners in Eastern Europe, it is unlikely those countries will be able to satisfy even their share of the 1.84 million tonnes the Soviet Republics would like to secure from them.

Cuba, arguably the world's most beleaguered nation since it lost its subsidy relationship with the Soviet Union, is enduring paralyzing shortages of fuel and chemical fertilizers. It thus lacks the inputs to fertilize, process, and distribute. In summary, the republics may find themselves needing 4.0 million tonnes — and perhaps much more — of free supplies rather than only the 2.0 million tonnes estimated and thus, presumably, discounted by the market.

That deficit can be accommodated only by a decline in consumption or through provisions made by free market producers — most likely the EEC, because it will have sugar to give and the incentive to give it. Of the two scenarios, the latter is most likely. As Professor Steve Hanke, a frequent contributor to these pages, cleverly argues in an essay that appeared in our Aug. 5, 1991 issue ("The Balkan shadow"), massive migrations from the east to the west in Europe would put onerous pressures upon the economies of EEC member states. It is so much in the interest of the West to make life bearable for citizens of the republics and all previous communist states that only the the most acute myopia could prevent its not providing comfort where it can. The incentive applies not only to sugar but also to wheat and cocoa.

In conclusion: It is not unlikely the Soviet and Eastern European crisis will result in 2.0 million tonnes of sugar being absorbed by the market. This has not been discounted.

Regarding Cuba: No reliable reports of Cuban production of which we are aware are publicly available. (I would be grateful to any reader who can apprise me of data on the Cuban situation). Suffice it to repeat that we are assuming a massive decline in production there, because as we said earlier we presume the country lacks the inputs to fertilize, process, and transport. In addition, given that the prices received for its sugar are now free market prices (and not based on barter for oil, which effectively put the price at four times the world price), there is less of an incentive to produce sugar at all. Is it unreasonable to speculate a decline of 20%, or 1.5 million tonnes?

And finally, the weather. We can't pretend to be able predict it. But as we said last month, we have subscribed to a private forecasting service that offers the original thesis that, as a result of the eruption of mount Pinitubo in late spring,

cooler weather of the sort that is very poor for sugar growth is likely in key sugar producing nations, especially India. The last time an eruption of the magnitude registered by Pinitubo occurred, Indian production declined by 2.75 million tonnes over a two-season period, and aggregate world production fell by 5 million tonnes.

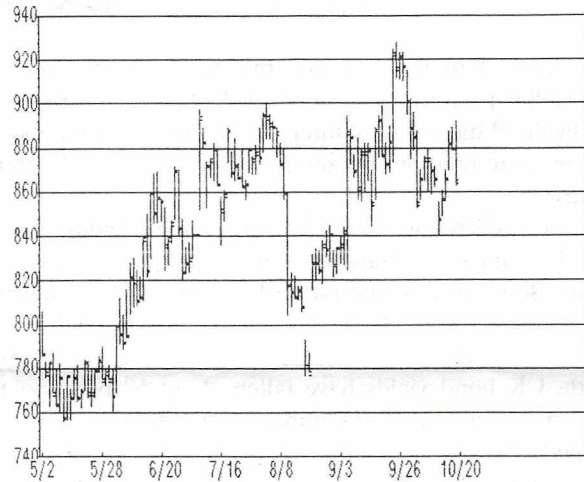
(For a broad discussion of Mt. Pinitubo, we recommend this week's *Barron's*: "Roundtable on Commodities.")

The bullish case thus speculates available supplies will be less than what is estimated by Licht — and thus discounted by the market — by as much as 8.5 million tonnes. Were all the factors to work in the bulls' favor to that maximum, the 1991-92 sugar year would end next September with a deficit of better than 7.0 million tonnes, the stocks-to-usage ratio would be 23%, and prices would likely rise to at least the mid 30s and perhaps to as high as 40.

However, were those factors to have even a minimal impact of, say, 1.5 million tonnes, then given that the stocks-to-usage ratio would still decline to below 30%, which is the level considered by the trade as the watershed of vulnerability, sugar futures would zip up to 15.

STRATEGY: Retain long positions. Fresh positions should be in the form of 10¢ and 11¢ calls — currently valued at around \$300 each — on the October contract.

Chart 12 – N.Y. #11 SUGAR MAR '92



Cocoa

Since we wrote last month, Gill & Duffus, which is to cocoa what Licht is to sugar, offered its first estimate of the 1991-92 crop year balance. The statistician forecast a deficit of 148,000 tonnes. Falling almost precisely in the middle of a host of forecasts that ranged from a surplus of 30,000 tonnes to a deficit of 275,000 tonnes, the estimate was nothing if not diplomatic. In response, the market has stalled.

We have nothing to add to the argument we made last month for higher cocoa prices. World grindings figures — grinding is the process of converting cocoa beans into chocolate, and grindings are therefore a proxy for usage — were reported up 3% in the 1990-91 crop year and predicted up 5% next year by Duffus in its estimate.

Last month, we predicted an average usage rate of 4%. (The somewhat lower level of grindings is possibly attributable to the Soviets' having deferred purchases until the very latter part of the crop year.)

What we do wish to comment upon is the shape of the bull market we expect.

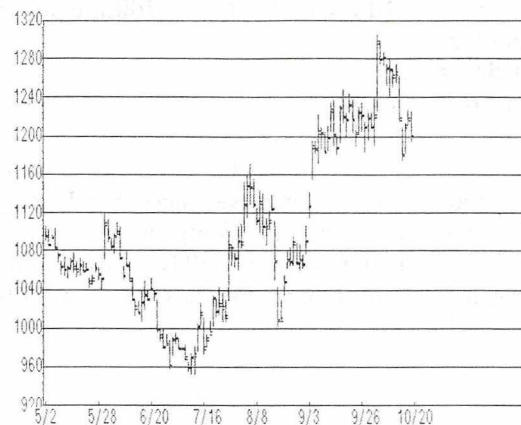
Last month we presented the thesis that commodity prices, having declined for the better part of the past 10 years, had reached levels at which, on the margin, it was no longer profitable to produce. Consumption, on the other hand, was encouraged over those same 10 years by the other side of the relentlessly descending coin. Commodity prices, not surprisingly, have risen. They will continue to rise. They will replace real estate, property, and collectibles as that part of the asset mix that will profit from the increases in money supply that create an average rate of inflation of around 4% to 5%. Of these commodities we have favoured sugar, cocoa, and wheat. Subscribers and clients should be prepared in coming months for us to add to that list other grains, gold and silver, and perhaps even crude oil.

Getting back to cocoa, it behooves us to note that the market has advanced by a full 60% from its lows of early summer. This advance has been fueled entirely by perceptions of not just the deficit of this year but of years of forthcoming deficits. Commercial markets don't work that way. Commercial interests do not bid up prices of cash commodities that are used on a daily basis to prices they will trade at three years hence.

While we are solidly of the opinion the cocoa market is likely to be a major bull market that will last until 1993-94, we will be snipping profits for our inflation hedge and other programs should prices advance too quickly and too far beyond a reasonable arc. We have our clippers ready. We advise subscribers to do likewise.

— David B. Rothberg

Chart 13 – N.Y. COCOA DEC '91



FRIEDBERG CAPITAL MARKETS

ECU update

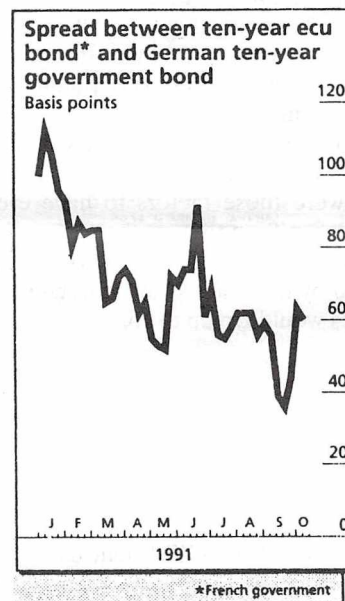
Every investor by now is aware that fixed-rate bonds have been stellar performers because of declining interest rates worldwide. What is now of interest from an investment point of view is the relationship among interest rates of different countries.

Since mid-August, interest rates of high-yielding bonds of such countries as Italy, England, and Spain have fallen rapidly. Bonds of those countries have resumed the upward course in tandem with Germany, continuing a trend that was visible for the first half of the year. For instance, over the past month, UK bond yields have fallen about 50 basis points while in the same period comparable German bonds have dropped a mere 15 basis points.

Convergence is becoming the overall watchword of the European markets. Probably the main reason for such convergence is the restored confidence in the future of the European monetary union. In fact the recent convergence of the European bond markets has kindled an optimistic view of a "hardened" ECU. According to this view, the ECU would maintain its composition of European parts, but it would not be able to devalue against any of the component parts. Therefore the ECU would be the strongest currency in Europe, and ECU rates would necessarily be the lowest in Europe.

In this case the ECU would replace the deutschemark as the fulcrum of the European Monetary System. To add credence to this theory, yields on ECU bonds have already fallen below yields on French franc bonds. The yield spread between the ECU and the DM has narrowed significantly and stands now at about 60 basis points for 10-year maturities.

Chart 14



The Economist

Cooper Companies Inc. update

Cooper Cos. Inc. 10 5/8%, due 01/01/2005, convertible debenture

Recent price: 84 1/2

Yield to maturity: 13.54%

The company continues to repurchase its bonds in the open market, and at discounts from private accounts. During the third quarter of fiscal 1991, the company purchased \$6.9 million principal amount of its convertible bonds. This brings the aggregate amount of bonds purchased to date in fiscal

1991 to \$23.2 million.

One benefit from these types of repurchases is the extraordinary gains that in Cooper's case are offset by a tax benefit resulting from the utilization of net operating loss carryforwards. A second benefit to the company is the decrease in both the comparable three-month and nine-month figures for interest expense.

From the initial issue of \$200 million, the remaining outstanding debt currently stands at \$56.5 million.

The bonds continue to represent good value.

FRIEDBERG'S

**Chart 16
FOREIGN CURRENCY BONDS**

Date: October 17, 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
<u>SOUTH AFRICAN RAND DENOMINATED BONDS</u>				
ESCOM 11% 31/10/93 (semi)	91	- 91 3/4	15.94%	Oct. 31
<u>DEUTSCHE MARK DENOMINATED BONDS</u>				
KINGDOM OF SWEDEN 7 1/4% 1/2/95	97	- 97 3/4	8.04%	Feb. 1
EUROPEAN INV. BANK 5 1/2% 9/8/93	95.65	- 96.40	7.71%	Aug. 9
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	88 1/8	- 88 7/8	8.68%	May. 7
WORLD BANK 5 7/8% 4/2/97 RRSP eligible	90	- 90 3/4	8.09%	Feb. 4
QUEBEC HYDRO 5 1/2% 1/5/96 RRSP eligible	86 7/8	-		May. 1
<u>SWISS FRANC DENOMINATED BONDS</u>				
GOVT. OF AUSTRALIA 5% 30/10/98	88 1/2	- 90 1/2	6.74%	Oct. 30
<u>DANISH KRORE DENOMINATED BONDS</u>				
KINGDOM OF DENMARK 9% 20/11/92	99	- 99 3/4	9.24%	Nov. 20
<u>ECU DENOMINATED BONDS</u>				
UNITED KINGDOM 9 1/8% 21/02/01	102.05	- 102.80	8.66%	Feb. 21
<u>BRITISH POUND DENOMINATED BONDS</u>				
KGDM of SWEDEN 9 3/8% 14/4/93	98 7/8	- 99 5/8	9.58%	Apr. 14
<u>FRENCH FRANC DENOMINATED BONDS</u>				
EUROPEAN INV. BANK 8 3/4% 12/7/95	100 1/4	- 101	8.40%	Jul. 12
<u>JAPANESE YEN DENOMINATED BONDS</u>				
GOVT. OF CANADA 23/7/93 5 5/8% RRSP eligible	99.30	- 100.05	5.58%	Jul. 23
<u>CANADIAN DOLLAR DENOMINATED BONDS</u>				
ONTARIO HYDRO 10 7/8% 08/01/96 (semi annual)	105.95	- 106.70	8.35%	Jul. 8
GOVERNMENT OF CANADA (semi annual) 10 3/4% 5/9/92	101	- 102.55	7.48%	Mar. 5
<u>NEW ZEALAND DOLLAR DENOMINATED BONDS</u>				
CDN. IMP. BANK OF COMMERCE 27/07/92 14% RRSP eligible	103 3/4	- 104 1/2	7.51%	Jul. 27
TOURIST HOTEL 0% 04/06/93	87 7/8	- 88 5/8	7.78%	matures Jun. 1993
<u>AUSTRALIAN DOLLAR DENOMINATED BONDS</u>				
General Electric 11/07/92 14 1/4% (semi)	103 1/2	- 104 1/4	8.12%	Jul. 11
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	108 5/8	- 109 5/8	9.70%	Jul. 1
WORLD BANK 15/03/93 12 3/4% RRSP eligible	104 1/4	- 105 1/4	8.49%	Mar. 3
<u>U.S. DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS</u>				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @\$38 p/sh	77 1/2	- 78 1/2	11.38%	Dec. 15
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @\$39.75 p/sh	19 1/2	- 21	37.66%	Nov. 15
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @\$27.45 p/sh call in 1995 @100	82	- 84 1/2	13.54%	Mar. 1
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @\$39.50 p/sh	23	- 26 1/2	22.83%	Mar. 1
BURNUP & SIMS 12% 15/11/00 (semi) CV @\$19.25 p/sh	56	- 60 1/2	23.57%	Nov. 15
<u>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</u>				
SOUTHMARK 12% 10/8/97 (semi)	57 1/2	- 65 1/2	7.58%	Jan. 15
<u>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</u>				
UNITED KINGDOM 24/9/96 3 mo. LIBID-1/8 (qtlly) *callable @100 09/91	99.78	100.08	5 1/4%	Dec. 31
REPUBLIC OF ITALY 30/4/93 3 mo Limean(qtly)	99.17	99.57	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:
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Chart 15
Breakeven exchange rates for US\$-based investor

This analysis shows a "snapshot" of the relationship between interest rate differentials and rates of exchange. The breakeven rate measures how far the foreign currency has to devalue (for NZ\$, A\$, DM, DKr, BP, FFr, ECU, CDN, SAR) or revalue (for JY and SF) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. Rates as of October 17, 1991.

	U.S. \$	NEW ZEALAND \$	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT	CANADIAN DOLLAR	SOUTH AFRICAN RAND**
1 year	5.26%	CIBC 14%, 27/7/92, yields 7.51% (.5552 NZ/US)	Gen. Elect. 14%, 92 yields 8.12% (.7763 A\$/US)				Denmark 9%, yields 9.24% (6.814 Dkr/US)				Canada 10%, yields 7.46% (1.1543 US/CD)	
2 year	5.85%	Tourist Hotel 0%, yields 7.78% (.5469 NZ/US)	World Bank 12%, yields 8.49% (.7590 A\$/US)	E.I.B. 5%, yields 7.71% (1.7639 US/DM)		Canada 5%, yields 5.58% (129.01 US/JY)		Sweden 9%, yields 9.58% (1.5946 BP/US)				ESCOM 11%, yields 15.94% (.2535 US/SAR)
3 year	6.11%		CBA 14%, yields 9.70% (.7235 A\$/US)									
4 year	6.41%			Sweden 7%, yields 8.04% (1.6030 US/DM)					EIB 8%, yields 8.40% (6.249 FFr/US)			
5 year	6.77%			Blk. of Nova Scotia 5%, yields 8.68% (1.6058 US/DM)							Ontario Hydro 10%, yields 8.35% (1.2166 US/CD)	
6 year	6.96%			World Bank 5%, yields 8.09% (1.5993 US/DM)								
7 year	7.15%				Australia 5%, yields 6.74% (1.9498 US/SF)							
10 year	7.44%									UK. 9%, yields 8.66% (1.0739 ECU/US)		
Spot Exchange Rate	N/A	.5671	.7974	1.7036	1.4892	129.67	6.5655	1.709	5.8025	1.2024	1.1305	.3185

*For example, since a US\$-based investor would receive 1,009 basis points (1594-585) by holding the ESCOM SAR bond, the SAR can depreciate to .2535 US/SAR from the present spot exchange rate of

.3185 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.

THE EXOTICS

Swedish krona

This is in truth a footnote to our article on Sweden of last May. And thus should be read in conjunction with it.

There have been three noteworthy developments since then.

1. The inflation rate has decreased dramatically, registering a 0.9% increase from April through September 1991, despite the fact that year-on-year figures still show an unfavorable 8.3% rate. Clearly, the Riksbank's shock therapy bore fruit. On the other hand as we pointed out in May, progress on the inflation front, given wage rigidity, is causing unemployment to rise sharply. At 3.1% it is the highest rate in the postwar period, and will easily exceed the much feared 4% barrier. In fact, this could be the Achilles heel of the anti-inflation effort.
2. As a sign of the snomous financial and economic strains from the Riksbank's shock treatment, major bank insolvencies are appearing. Twice the Swedish government has had to come to the rescue over a period of three days, once for Nordbanken, the state-controlled bank, and the second time for Forsta Sparbanken, the country's biggest savings bank.

Swedish banks expect further credit losses this year that could exceed SKR20 billion because of loans that have gone sour after property prices collapsed.

These events may cast doubt on the central bank's continued resolve to combat inflation and uphold the value of the krona within the confines of its present EMS linked parity. It should be noted that one-year interest rates are barely higher than Danish counterparts in spite of the latter's much better macro-economic balance.

3. Finally, and on a positive note: A four party centre-right coalition led by Mr. Carl Bildt and its avowed free-marketeer financial minister Anne Wibble have gained power after the nine-year reign of the leftist Social Democrats.

The new government proposes to cut Sweden's tax revenue, now at 56.4% of GDP, to around 50% by 1996, and simultaneously reduce the share of public spending in GDP by some 5 percentage points. The new government has also pledged to end centralized pay bargaining and to initiate a series of privatizations.

STRATEGY: As the recession deepens, the Riksbank's scope of action may narrow dramatically. Forward Swedish krona positions represent only fair value and most probably do not reflect sufficiently the potential currency risks.

Remain long the krona against the dollar and neutral against the deutschemark.

FRIEDBERG'S

Chart 17 - RATES

Spot	1 Month	3 Month	6 Month	12 Month
6.1650 - 6.1700	6.1928 - 6.2003	6.2460 - 6.2555	6.3205- 6.3355	6.4650- 6.4850

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: 1.6860)</u>
Australian dollar	.7977-.7984	.7911-.7922	.7732-.7759	Neutral	Neutral
Belgian franc	34.82-34.86	35.13-35.22	35.99-36.13	Remain long	Neutral
Danish krone	6.5280-6.5330	6.5925-6.6035	6.7730-6.7930	Remain long	Neutral
Dutch guilder	1.9055-1.9065	1.9240-1.9255	1.8750-1.9785	Remain long	Neutral
Finnish markka	4.1570-4.1590	4.2530-4.2580	4.4150-4.4270	Remain long	Neutral
Greek drachma	188.10-188.40	194.10-197.40	211.10-223.40	Neutral	Neutral
Hong Kong dollar	7.7530-7.7540	7.7455-7.7525	7.7630-7.7940	Neutral	Neutral
Irish punt	1.5805-1.5820	1.5695-1.5750	1.5500-1.5600	Remain long	Neutral
Italian lira	1265-1266	1283-1285	1335-1339	Remain long	Neutral
Malaysian ringgit	2.7450-2.7460	2.7610-2.7750	2.7150-2.7360	Neutral	Neutral
New Zealand dollar	.5660-.5670	.5625-.5640	.5635-.5665	Remain long	Remain long
Norwegian krone	6.6260-6.6310	6.7045-6.7145	6.9100-6.9300	Remain long	Neutral
*Portugese escudo	145.50-145.80	147.90-148.50	154.50-157.80	Buy	Remain long
Saudi Arabian riyal	3.7500-3.7505	3.7485-3.7500	3.7475-3.7490	Neutral	Neutral
Singapore dollar	1.6930-1.6940	1.6890-1.6940	1.63830-1.6940	Remain long	Neutral
Spanish peseta	106.45-106.55	108.25-108.45	113.05-113.35	Remain long	Neutral
Swedish krona	6.1650-6.1700	6.2460-6.2555	6.4650-6.4850	Remain long	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, September 7:**

There are no changes or new recommendations.

Wednesday, September 25:

There are no changes or new recommendations. The next regular update will be on Friday, September 27.

Flash update, Thursday, September 26, 12:50 p.m.:

Liquidate short US dollar positions at the market.

Thursday, September 26:

We are clarifying a flash update of earlier today, where we recommended covering US dollar short positions. Specifically, this list includes liquidating long positions in D-mark, SF, JY, Singapore dollars, EMS currency, and other EMS-related currency such as the Swedish krona. We are specifically excluding from this list the Canadian dollar and New Zealand dollar.

Friday, September 27:

Good afternoon. There are no changes or new recommendations. The following is a repeat of the flash update on Thursday, September 26. We recommended covering US dollar short positions. Specifically, this list included liquidating long positions in D-mark, SF, JY, Singapore dollars, EMS, and EMS-related currency such as the Swedish krona. We are specifically excluding from this list the Canadian dollar and New Zealand dollars. Our next regular update will be on Wednesday, October 2.

Flash update, Wednesday, October 2, 9:25 a.m.:

Reinstate short positions in US dollars; specifically buy D-mark, SF, JY, EMS, EMS-related currencies, and Singapore dollars. Place stops at 1.7100 DM, interbank trading, New York close.

Good afternoon, there are no changes or new recommendations. I am repeating this morning's flash update. Reinstate short positions in US dollars; specifically buy D-mark, SF, JY, EMS, EMS-related currencies, and Singapore dollars. Place stops at 1.7100 DM, interbank trading, New York close.

Friday, October 4:

There are no changes or new recommendations. I am repeat-

ing the flash update on Wednesday, October 2. Reinstate short positions in US dollars; specifically buy D-mark, SF, JY, EMS, EMS-related currencies, and Singapore dollars. Place stops at 1.7100 DM, interbank trading, New York close.

Tuesday, October 8:

There are no changes or new recommendations.

Friday, October 11:

There are no changes or new recommendations. The yen/DM cross has been showing better relative performance for the yen, probably influenced by bulging current accounts surplus. Therefore, speculative accounts that were short US dollars as per our flash on October 2 should show a preference for long yen positions.

Tuesday, October 15:

Good afternoon. We would like to move to the sidelines on Canadian dollars; therefore, liquidate all long positions and/or hedge long calls by selling futures against them. There are no changes or new recommendations.

Friday, October 18:

This is a complete summary since our last market letter, dated September 15, 1991, of all liquidations of open positions and new recommendations that remain outstanding.

On Thursday, September 26, at 12:50 p.m. we advised liquidating long positions in DM, SF, Japanese yen, Singapore dollar, EMS currencies, and other EMS-related currencies such as the Swedish krona, at the market. Excluded from this list were Canadian dollars and New Zealand dollars.

On Wednesday, October 2, 9:25 a.m. we reinstated all these positions placing stops at 1.71 DM, interbank trading, New York close.

On Friday, Oct. 11, we advised speculators to concentrate on long positions in yen, to take advantage of the relative strength of the yen *vis à vis* DM and other currencies.

On Tuesday, October 15, we advised moving to the sidelines on Canadian dollars, liquidating all long positions and/or hedging long calls by selling futures against them at the market. Thank you for calling, and have a great weekend.

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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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