FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS
FRIED-BERG
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Bump ahead

Evidence is mounting that the recession ended in mid-1991. It lasted 10 months, during which time real GNP fell a mild 1.2%.

Before we breathe a sigh of relief, however, it is worthwhile to know that the current *slowdown*, lasting 10 quarters and still counting, is the longest one since the end of WWII. And by the measure of shortfall from average growth — real GNP is 6.8% lower than it would have been had it grown at its average rate since the first quarter of 1989 — is one of the three worst since 1948. Overcapacity and oppressingly high debt/income ratios, the legacy of the uncontrolled credit boom of the '80s, is inhibiting and will continue to inhibit growth for years to come.

We will now review the evidence, the likely economic scenario and the implications. Being the most interesting item, we start with the latter:

- The US dollar should strengthen *vis à vis* most currencies.
- Interest rates should soar.
- The stock market should suffer an important setback.
- Industrial commodities should strengthen.

Not withstanding short-term "bumps," which are the result of powerful fiscal and monetary reflation, the longer-term outlook for the US economy is bleak. Muzzled by overcapacity and oppressively high debt/income ratios, the economy is unlikely to break out of its current slowdown. Each round of stimulus will produce progressively weaker responses; what is worse, these rounds will leave in their wake deeper and even more serious problems.

As an example, the US resorted to massive monetary stimulus in the second half of last year, even while inflation was still rising at anywhere between 3% (GDP deflator) and 4.4% (CPI *ex* food and energy), a rate prevailing during the previous recovery, between the end of 1986 and end of 1988.

The present monetary reflation will be "spent" in producing two to three strong quarterly bumps but will leave behind excessive liquidity with dangerous inflationary consequences that will probably have to be dealt with later this year. Similarly, a timid and ill-conceived fiscal reflationary package is being devised with the purpose of "kick-starting" the economy but that will merely exaggerate the "bumps," leaving behind in its wake a bewildered and frustrated taxpayer and a redistributionist, anti-supply side scheme that is certain to push the budget deficit into a higher permanent deficit.

US economic policy can benignly be described as seeking short-term results in an opportunistic fashion. In less flattering terms, it may be described as a jump-starting/kick-starting policy, in the worst tradition of Latin American policies of the '30s through to the '60s.

What can we expect? Depending on the timing and shape of the Administration's package, we are likely to see *two strong quarters* sometime during 1992, followed by disappointing, below-average growth or even contraction — a knee-jerk reaction of a body in rigor mortis. Although relatively dormant now (but serious enough to upset the central banks of Germany, New Zealand, and/or Canada), inflation will once again become a major concern later this year and in early 1993. Taken as *a whole,* the current slowdown will persist for a number of years, prolonging what is already the longest slowdown since WWII.

What evidence do we have that the actual contraction ended in mid-1991? The fact that our supply-side spreads turned positive in the third quarter of 1991 (see Chart 1) and remained positive for the fourth quarter of 1991, after registering 10 consecutive negative quarters. Recall that supply-side spreads are derived from productivity and unit labor cost data and are equal to change in prices (the CPI), plus changes in productivity (output per hour) minus unit labor costs.

When spreads are positive, they signal that it is profitable to increase supply and that we can anticipate economic

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Contributions by Albert D. Friedberg, David B. Rothberg, and Michael D. Hart.

growth. The signal becomes stronger as the positive spread widens. Negative spreads, on the other hand, signal economic contraction. Not only did the spread become positive in the last half of 1991 but it also widened, indicating that it is becoming increasingly more profitable to produce.

Other data confirm the improving economic climate: The relatively sustained increase in short-term credit (see Chart 2) that normally accompanies economic recovery; the improving trend in non-ferrous orders; the suprisingly strong semiconductor book-to-bill ratio (which at 1.08 for the three months ending in January indicated that chip makers were receiving more orders in than they were shipping out); upward revision of retail sales in November and December as well as the strong +0.6 showing in January; and so on.

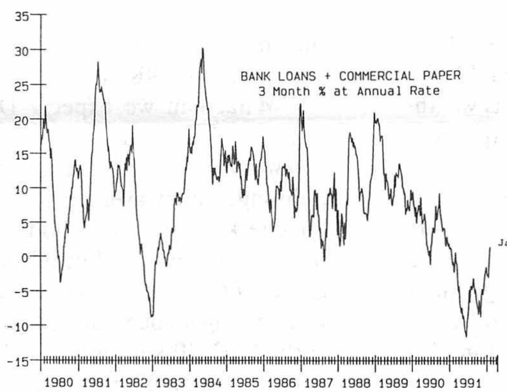
On balance, the economy is poised to show a couple of strong quarters before fading again. Kick-starting policies will not suffice to put the overindebted and overbuilt US economy back on sustainable growth path.

Chart 1

ECONOMY-WIDE SUPPLY-SIDE SPREADS

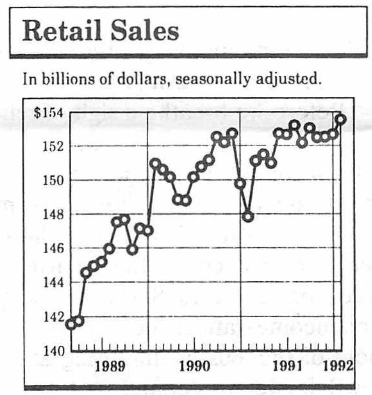
89.1	-1.1
89.2	-0.3
89.3	-1.2
89.4	-2.3
90.1	-1.1
90.2	-0.8
90.3	-1.7
90.4	-1.9
91.1	-1.2
91.2	-0.9
91.3	0.8
91.4	1.6

Chart 2



Source: International Strategy and Investment

Chart 3



The Wall Street Journal

CURRENCIES

The hot potato US buck

The US dollar's intrinsic cheapness (measured on a purchasing power parity basis) *underpins* traders' perceptions of the imminence of convergence in the rate of economic growth between the US and the EC. Each widening of the interest rate differential between the US and Germany is greeted as the last one, as the point of inflection in the spread.

Sooner or later, of course, interest rates and growth will converge; the noteworthy development is the obstinacy of such belief in the face of a relentless divergence that has carried spreads to historical highs of 550 basis points. The only rational answer is that market participants want to see the dollar higher, because they feel it is "cheap" and, for the moment, are willing to disregard the near-prohibitive cost of borrowing EC currencies.

In short, the market is looking for excuses for putting up the dollar. What better pretext can be found than a resumption of US economic growth? As discussed in our lead article, we expect a strong "bump" in economic activity in the US, lasting about two quarters, its timing dependent on the passage and the implementation of the Administration's tax package.

Our reversal on the near-term outlook of the US dollar/DM and less so on the US$/yen parities is tempered by our belief that the US "bump" in activity will be short-lived and by the further belief that Germany's "inflation problem" may be a great deal more serious than originally anticipated. This relates to the size of the *monetary overhang* arising from reunification and the possibility that the Bundesbank may have erred in its forecast of the demand for money.

If our suspicions are correct, the "Buba" may be forced to raise rates again and again in the not-too-distant future. Instead of narrowing, interest rate differentials *vis à vis* Eurodollars may remain stable or even widen further, an occurrence that should temper any wildly optimistic, i.e., bullish, thoughts one may harbor about the lowly dollar.

In short, the US dollar is akin to a hot potato: Everyone wants it, but no one is willing to hold on to it for too long for fear of being burned. With a negative carry of 4.3% per annum, the game is for the nimble and the light-footed only.

STRATEGY: *Our hotline of Jan. 13 and 14 advised covering short US dollar positions as well as initiating long US dollar positions (via the sale of DM, yen, EMS, and EMS-related currencies) around current levels. Initial stops should be placed above 62.00, basis March '92 DM, close only.*

Chart 4

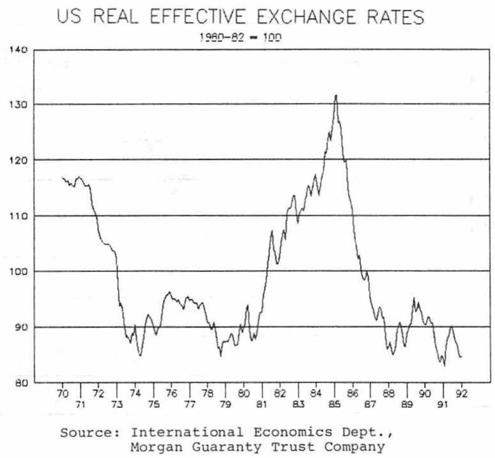
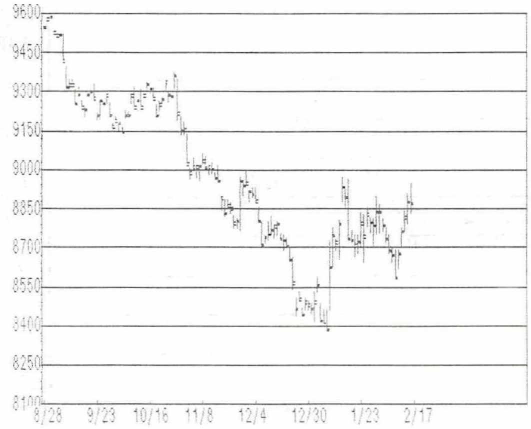


Chart 5 – Short Term US$/H



INTEREST RATE FUTURES

Bearish on T-bonds

Our views of this market are colored by three factors, all carrying strongly bearish messages.

First and foremost, our views on the economy. As put forth in our opening remarks, we believe that the US economy is about to experience a strong — but relatively short — "bump" in activity, driven by improvements in productivity and stimulated by an aggressive Fed policy of artificially lowering interest rates.

Secondly, far-too-rapid rates of growth of the adjusted monetary base (15.1% at an annual rate over the past 8 weeks), adjusted reserves (30.7%!) and M1 (14.5%), indicate that the Fed's artificially low interest rate policy is the equivalent of resorting to the printing press. Since most of the spectacular increases in monetary aggregates have taken place since November, it appears that the Federal Funds Rate is *at least* 100-150 basis points too low.

Thirdly, grotesquely positive yield curves invite careless speculation (more on that in the following article). The most profitable game in town for the past year has been financing long-term treasuries with overnight repos. The positive carry of as much as 400 basis points represents infinite rates of return on capital for the money dealers and customers who "trade" Treasuries without margin. And for the unfortunate few who are required to post 1% margin, returns approach 30% to 35% *per month.*

This reckless speculation has built up enormous long positions in 5-year to 30-year Treasuries, highly vulnerable to price decline. In effect, a small decline can produce a snowballing effect for no other reason than margins are either nonexistent or razor-thin. How many accounts are already under water with the market down 5½% from its high? The potential for a devastating decline is high.

Having exited successfully long position in T-bonds at around 103½ at the end of December, we now consider the short side.

STRATEGY: *Sell June '92 T-bonds at market, risking a close above 101.00. More timid players should purchase slightly out of the money T-bonds and Eurodollar put options.*

Chart 6
CME Deutsche Mark Mar '92

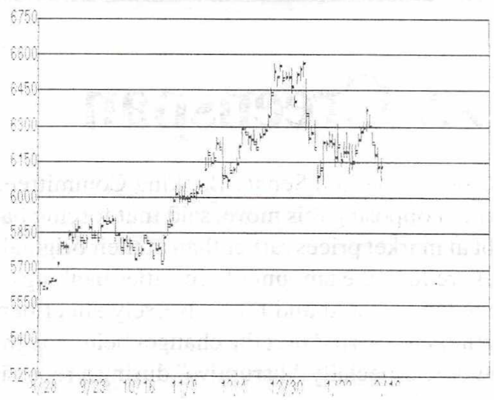


Chart 7
CME Japanese Yen Mar '92

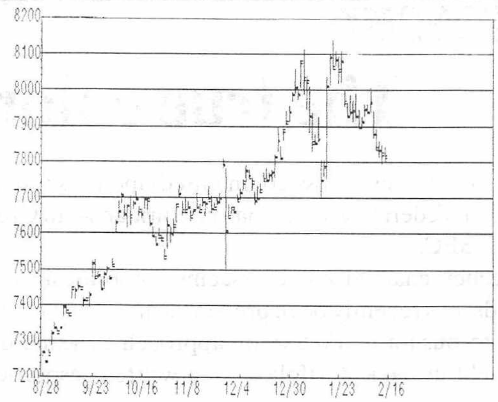


Chart 8 – CBT T-Bond (Day) Jun '92

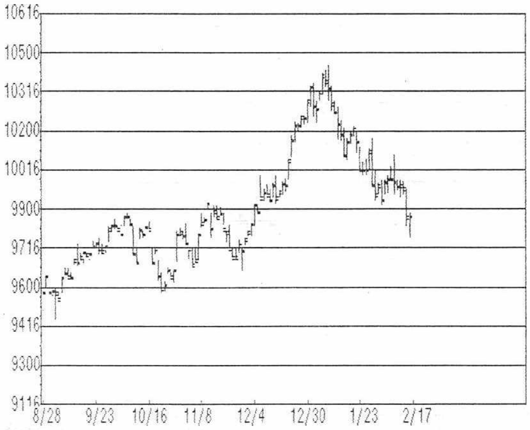
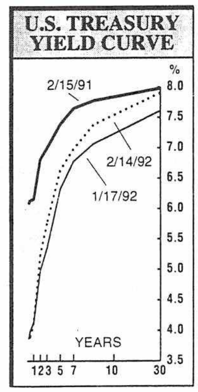
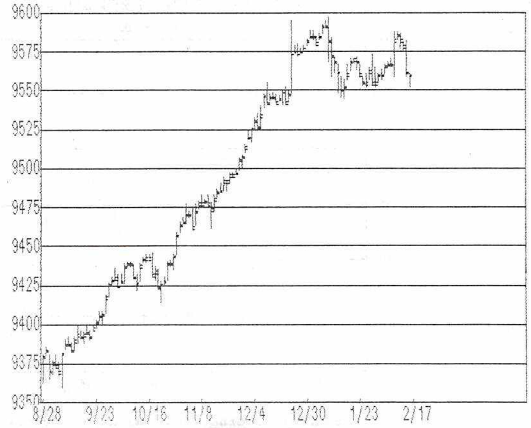


Chart 9



BARRON'S

Chart 10 – 3 Mth. Eurodollar Jun '92



STOCK INDEXES

Heading south

There are two good reasons for remaining short (via put options, as per our last issue): a) the bump ahead provides the classic opportunity to sell on the news; and b) falling interest rates drove P/E ratios higher; rising interest rates should do the opposite.

Keep the faith. This market is heading south.

STRATEGY: *Maintain long put options.*

Chart 11 – CME S&P 500 Index

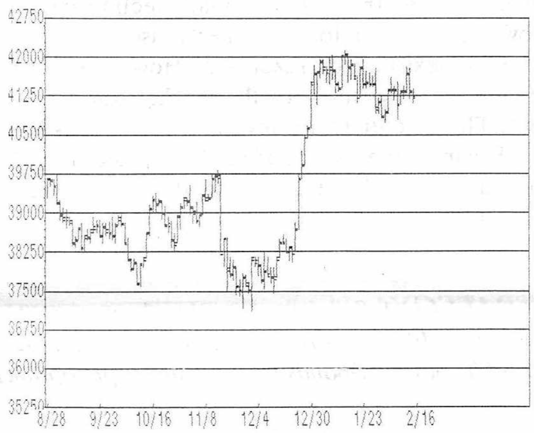
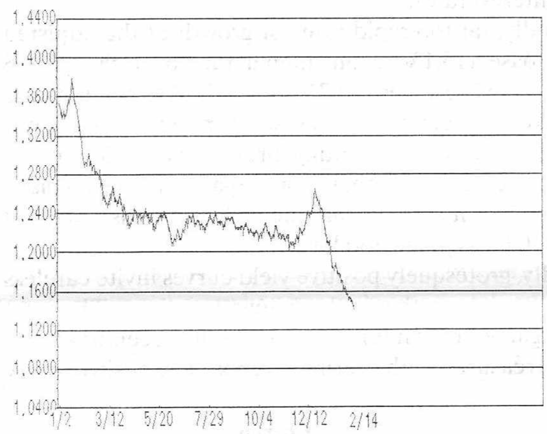


Chart 12 – S&P 500 Index/Value Line Index



THE ECONOMY

The true colors of Dr. Greenspan

A little-noticed and even less-commented-upon dispute has arisen between Federal Reserve Board Chairman Alan Greenspan and the SEC.

The agency, charged with overseeing corporate accounting standards, has recently been pressuring industry accounting groups to push a market value approach to value debt securities held in bank portfolios. In a written response to questions from the Senate Banking Committee, Dr. Greenspan, in opposing this move, said that forcing banks to value debt at market prices rather than at their original cost "would likely reduce the amount of securities banking organizations are willing to hold and thus adversely affect bank liquidity." Further he asserted that the changes being sought by the SEC would be especially "disruptive" during a recession.

And so here we have Dr. Greenspan, the nation's chief banker, refusing to endorse a truth-in-banking directive. Why? Being generous, one could argue that Dr. Greenspan is conspiring with the nation's banks to fool most of the people about the true value of the lending institutions' portfolios. On second thought this generous interpretation of his opposition to marking to market of debt securities does not hold water.

Surely Dr. Greenspan realizes that there are enough sophisticated security analysts and money analysts in the US to avoid falling into the trap. No, the answer must be sought in another area, far more insidious than the first reason we advanced and far closer to the very essence of central banking as imagined by Dr. Greenspan. To wit, Dr. Greenspan is concerned that marking to market long-term securities will inhibit banking organizations from speculating in them, thus weakening the Fed's power to control the long rate of interest.

Let us explain. When the Fed wishes to add or to drain reserves from the banking system it will either buy or sell securities of various maturities. In a fractional reserve system, small increments or decreases to bank reserves can have an enormous impact on monetary aggregates. As an example, $85 billion of reserves support approximately $630 billion of total checkable deposits and approximately $2.5 trillion of savings and time deposits. The Fed thus need not buy or sell large quantities of Treasuries to accomplish its goals of influencing monetary aggregates.

In an attempt to reflate the economy, as was the case throughout 1991, the Fed will purchase securities at ever lower rates of interest, making reserves amply available with the hope of stimulating multiple increases in the monetary aggregates.

It is not always clear whether the objective of monetary policy is the control of interest rates or the control of monetary aggregates; over the years the Fed has adopted one view at the exclusion of another one, and at times it has even tried to control both.

Be that as it may, when trying to reflate, the Fed has been extremely conscious of seeing that interest rates fall, presumably to stimulate borrowing and investment activity. Since the latter is heavily influenced by long term-interest rates, it has always been the Fed's wish to control long-term interest rates.

But long-term interest rates, reflecting the Wicksellian natural interest rate, i.e., the interplay between genuine real savings and investments, cannot be controlled by a monetary authority who at best controls only nominal variables. Pegging the long-term rate of interest was wisely abandoned in the early '50s, as it was recognized to be an exercise in futility with extremely dangerous side effects with regards to capital allocation.

While direct control was given up, the Fed persists in believing that it can influence and coerce long-term interest rates. To accomplish this result in an indirect fashion, the Fed co-opts speculators inside and outside the banking system. It does so by fashioning a grotesquely positive yield curve that incentivizes speculators to borrow short, i.e., overnight money at 3¾% and lend long, i.e., purchase long-dated Teasuries yielding 7.75%.

This mindless arbitrage tends to transmit falling short-term interest rates to the long end of the market but puts the arbitrageur at great risk should interest rates turn up.

While the Fed lowered the federal funds rate to 3.75% from 7.16% during 1991, five-year Treasury securities fell via these arbitrage operations to 5.98% from 7.79% while the 30-year maturities fell to 7.27% from 8.35%. If the arbitrage were riskless, the longer-dated securities should have shown the same fall in yields. Because they are not, they reflect in varying degrees the real market for long-term savings and investments.

There is no doubt that the steepening yield curve induced banks to reliquify via the purchase of long-dated securities. To the extent that these banks chose to borrow short and lend long because of sensationally attractive rate spreads, the Fed succeeded in inducing a dangerous and reckless arbitrage. And while this game may be acceptable for private speculators, it is clearly not acceptable for the repositories of taxpayers' hard-earned deposits.

Dr. Greenspan's intentions are now quite discernable: Forcing banks to mark debt securities to market may inhibit them from engaging in speculative interest rate arbitrage for fear of being exposed as insolvent speculators. And the Fed would lose a valuable ally in its continuous desire to manipulate the value of money for the purpose of fine-tuning economic activity.

For the sake of our money, Dr. Greenspan cannot be allowed to prevail.

CANADIAN DOLLAR

We remain friendly

The Canadian dollar continues to be adversely affected by the market's perception that the Bank of Canada will be prompted by political expediency to ease monetary policy and lower rates substantially. This cynical perception runs counter to the Bank's oft-stated line that it is only concerned with the purchasing value of its currency and that populist monetary policies inflict a great deal more harm than good in the pursuit of sustainable economic growth.

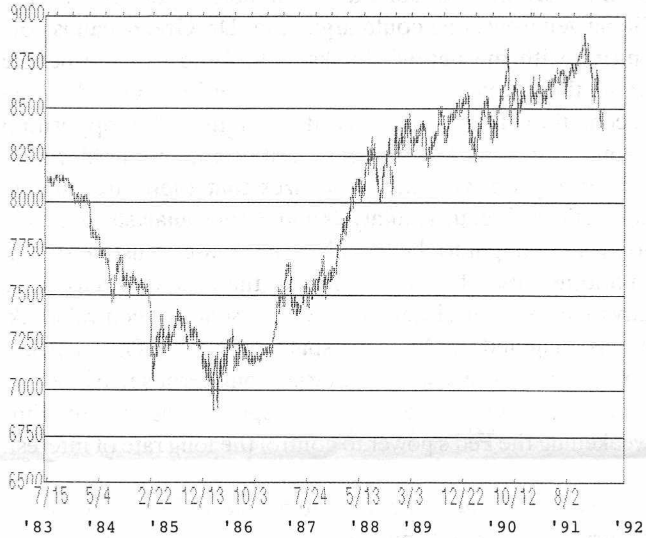
In its most recent *Review*, the bank stresses again the importance of concentrating its attention on monetary aggregates by declaring that M2 has been the most reliable leading indicator for the price level and that "over the longer run a rate of growth of M2 and M2+ in the region of 5-6% per year would have been consistent historically with a non-inflationary potential growth of recovery." The latest year-on-year growth rate of M2 is 6%, while the last three months show M2 growing at an annual rate of 4.2%. Quite evidently the Bank has little room to manoeuvre if it is to keep within its ideal range of 5% to 6% growth of M2.

From time to time the Bank has expressed concern with disorderly conditions in the foreign exchange markets, primarily because of the feedback potential to confidence in the purchasing value of the currency. Thus the repeated market interventions in support of the falling dollar and the substantial widening that has been allowed to take place in short term interest rate differentials *vis à vis* US rates (40 basis points) should come as no surprise.

We remain friendly to the Bank's objectives and the dollar.

STRATEGY: *Retain long call options.*

Chart 13 – CME Can. Dollars



WHEAT, SUGAR, COCOA

Wheat

Last Tuesday, Feb. 11, wheat prices, after posting new highs at the opening of trading, collapsed and finished offered limit-down across the board. The move was accompanied by extremely high volume of 220,00 contracts. From a technical perspective, there could hardly be a more dramatic harbinger of an end to this mature bull market.

The technical argument reads as follows: Since January, open interest had climbed by more than 100,000 contracts. Since consensus of bullish opinion had been 80% and more for nearly a month, it is reasonable to assume that the majority of the new participants were of the less-sophisticated and undercapitalized sort. In the decline of last Tuesday and Wednesday, 35,000 contracts were liquidated.

The conclusion then is that another 50,000 long positions at least are extremely vulnerable. It would be their liquidation that would complete the first stage of the bear market if, in fact, it is a bear market that has begun.

The fundamentals are inconclusive. As stated again and again during the past several months, the salient issue is the fact that ending stocks as a percentage of consumption — the number that quantifies the buffer of insurance that bridges one crop year to another — are, at 15.6%, lower than at any time since free markets allowed price to ration usage. (In the years immediately following World War ll, stocks were as low as 7.5% of usage, but government price controls were in effect.)

This low stocks figure has been in the market for a long time now, so it is safe to conclude the major ramifications of it have been discounted. However, because the number is so very, very low, it would take only the smallest marginal increase in demand or reduction in supply from what is currently assumed to propel the market to new highs.

The dilemma is typical of all markets that have reached the stage wheat has.

Looking ahead to the macro-future if you will, I cannot see much more positive news. Winter wheat acreage has been put at just over 51 mln acres by the USDA. This is the number the market is working with. Common sense tells me that given the price, increased acreage will be "found" and that subsequent reports are likely to have a less-than-sanguine effect on the market.

Spring wheat will likely be planted fence post to fence post. Production in the CIS, Argentina, and Australia is likely to approach more normal averages, meaning it should increase by about a third. The EC-12 seems likely to back away from the hard-line subsidy stance it adopted this year, so a probable decrease in its production from 90,000 metric tonnes to closer to the five-year average of 85,000 metric tonnes does not appear as relevant.

The CIS is becoming more divided politically, implying it will become more difficult to negotiate credit facilities for future wheat exports. As for the present, portions of GSM credits already extended are being used by the CIS to pay for freight. The implication of this is that the federation is likely to have less financing available to pay for actual wheat and that a default on existing credit is not unlikely.

The bullish gaze into the future seems to have a much smaller focus. But again because of what is known now, future fuel need not be either that plentiful or combustible to propel the market into higher ground.

In the next month winter wheat begins breaking dormancy. Yields are unknown. Less-than-average yields would be extremely bullish unless simultaneously offset by news, for example, of a default by the CIS or perhaps a resolution to the GATT discord.

On the demand side, export sales should average 12.8 mln bushels a week in order for USDA projections of total exports of 1.250 mln bushels to be realized. Since there is about 6.25 mln metric tonnes of wheat on the EEP (Export Enhancement Program) balance sheet for export, a hiccup or several weeks of hiccups above the average could occur.

All told, I am of the opinion this market has topped. In addition to the bearish case I've described above, the dollar has rallied sharply in recent weeks, making the dollar denominated price of wheat more expensive.

And finally, my colleague pointed out a story that appeared the day before futures made their highs that told of US millers importing wheat from Canada — which has ample supply — because it was cheaper than purchasing domestic product. It would seem that Canadian wheat has come to represent a ceiling on US prices. Could it be that it was this news that derailed the market?

Given the uncertainty, I have no problem recommending to those who did not follow our advice of last month to stay in close contact with our hotline service that all long positions assumed as per this writer's advice over the past six months should be liquidated. As for the short side, it's only for the brave or perhaps, the incautious. I am at least one of the two: short March with stops at the highs.

Chart 14 – CBT Wheat Mar '92

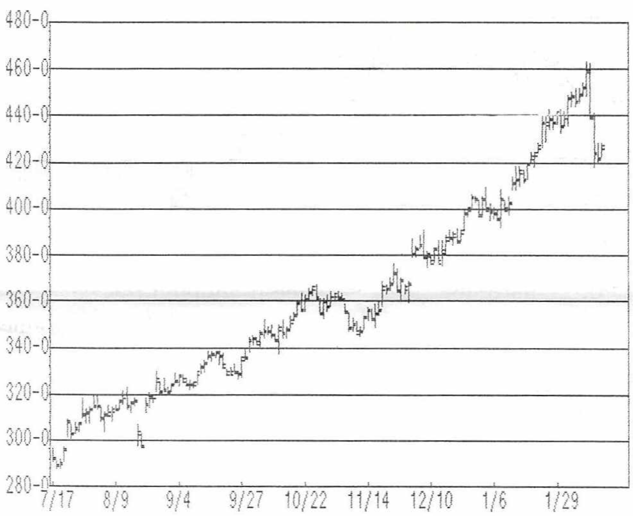
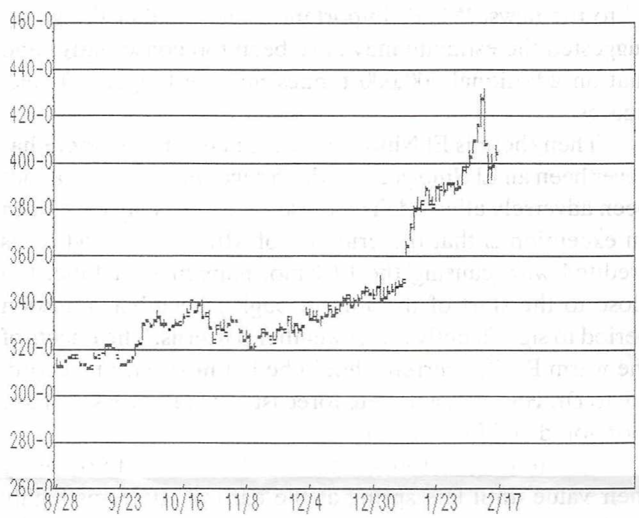


Chart 15 – CBT Wheat Sept '92



Sugar

One of the major underpinnings of the bullish case for sugar no longer exists: Clearly there is no tightness in the cash market. The premium of March to May, once as high as 0.30¢ has shrunk altogether. March '93 compared with current March is offered at a 4% premium, about two thirds the full cost of financing, storing, and insuring sugar for a year.

It is clear now the tightness that did exist until the end of the year was due to Cuba's inability to make good on its export commitments to Japan and that the situation has been alleviated by Thai sugar, which was not, as we had (perversely) hoped, diminished in amount by any ill-effects resulting from El Niño inspired weather.

The market has sunk as the spread has shrunk. A huge increase in the open interest to 103,000 lots suggests the bears expect the 8¢ to 10¢ range that has persisted for more than a year will be violated on the downside.

We are not so sure. The current supply/demand balance remains a tightrope act, i.e., all reliable estimates put production about equal to consumption and stocks next September (the end of the sugar marketing year) at around the critical 30% of usage level.

Recent news holds bearish connotations in India where producers of refined sugar have requested they be allowed to offer an additional 500,000 tonnes of whites for export to compensate for the low prices they are obliged to accept from the government, which tends to subsidize the more powerful growers at the expense of the refiners. The government, burdened by a heavy balance of payments deficit, is expected to accede to the request.

On the other hand, a group of industry statisticians meeting in Mexico City allowed that Cuba will produce no more than 6.5 mln tonnes of sugar this year, or 1.1 mln tonnes less than that country produced in 1990-91. It was the first official allowance of the diminished size of the Cuban crop. The stated reduction fell conservatively in the middle of other predictions I have read of Cuban production and was obviously fully discounted by the market; it reacted hardly at all to the news. What's important to note is that the group suggested the estimate may have been too conservative and that an additional 700,000 tonnes may be lopped off final figures.

Then there is El Niño. As we said last month, there has never been an El Niño year in which sugar production has not been adversely affected. The reason this year may have been an exception is that the eruption of Mt. Pinitubo, which is credited with causing the El Niño, happened in June, too close to the start of the July through December monsoon period to significantly affect weather patterns. The effects of the warm Pacific current should be felt next season according to Dr. Handler, a private forecaster whose views we have monitored and found accurate.

We are long October 11¢ calls. Time should not decay their value until late spring at the earliest. It seems highly unlikely given the fundamental picture that the recent decline represents the beginning of a bear market. I believe that here at 8¢, the bears will end their foray as disappointed as we were when the market tested and then failed to crash decidedly through the 9¢ level. Given the big buid-up in open interest, a rally of some dimension is probable. We would use it as an opportunity to lighten our present position by half.

Cocoa

We were stopped out of our long position at 1250, basis May as per our advice of December, stopped out again at 1199 as per our advice of last month, and stopped out yet again at 1135 as per our hotline update of Feb. 11.

I need no further proof that despite a deficit of as much as 160,000 tonnes, a less than significant effect will be made upon world inventories, which at seven-months supply at current grinding rates, are simply too burdensome.

The surprise is that the Ivory Coast now seems likely to harvest more than 700,000 tonnes, or less than 10% less than the record crop harvested last year. It is much larger than I expected, given not only the low world price that prevailed during the growing season but the even lower price — less than 67% the world price — that growers in that country are paid for their crop by the government.

Incredibly, cocoa prices are currently only $100 a tonne above their history-making lows (in real dollar terms) registered last summer.

To me, the market is as tempting as a Zero Bar — my favorite. My advice, however, is to do as do baseball fans in October: Wait until next year.

– David Rothberg

Chart 16 – N.Y. #11 Sugar Oct '92

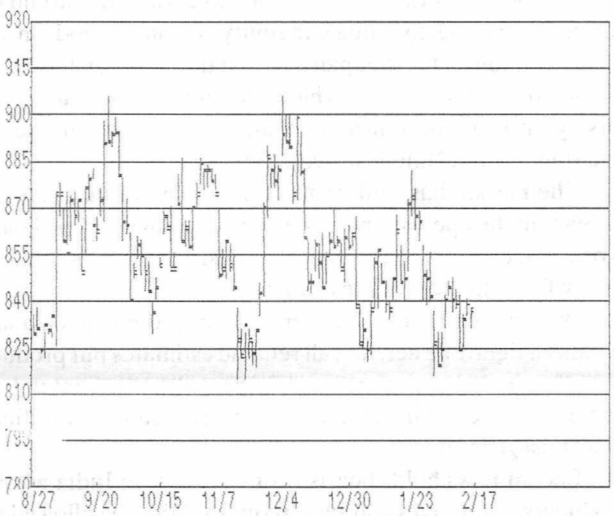
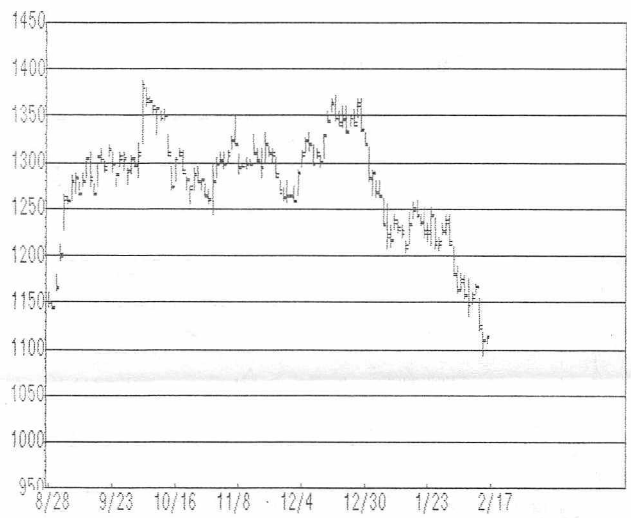


Chart 17 – N.Y. Cocoa May '92



FRIEDBERG CAPITAL MARKETS

Alliant Computer Systems Corp. update

The company reported total revenue of $43.8 million in 1991, compared with $72.8 million in 1990. This year's net loss was $9.5 million compared with a loss of $34.4 million in 1990.

Last November the company introduced the Campus/800 system, which represented approximately 30% of the fourth-quarter revenues. The company believes that this revenue growth will continue and that by the end of 1992, more than 50% of Alliant revenue will come from the Campus/800 product.

For the fourth quarter of 1991, the company showed a net income of $229,000 on net sales of $11 million, compared with a loss of $3,010,000 in 1990 on net sales of $17 million dollars.

Net working capital during 1991 fell to approximately $15.5 million from $24 million as at the end of 1990. Long-term debt almost wholly represented by our convertible subordinated debentures totalled $39.2 million. Clearly, asset coverage has deteriorated. Nevertheless, the company's new product and the small profit eked out the fourth quarter of 1991 encourages us to believe that a genuine recovery is in sight.

The converts have had a substantial recovery in price in recent weeks, rising to 31 from 15. At these levels the bonds yield 25.3% to maturity. These convertibles are a **HOLD** for risk-conscious accounts.

South African rand-denominated bonds

Bond: ESCOM 11%, due 31/10/93
Recent price: 92.60 bid/93.35 ask
Yield to maturity: 15.58%

Given the political risk and the high inflation rate currently prevailing in South Africa, these bonds are not for the faint of heart, a point that we made in an earlier comment (see Escom bonds: attractive yields but with strong caveats, Aug. 5, 1991).

In recent weeks the financial rand has weakened considerably, with the discount to the commercial rand now standing at 23%. This represents a capital loss to the present owners of bonds but an added yield incentive to new purchasers, as they are able to buy them in the cheaper financial rand and receive dividends in the dearer commercial rand.

For the short term, the bonds look attractive to those willing to bet on a peaceful and orderly transition of power. Longer term, the risks of nationalist and socialist economic policies far outweigh the benefits.

Recommended bond portfolio allocation for new portfolios

For new portfolios, we recommend the following investments:

DM and/or ECU fixed-rate bonds	40%
US dollar high-yield convertible bonds	20%
Canadian dollar bonds	25%
Argentina BICV	15%

Chart 19
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, ECU, CDN, SAR, ARG) or revalue (for SF and JY) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. **Rates as of February 14, 1992.**

	U.S. $	NEW ZEALAND $	AUSTRALIAN $	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT	CANADIAN DOLLAR	SOUTH AFRICAN RAND**	ARGENTINEAN PESO
1 year	4.32%		World Bank '93 yields 7.67% (.7317 A/US)			Canada '93 yields 4.89% (128.60 US/JY)	Denmark 93. yields 9.13% (6.576 Dkr/US)	Sweden '93 yields 10.29% (1.676 BP/US)			Canada '93 yields 6.91% (1.216 US/CD)	ESCOM '93 yields 15.58% (.2470 US/SAR)	
2 year	5.27%	Tourist Hotel '93. yields 9.11% (.5043 NZ/US)	CBA. 1/7/94 yields 8.88% (.7059 A$/US)										
3 year	5.79%			Sweden 1/2/95 yields 8.13% (1.735 US/DM)					EIB 12/7/95 yields 8.46% (5.962 FFr/US)				
4 year	6.23%			Bk. of Nova Scotia '96. yields 8.31% (1.7562 US/DM)							Ontario Hydro '96. yields 8.47% (1.2894 US/CD)		
5 year	6.66%			*World Bank '97. yields 7.74% (1.714 US/DM)									
6 year	6.85%				Australia '98. yields 6.91% (1.470 US/SF)								
9 year	7.33%									U.K. 21/2/01 yields 8.45% (1.1454 ECU/US)			Argentina BIC V '01 yields 18.55% (.4064 $/ARG)
Spot Exchange Rate	N/A	.5417	.7552	1.6252	1.4655	127.90	6.286	1.7723	5.5335	1.2579	1.1862	.2737	.9945

*For example, since a US$-based investor would receive 208 basis points (831-623) by holding the Bk. of Nova Scotia bond, the DM can depreciate to 1.7562 US/DM from the present spot exchange rate of 1.6252 US/DM over the next 4 years for the DM investment to break even with current US$ 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.

Chart 20
Foreign Currency Bonds

Date: February 14, 1992

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

ISSUER/MATURITY DATE/COUPON	BID	OFFER	CURR.ANN. YLD.TO MTY.	NEXT PAYMENT DATE
SOUTH AFRICAN RAND DENOMINATED BONDS				
ESCOM 11% 31/10/93 (semi)	92.60	93.35	15.58%	Apr. 30
DEUTSCHE MARK DENOMINATED BONDS				
KINGDOM OF SWEDEN 7 1/4% 1/2/95	97	97 3/4	8.13%	Feb. 01
EUROPEAN INV. BANK 5 1/2% 9/8/93	95.40	96.15	8.36%	Aug. 08
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	90	90 3/4	8.31%	May 07
WORLD BANK 5 7/8% 4/2/97 RRSP eligible	91.80	92,55	7.74%	Feb. 04
SWISS FRANC DENOMINATED BONDS				
GOVT.OF AUSTRALIA 5% 30/10/98	88	90	6.91%	Oct. 30
DANISH KRONE DENOMINATED BONDS				
KINGDOM OF DENMARK 9% 20/11/92	93.60	99.25	9.85 %	Nov. 20
KINGDOM OF DENMARK 8% 20/08/93	97.65	98.40	9.13%	Aug. 20
ECU DENOMINATED BONDS				
UNITED KINGDOM 9 1/8% 21/02/01	103 1/8	104 1/8	8.45%	Feb. 21
BRITISH POUND DENOMINATED BONDS				
KGDM of SWEDEN 9/3/8% 14/4/93	98¼	99	10.29%	Apr. 14
FRENCH FRANC DENOMINATED BONDS				
EUROPEAN INV.BANK 8 3/4% 12/7/95	100	100 3/4	8.46%	Jul. 12
JAPANESE YEN DENOMINATED BONDS				
GOVT.OF CANADA 23/7/93 5 5/8% RRSP eligible	100.20	100.95	4.89%	Jul. 23
CANADIAN DOLLAR DENOMINATED BONDS				
ONTARIO HYDRO 10 7/8% 08/01/96 (semi annual)	107.05	107.80	8.47%	Jan. 08
GOVERNMENT OF CANADA (semi annual) 6/12/93 7¼%	99.16	99.91	6.91%	Jun.06
NEW ZEALAND DOLLAR DENOMINATED BONDS				
C.N.IMP.BANK OF COMMERCE 27/07/92 14% RRSP eligible	101½	102¼	8.03%	Jul. 27
TOURIST HOTEL 0% 04/06/93	88 5/8	89 3/8	9.11%	4/6/93
AUSTRALIAN DOLLAR DENOMINATED BONDS				
General Electric 11/07/92 14 1/4% (semi)	101½	102¼	8.19%	Jul. 11
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	109 5/8	110 3/8	8.88%	Jul. 07
WORLD BANK 15/03/93 12 3/4% RRSP eligible	104¼	105	7.67%	Mar. 15
ARGENTINEAN PESO DENOMINATED BONDS				
ARGENTINA BIC V 1/5/2001	99.31	100.06	18.55% IRR	1st of month
U.S.DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03(semi) CV @$38 p/sh	81¼	83¼	10.55%	Dec. 15
ALLIANT COMPUTER 7.25% 15/05/12(semi) CV @$39.75 p/sh	29	31	25.33%	May 15
COOPER CO'S. 10 5/8% 01/03/05(semi) CV @$27.45 p/sh call in 1995 @100	90½	92½	12.11%	Mar. 01
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @$39.50 p/sh	39	41	15.26%	Mar. 01
BURNUP & SIMS 12% 15/11/00 (semi) CV @$16.79 p/sh	60½	63½	22.52%	May 15
U.S.DOLLAR DENOMINATED FIXED RATE BONDS				
FARM CREDIT CORP 7 3/4% 10/6/96 RRSP eligible	103	103 3/4	6.71%	Jun. 10
REPUBLIC of ARGENTINA 7/10/93 11% (semi) 1 yr. put	102 3/4	103½	8.54%	Apr. 07

U.S.DOLLAR DENOMINATED FLOATING RATE NOTES	Bid	Offer	Current Coupon	
UNITED KINGDOM 24/9/96 3 mo.LIBID-1/8 (qtly) *callable @100 09/91	99.98	100.28	4⅛%	Dec. 31
REPUBLIC OF ITALY 30/4/93 3 mo Limean(qtly)	99.60	100	4 3/32%	Jan. 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

FOREX RATES & UPDATE

Currency	Spot	3-Month	12-Month	Comments vis à vis US$	Comments vis à vis DM (Spot DM: 1.6265)
Australian dollar	0.7549-0.7554	0.7485-0.7492	0.7325-0.7337	Neutral	Cover*
Belgian franc	33.42-33.43	33.86-33.90	34.89-35.00	Sell*	Neutral
Danish krone	6.2845-6.2895	6.3735-6.3855	6.6095-6.6265	Sell*	Neutral
Dutch guilder	1.8280-1.8290	1.8530-1.8542	1.9120-1.9140	Sell*	Neutral
Finnish markka	4.4180-4.4200	4.4900-4.5000	4.6980-4.7200	Sell*	Remain short
Greek drachma	187.90-188.40	195.90-197.40	218.90-223.40	Neutral	Neutral
Hong Kong dollar	7.7528-7.7538	7.7578-7.7628	7.7828-7.7988	Neutral	Cover*
Irish punt	1.6330-1.6370	1.6060-1.6140	1.5190-1.5470	Sell*	Liquidate*
Italian lira	1230-1221	1243-1245	1305-1309	Sell*	Neutral
Malaysian ringgit	2.6020-2.6040	2.6220-2.6390	2.6520-2.7340	Neutral	Neutral
New Zealand dollar	0.5414-0.5421	0.5369-0.5378	0.5254-0.5271	Neutral	Cover*
Norwegian krone	6.3800-6.3900	6.4750-6.4920	6.7235-6.7465	Sell*	Neutral
Portugese escudo	140.00-140.30	143.00-144.10	151.50-153.80	Sell*	Remain long
Singapore dollar	1.6360-1.6380	1.6340-1.6375	1.6280-1.6390	Liquidate*	Neutral
Spanish peseta	102.21-102.31	104.32-104.48	109.96-110.26	Sell*	Neutral
Swedish krona	5.9070-5.9170	6.0250-6.0395	6.3270-6.3520	Sell*	Neutral

Explanatory Notes

*Indicates change in recommendation from last issue.

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, January 28:
The market letter is in the mail. There are no changes or new recommendations.

Friday, January 31:
There are no changes or new recommendations.

Tuesday, February 4:
There are no changes or new recommendations.

Friday, February 7:
There are no changes or new recommendations.

Tuesday, February 11:
This is a revised update for this week's tape.

We are of the opinion that wheat has topped out and advised liquidations of all wheat futures and options recommended over the past six months.

Aggressive accounts can establish short positions in September futures at the market, close today, at 4.08, understanding that the risk is to today's high of 432 anytime.

We are once again probing the long side of cocoa. Buy May futures at the market, close today, at 1169, placing stops at 1135, anytime.

Flash update, Thursday, February 13:
If March IMM D-mark drops below 6120 anytime, currently at 6160, liquidate long D-mark, Japanese yen, EMS and EMS-related currencies at the market, cancelling previous stops of 6050, close only, basis March D-mark.

Flash update, Friday, February 14, 8:21 a.m.:
We have liquidated our D-mark, Japanese yen, EMS, and EMS-related currencies as per yesterday morning's flash update, which suggested an intraday stop of 6120, anytime.

We are now advising going long the US dollar. Sell March IMM D-mark at the market, currently at 6127, placing initial stops at 6300, close only. Take corresponding action on other EMS, and EMS-related currencies and JY.

Friday, February 14:
This is a complete summary since our last market letter dated January 26 of all liquidations of open positions and new recommendations that remain outstanding.

On Tuesday, February 11, we advised liquidation of all long wheat futures options and go short September futures at approximately 391 with the risk of 432, anytime.

On Tuesday, February 13, we liquidated all D-mark, JY, EMS, and EMS-related currencies as the D-mark hit 6120 as per our flash update of the morning. On Friday, February 14, at 8.21 a.m. via flash update, we advised going long the US dollar by selling March IMM DM at approximately 6127, placing initial stops at 6300, close only. We advised corresponding action on other EMS and EMS-related currencies and Japanese yen.

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