FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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Will the Bundesbank strike back?

Germany's inflationary episode may be the year's most significant macro-financial event.

It will put (intolerable?) pressure on the European Exchange Rate Mechanism, particularly on sterling and the lira. It will exert considerable downward pressure on the US dollar, partly offset by cheapness considerations. It may derail worldwide bull markets, fed on cheap money. And, it may precipitate a full blown European recession in 1993, a most inopportune moment, given the fragility of the US recovery and the still free-falling Japanese economy.

It all began with reunification and the financially disastrous decision to overvalue the East German mark, creating a one-time monetary overhang of 17.7% (for a fuller discussion, see "Journey into the unknown," in our March 18 issue).

Next came the enormous financial transfer to East Germany: roughly DM140 billion in 1991 (5.5% of West Germany's GNP) and a probable DM180 billion in 1992 (6.5% of the current West German GNP).

Nearly DM60 billion and as much as DM85 billion respectively are accounted for by current transfers to *households* in those two years. These sums grow to DM85 billion and DM120 billion respectively by including the federal government's administrative expenditure on East Germany, interest spending, and current transfers to enterprises.

Only DM45 billion in 1991 and DM55 billion in the current year are transferred specifically for investment purposes, that is, to foster private investment and improve infrastructure. Thanks to these financial transfers, East German residents were able to purchase far more goods and services than they generated themselves; at about DM360 billion, domestic demand in East Germany in 1991 was almost twice as high as GNP!

Effectively, West Germany's savings, via transfer subsidies, have been drawn down for consumption purposes, with obvious *future* inflationary consequences. Furthermore, the paucity of investment in East Germany guarantees its dependency on its rich brother for years to come, which in turn guarantees an unending stream of eastwardly flowing subsidies.

Resistance to tax increases in West Germany to fund those transfers — tax revenue in East Germany in 1991 made up no more than 3.5% of aggregate German revenue, although East German residents represent 20% of the entire German population — will shift the responsibility to the Bundesbank. This means that interest rates in the private sector will have to rise sufficiently to make private domestic savings attractive.

The fall-off in domestic savings has had a predictable impact on the current account (see Chart 1). While most observers believe that Germany's current account deficit for 1992 and 1993 will be smaller than 1991's, they predicate this development on a fall in domestic demand. On current trends, and absent a much firmer Bundesbank monetary policy as we have seen, a further deterioration is the more likely outcome.

Massive deficit spending, oriented to sustain consumption, is not the only culprit. The Bundesbank has allowed money supply to grow well beyond its self-imposed target range of 3.5% to 5.5%. During March, M3 grew an annualized 9.7% relative to the average level in fourth quarter 1991 (see Chart 2).

The main determinant of this overshoot is the explosive growth of bank lending to enterprises, which in the fourth quarter 1991 grew at an annual rate of 14% compared with 10% in the third quarter. It is significant to note that loans

In this issue

3 **US Dollar** Losing altitude
3 **Japanese Yen** Better, but not that good
4 **Stock Indexes** Real interest rates: high and going higher
6 **Soft Commodities** Coffee, cocoa, sugar
8 **The Exotics** Australian dollar
12 **Forex Rates & Update**
12 **Hotline Update**

Contributions by Albert D. Friedberg, Dr. Steve H. Hanke, David B. Rothberg, Daniel A. Gordon, and Michael D. Hart.

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with *lending rate subsidies* in 1991 accounted for about one-sixth of all long-term real lending to domestic enterprises and individuals in all of Germany. This has forced the Bundesbank to admit that "the high level of market rates is largely neutralized thereby, and by other types of subsidies (such as investment and depreciation allowances). This also means, however, that interest subsidies *reduce the impact of monetary policy on the demand for credits*."

In conclusion, Germany's high interest rate policy is in tatters: Subsidized lending is blunting its impact, money supply has exploded (and the monetary overhang of July 1990 remains), consumption rather than investment has sapped the nation's savings and is likely to do so for as long as the eye can see.

Consumer prices have crept up to an annual increase of 4.7%. Widespread labor discontent and the outbreak of strikes, however, tell us what shortages have always taught us: excessive domestic demand and, latently, a higher rate of inflation than reflected by the CPI.

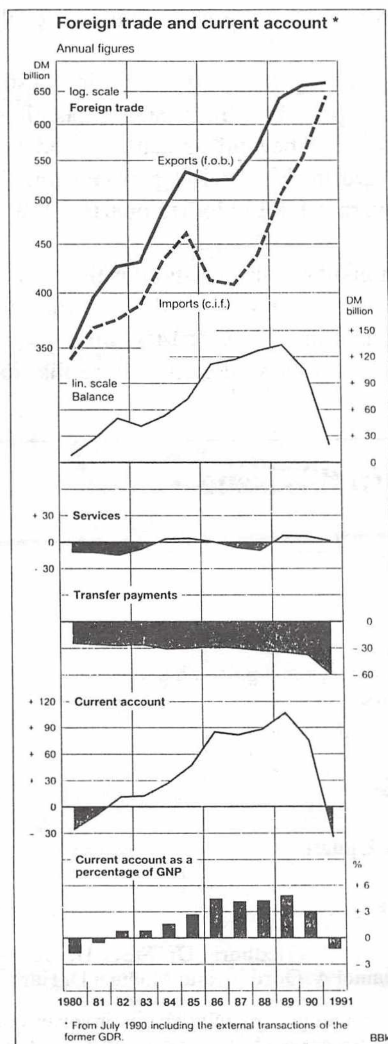
Consumer prices are known to lag inflationary pressures (once in motion, however, they suffer from inertia and do not quickly reflect deflationary tendencies). But, more importantly, the moderate CPI performance has been aided by the relatively strong DM: Imported goods in January were 2.9% *cheaper* than a year earlier. The Bundesbank's preference for a strong DM should, therefore, not be easily dismissed.

In sum, we continue to believe that inflationary pressures in Germany are far greater than generally perceived and that a much tougher monetary policy is called for than hereto.

The ball is in the "Bubba's" court.

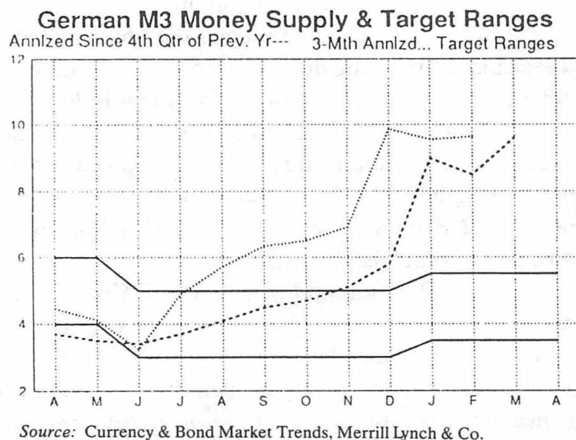
STRATEGY: *We have capitalized on our inflationary perception by being short Euro-DM contracts (betting that short-term interest rates will rise) via cheap put options, by being long DM versus yen and, more recently, by being long DM outright (see Hotline Update for May 5). Retain these positions.*

Chart 1



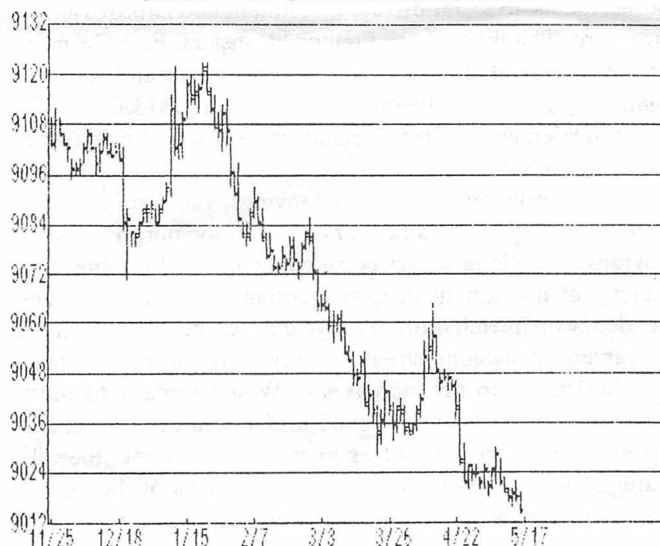
Monthly Report of the Deutsche Bundesbank, March 1992

Chart 2



Source: Currency & Bond Market Trends, Merrill Lynch & Co.

Chart 3 – LIF Short Euromark June '92



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US DOLLAR

Losing altitude

The extremely weak recovery coupled with a monetary policy that countenances negative interest rates (at the short end of the spectrum) have finally tilted the forces underpinning the US dollar. In recent weeks, the US unit has slipped roughly 3.9% against both the DM and the yen.

The enormous negative yield differential (575 basis points *vis à vis* German short-term rates) is too large a handicap to overcome, despite the relatively cheap real valuation of the dollar.

A new test of the DM1.50 level is in the offing.

STRATEGY: *Remain long DM, as per our Hotline Update of May 5. Place stops at 59.50, basis September '92 IMM contract, close only.*

Chart 4 – DM/YEN June '92

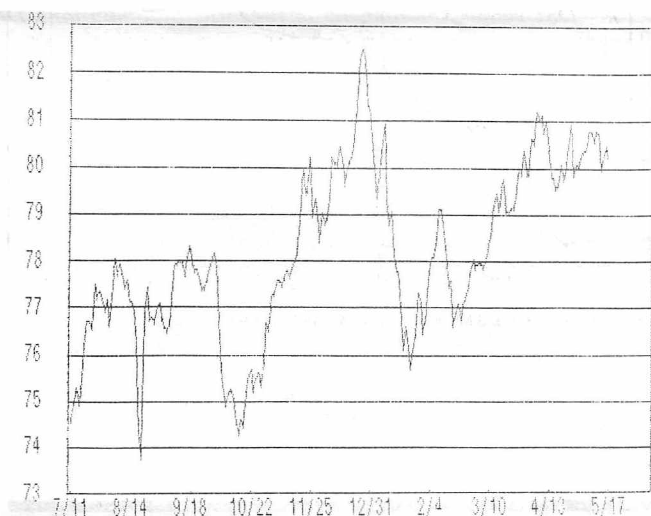
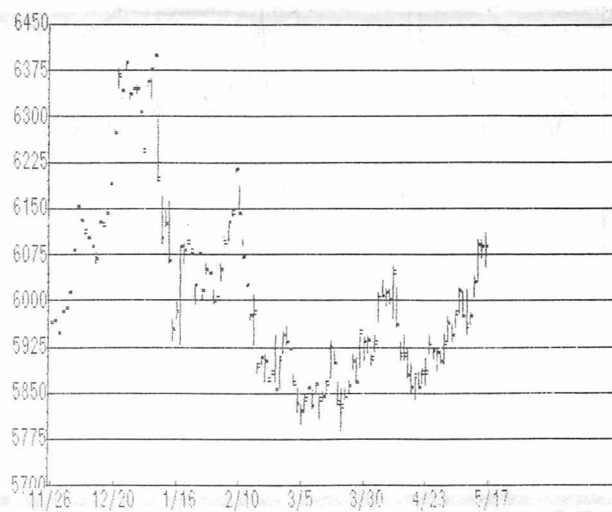


Chart 5 – CME Deutsche Mark Sept '92



JAPANESE YEN

Better, but not that good

The economic contraction has been gaining some downside momentum (see Charts 6 and 7). At the same time, the ratio of inventory to shipments remains high by historical standards, leading us to believe that an inventory adjustment process is likely to run into the third quarter.

Government bond yields have climbed back 40 basis points in recent weeks; 10-year government paper now yields 5.8%. Short-term rates on the other hand have fallen to $4\frac{5}{8}$% as credit demands continue to soften. The yield curve has become the most positive since early 1988, even while M2 + CD growth remains less than 2% higher than a year ago.

The bubble continues to burst. Real estate in some sectors has reportedly fallen as much as 50%, while stock prices, despite the recent rally, remain more than 50% off their 1990 highs.

Despite the huge March $11.7 billion current account surplus and the $8.8 billion long-term capital inflow, the yen did not shake off its bearish shackles until a US official suggested that the yen is too cheap. It turns out that the highly volatile short-term capital series has been showing some striking behavior: In March it set a record $20.1 billion *outflow.* Most of this outflow may be attributed to Japanese banks' reducing their net external liabilities in the process of shrinking their balance sheets.

It is difficult to judge how long this process will continue although an economist at Salomon Brothers in Tokyo believes that in a matter of three to four more months the Japanese bank will have repaid all their net short-term borrowings. If true, short-term selling pressure on the yen will be lifted, and the currency will once again follow the path of its current account.

We cannot, however, dismiss the real possibility that the

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Bank of Japan will take advantage of recent yen strength and once more lower short-term rates in light of the very weak economic conditions.

To sum it up, the yen is likely to gain on the weakening US dollar but should continue to lose ground *vis à vis* the deutschemark.

STRATEGY: *You are short the yen against a long position in DM. Place stops at 79¥/DM, basis the spot cross, New York close.*

Chart 6

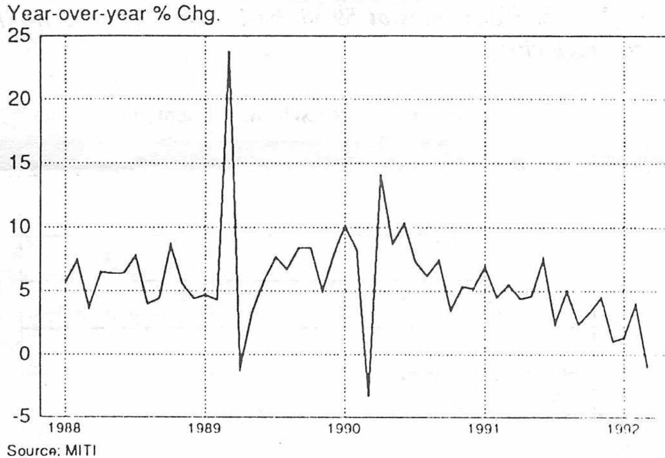
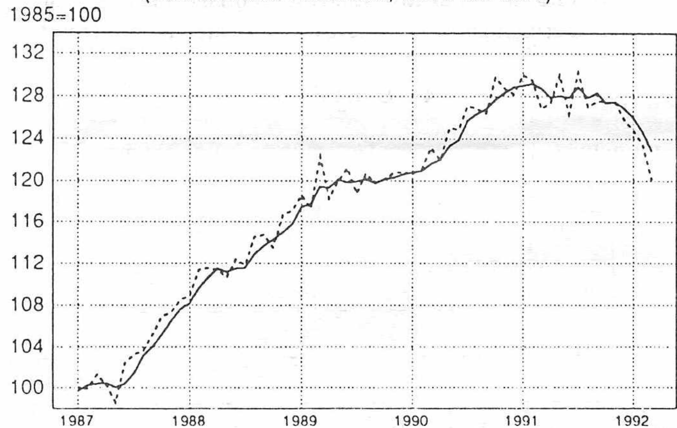


Chart 7



Source: Currency & Bond Market Trends, Merrill Lynch & Co.

STOCK INDEXES

Real interest rates: high and going higher

In what at times has appeared to be desperate scramble, the Federal Reserve has attempted to stimulate the economy. It has done so by engineering a major decline in the discount rate to 3.5% from 9.5% only three years ago. In consequence, market-determined short rates have fallen sharply, with the current federal funds rate running about 3.75%.

Many economists, including our respected friend Professor Allan Meltzer, believe that the Fed, in its attempt to pull the economy out of recession, has overdone it and has risked promoting another inflation. Prof. Meltzer may well be right. The Fed controls money growth through manipulating short interest rates. However, the reactions of monetary growth and the economy are much delayed, and there is many a slip twixt cup and lip. The lower Fed-engineered interest rates may generate an explosion of money growth in the autumn of 1992, which will set inflation aflame in 1993-94. At least, that's Professor Meltzer's concern.

The general orthodox view of the financial markets clearly implies that such a scenario is in the cards. In spite of the low 3.75% short-end rate, long-term bonds are yielding a whopping 8%. The difference of 4.25 percentage points is almost unprecedented. If these rates were expected to persist for a long time, then any borrower, for whatever period he needed cash, would be induced to borrow short and play rolly-polly. No one would be so imprudent as to pay 8% through the nose for long-term credit. However, both corporations and governments are still issuing plenty of long-term paper, even in the face of the high premiums *vis à vis* short rates.

The orthodox explanation is that the market anticipates that short interest rates will rise to something higher than 8% in future years. Hence, even though short money is cheap now, it will become more expensive with each future rollover.

To illustrate the point, consider the following example: Assume that your are borrowing for only two years up to May 1994 and that you have a credit rating equal to that of the federal government. You could issue a two-year note, with a yield of 5.5% today. However, suppose you expected short

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rates to remain at their present 3.75% level for the entire year to May 1993. In that case, if you had issued two-year paper, it would imply that you were expecting short interest rates for the year beginning May 1993 to rise to more than 7.5%, an increase of 3.75 percentage points in the year beginning May 1993.

Most of us would anticipate that short rates of 7.5% for the year beginning May 1993 would herald a new outbreak of inflation, say back to something over 5%. Even though we believe that there will be upticks in inflation, we don't anticipate such a surge in inflation beginning in one year (see "Resiliency lost," in our March '92 issue). Indeed, such high implied inflation expectations clash with other fragments of evidence we can bring to bear.

- First, even though the Fed has pushed short rates down, monetary growth remains very sluggish. For example, the annual growth rate of M2 over the past 52 weeks has averaged only about 2.5%. Recall that we identified the reason for that slow growth, even in light of the sharp reductions in short rates: It is the peculiar process of closing insolvent depository institutions, a process that continues as far as the eye can see (see "Solving the riddle," in our November 1991 issue and "Interpreting the Fed's last move" in our December 1991 issue).

- Second, commodity price indexes, such as the Commodity Research Bureau's, have been trending downward for some time and are at very low levels.

- Third, the dollar price of gold is in a downtrend and remains weak.

- Fourth, the Euro-German recession and continuing Japanese squeeze will add downward pressure on world prices, which will spill over into the United States.

No let's move back to those high nominal interest rates. From our point of view, they cannot be explained by anticipated high inflation. If not that, then what?

I conjecture that the main villain (if debtor) or hero (if creditor) is that credit market participants expect real interest rates (nominal rates, minus inflation) to be higher in the future than in the past. That, I suspect, is quite rational, and the consequences are profound.

Before reviewing some of the implications that follow from real rates, we present the argument that supports the fact that real rates are high and will probably move higher. Incidentally, indexed Gilts, which virtually eliminate the inflationary effect, are yielding almost 4.5% compared with about 4.1% a year ago. Why are these yields so high and probably going higher?

- First, there is an enormous *effective demand* for profitable capital investments, particularly in those countries throughout the world that are liberalizing their economies and introducing market reforms. (By the way, we are talking here about effective demand for private investments, not the so-called capital "needs" that have been bandied about by members of the foreign aid establishment.)

- Second, the populations of the wealthy countries are aging. In consequence, the relative *supply* of saving to finance effective investment *demands* is becoming smaller, because older people tend to save less of their total income than young people. Indeed, older people tend to actually run down their wealth, rather than add to it by saving. To balance a strong investment *demand* with a weak *supply* of savings, real interest rates must be relatively high.

IMPLICATIONS: The implications of high real rates are profound. They create a saver's paradise, something we haven't seen for decades. Indeed, we have never seen risk-free, real rates of 4.5% to 5% for any sustained period in the past.

High real rates on bonds also imply that stock prices are too high relative to earnings (earnings yields on stocks are too low relative to real yields on bonds). Stock prices must, therefore, come down, so that the real yields on stock and bonds are more appropriately balanced. Chart 8, which contains our stock/bond switch signals, confirms that conclusion.

It is clear that the stock market participants have not yet digested the implications of our high real interest rate story. When they do, the stock market will be in for a rough ride down.

At this point, we must state that there is a risk attached to our high real interest rate story and its implications (that stock prices must come down, so that the earnings/price ratio on equities — the earnings yield — rises to make real yields on stocks competitive with high real yields on bonds).

The risk is that the orthodox view of why long nominal rates are high (held by Professor Meltzer, among others) is correct. The orthodox view holds that inflation will break out in the next few years.

This implies that even though real yields on long bonds are high now, high real yields are transitory and will come down as soon as inflation picks up. Now, if the orthodox view is correct, it will be reductions in the real yields on bonds, not an increase in the earnings yields on stocks (which is implied by our high real interest rate story), that brings the real yields on stocks and bonds into a more appropriate balance.

In closing, and by way of summary, the stock and bond markets are out of line at present. As our switch model implies, the earnings yields on stocks are low relative to bonds. Indeed, the earnings yield (earnings/price ratio) on stocks is lower than at any time since we started recording them in the fourth quarter of 1929. Therefore, stocks are not competitive with bonds.

To bring real yields in the stock and bond markets into balance, and make them equally competitive, one of two changes must occur: 1) earnings yields on stocks must rise (stock prices must fall) or 2) real yields on bonds must fall.

The first change will occur if our high real interest rate

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story is correct. If the orthodox view (the high inflation story) is correct, the second change will occur. Given our general bearish view of the stock market's fundamentals (see "The bull's last, dying gasp?" in our January 1992 issue) and the argument presented here, we conclude that a prudent speculator should be on the short side of the stock market. The risk that the orthodox view may be right is worth taking.

STRATEGY: *Add to long S&P put positions. For those with more fortitude, sell the June S&P stock index, placing stops at 419.50, close only.*

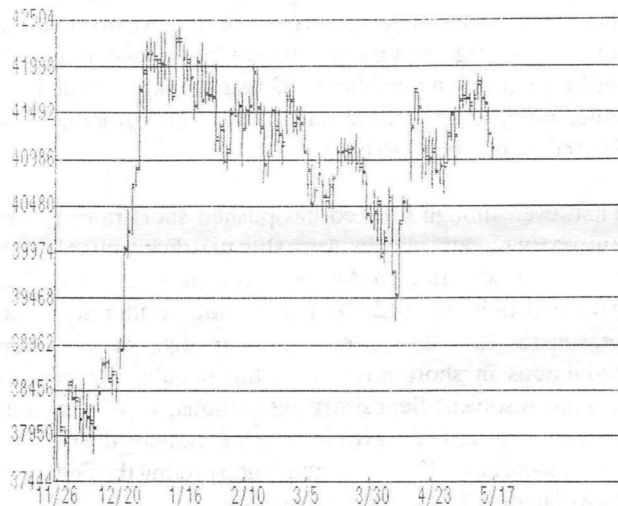
– Dr. Steve H. Hanke

Chart 8 – Stock/Bond Switch Signals

Quarter	Signal
89.1	2.01
89.2	2.77
89.3	2.74
89.4	- 0.63
90.1	0.47
90.2	3.31
90.3	- 0.14
90.4	3.44
91.1	3.04
91.2	- 0.83
91.3	- 2.52
91.4	- 1.72
92.1	- 1.93

Notes:
1. A positive number is bullish for stocks, and a negative number is bullish for bonds.
2. Signals are effective for the *following* quarter. Hence, for the second quarter of 1992, the signal favors bonds, and speculators in the stock market should be short.
3. The switch model was tested with quarterly data starting in 1929, and its superiority was validated. See: S.H. Hanke, "Stocks vs. Bonds," *Friedberg's Commodity and Currency Comments*, September 16, 1990.

Chart 9 – CME 500 Stock Index June '92



SOFT COMMODITIES

Coffee

Coffee prices rallied this past week in response to news that producer nations, notably Colombia and Costa Rica, intend to suspend sales in an attempt to stem a downtrend so severe it frightened this author into wondering whether we were in the midst of a deflation similar to the one that helped smother economic life in the midst of the '30s.

The world's second largest internationally traded commodity at one point sank to 59¢ a pound. In nominal terms, the price is less than it's been since 1975. In real terms, it's cheaper than at any time for which I can find records. I'd hazard that it's at least as cheap as it was in the midst of the Great Depression.

We are not in a deflation; the inflation of equity values testifies to that. And there is no need for producers to try to put an artificial prop under prices. The incentives created by the gruesome bear market virtually guarantee a rebound of major proportions. The rebound may come too late for politicians but not too late for patient speculators.

Early estimates of Brazil's 1992-93 crop call for a reduction of 30.8%. Brazil is the world's largest coffee producer. Even more telling than the raw numbers is the news that the crop is due unusually early this year, because the "extremely poorly managed trees has speeded up maturation...."

Consumer inventories remain high. But when it is cheaper to purchase a pound of beans than it is to buy a single cup of coffee at a donut shop, it is safe to imagine heavy discounting forthcoming. The discounting will serve not only to work off stocks but also to increase consumer demand for what is soon to become the cheapest beverage available next to water.

The seeds of the next bull market are being planted as we drink.

Buy July '92 coffee at 54.00 or better.

Cocoa

As we said last month, the cocoa world had two major expectations frustrated this year. The first expectation was that production in the Ivory Coast, the world's largest producing nation, would decline significantly. The second was that consumption would increase by at least its secular annual average of about 4.4%.

Unfortunately, the Ivory Coast's production declined by only about 10%, or less than half what was hoped for by the bulls. Worse, after holding back on sales in the first half of the year and, in the process, leading consumers to imagine the

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crop was in fact in line with much reduced expectations, the country had to bow to an agreement made with the IMF whereby it was obliged to sell forward at least two thirds of its crop before the end of the crop year. The sales, therefore, were not only heavy but shockingly disappointing.

On the consumption side, usage increased by only about 1.5%. The lower-than-the-secular-average-rate-of-usage was attributable to the world recession and to reduced demand from Eastern Europe and the CIS.

In the recent decline, cocoa prices have made new post-war lows (in real terms). The onerous price decline adds still another year of disincentives to producers to manage existing crops. In a May 11 report from Ivory Coast, Reuters tells us that at current levels, cocoa production is no longer profitable in that country.

World demand should increase as the world emerges out of the recession and in response to the extremely attractively priced offerings.

The first statistical estimate of the 1992-93 crop is due in early summer. Although stopped out, we look to re-enter around 845, basis July '92.

Sugar

This market has an historical volatility like no other commodity. Today, it sits at the mid 9¢ level, nervous, still waiting production data from Cuba and implicitly consulting with meteorologists.

With production, consumption, and stocks being so finely in balance, a shock from either dimension could easily mark this market the second major bull of the decade after wheat, and the first of the emerging cycle that we believe will be good for commodities in general. Remain long October 11¢ calls.

– David B. Rothberg

Chart 10 – N.Y. Coffee 'C' July '92

Chart 11 – N.Y. Cocoa July '92

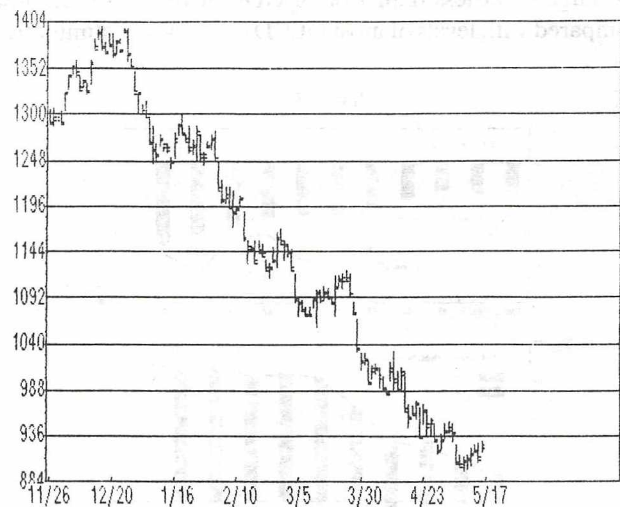
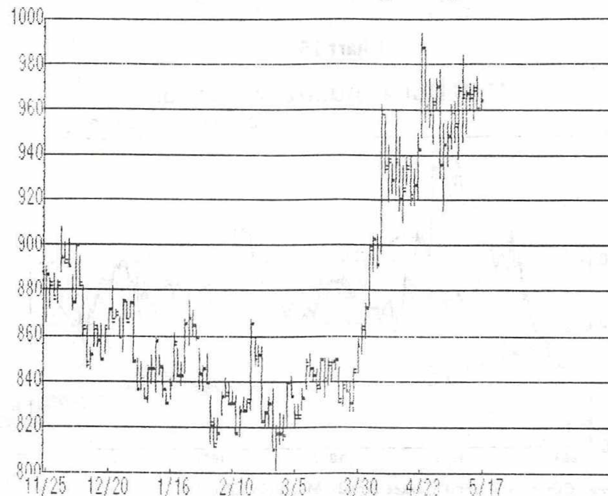


Chart 12 – N.Y. #11 Sugar July '92



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Australian dollar

The combination of a stimulative budget and falling interest rates may lead to a slightly weaker currency in the months ahead.

The economy has already begun to recover, led by strong growth in consumption during the March quarter (around 4% annualized) and a strong increase in housing finance. Nevertheless, in the budget message of last February dubbed "Recovery Master Plan," Prime Minister Paul Keating announced a shift in the budget balance to a deficit equal to 2% of GDP for 1992-93.

In the meantime, lower than expected tax revenues may swell the projected A$6.8 billion deficit for 1991-92; for the nine month period to March 1992 the deficit was A$11.17 billion, compared with A$3.8 billion a year earlier.

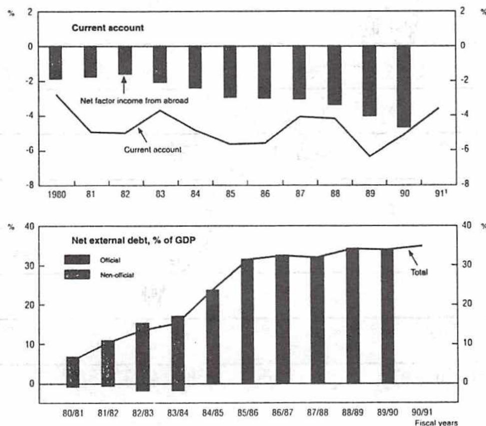
While there is little concern that the public debt will grow too large — at less than 19% of GDP, it remains quite low compared with levels of most OECD countries — stimulative measures may widen the current account deficit and increase the net external debt as a percentage of GDP (see Chart 13).

A deflationary monetary policy (see Chart 14) has been successful in moderating inflation. But wage rigidities have forced unemployment up to 10.4%, the highest in 26 years.

In our opinion the currency's future direction remains tied to the future direction of the current account deficit (likely to widen thanks to a stimulative fiscal policy), the course of real interest rates (likely to continue falling, as monetary policy becomes more expansionary), and the country's terms of trade (determined by US dollar inflation and trends in the world economy). In all, we believe the weight of the evidence points to a somewhat lower Australian dollar over the coming 12 months, a decline that is likely to overcome the 2% forward discount *vis à vis* US dollars.

STRATEGY: *Sell against both the US dollar and DM.*

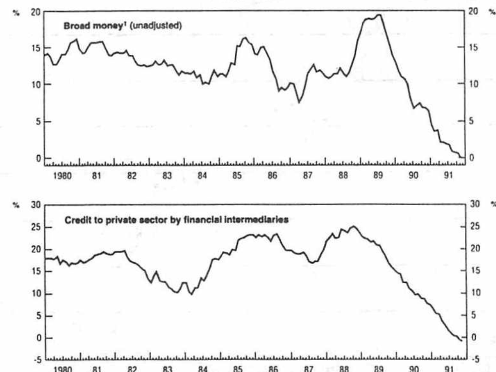
Chart 13



1. Estimates.
Source: Australian Bureau of Statistics, *Foreign Investment Australia; OECD, National Accounts* and estimates.

From OECD Economic Survey, Australia April 1992

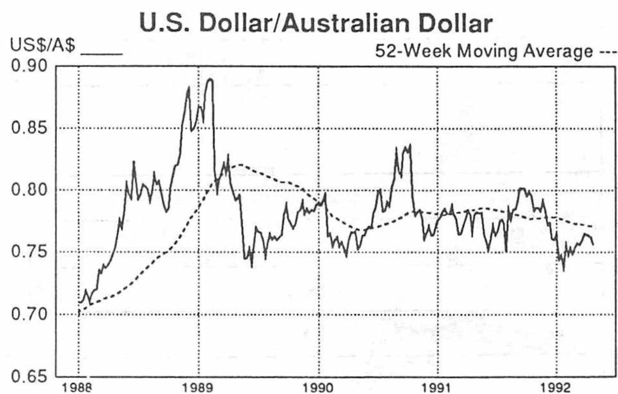
Chart 14



1. M3 plus borrowings from private sector by non-bank financial institutions less the latter's holdings of currency and bank deposits.
Source: Reserve Bank of Australia and OECD, *Main Economic Indicators.*

From OECD Economic Survey, Australia April 1992

Chart 15



Source: Currency & Bond Market Trends, Merrill Lynch & Co.

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Chart 16

BASKET: U.S. 30%, JAPAN 41%, Germany 9%, UK 11%, New Zealand 9%

YEAR	US DOLLAR PER AUSTRALIAN	U.S. 1967 =1.00	U.S. 1973 =1.00	BASKET 1967 =1.00	BASKET 1973 =1.00
1967	1.1125	1.0000	1.2931	1.0000	1.2401
1968	1.1125	1.0150	1.3125	0.9575	1.1874
1969	1.1110	1.0418	1.3472	0.9814	1.2171
1970	1.1137	1.0588	1.3692	1.0029	1.2437
1971	1.1361	1.0197	1.3186	0.9953	1.2343
1972	1.1923	0.9494	1.2277	0.9573	1.1872
1973	1.4195	0.7733	1.0000	0.8064	1.0000
1974	1.4378	0.7356	0.9512	0.7685	0.9530
1975	1.3102	0.7662	0.9908	0.8117	1.0065
1976	1.2252	0.7637	0.9875	0.7734	0.9591
1977	1.1090	0.8003	1.0349	0.8299	1.0292
1978	1.1447	0.7730	0.9996	0.8431	1.0456
1979	1.1179	0.8073	1.0439	0.9169	1.1371
1980	1.1395	0.8162	1.0555	0.9622	1.1932
1981	1.1493	0.7497	0.9695	0.8596	1.0660
1982	1.0174	0.7921	1.0242	0.8695	1.0783
1983	0.9024	0.8453	1.0931	0.8770	1.0876
1984	0.8796	0.8701	1.1252	0.8511	1.0554
1985	0.7008	1.1624	1.5032	1.0853	1.3459
1986	0.6709	1.1351	1.4679	1.1397	1.4133
1987	0.7009	1.0382	1.3425	1.1189	1.3875
1988	0.7842	0.8996	1.1634	1.0126	1.2558
1989	0.7925	0.8675	1.1218	0.9437	1.1703
1990	0.7813	0.8646	1.1181	0.9886	1.2259
1991	0.7791	0.8755	1.1321	0.9958	1.2349

Chart 17 – RATES

Spot	1 Month	3 Month	6 Month	12 Month
.7569 - .7564	.7552- .7559	.7519 - .7529	.7476 - .7488	.7400 - .7425

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FRIEDBERG CAPITAL MARKETS

Chart 18 – Foreign Currency Bonds

Date: May 14, 1992

WE OFFER THE FOLLOWING BONDS SUBJECT TO CHANGE WITHOUT PRIOR NOTICE:
MINIMUM US$5,000 (CDN.$7,000).

ISSUER/MATURITY DATE/COUPON	BID	OFFER	CURR.ANN. YLD.TO MTY.	NEXT PAYMENT DATE
DEUTSCHE MARK DENOMINATED				
KINGDOM OF SWEDEN 7 1/4% 1/2/95 call @ 100 1/2 in /93	96.45	97.20	8.43%	Feb.01
EUROPEAN INV. BANK 5 1/2% 9/08/93	96.60	97.35	7.84%	Aug.08
BANK OF NOVA SCOTIA 5 5/8% 07/05/96 RRSP eligible	90½	91¼	8.30%	May 07
WORLD BANK 5 7/8% 4/02/97 RRSP eligible	91.60	92.35	7.87%	Feb.04
D. Gordon Rep. 0% perp.	n/a	n/a	n/a	n/a
SWISS FRANC DENOMINATED BONDS				
GOVT. OF AUSTRALIA 5% 30/10/98	88	90	6.97%	Oct.30
DANISH KRONE DENOMINATED BONDS				
KINGDOM OF DENMARK 9% 20/11/92	99.10	99 3/4	9.11%	Nov.20
KINGDOM OF DENMARK 8% 20/08/93	97 3/4	98½	9.27%	Aug.20
ECU DENOMINATED BONDS				
UNITED KINGDOM 9 1/8% 21/02/01	103½	104¼	8.41%	Feb.21
BRITISH POUND DENOMINATED BONDS				
KGDM OF SWEDEN 9 3/8% 14/04/93	99¼	100	9.29%	Apr.14
FRENCH FRANC DENOMINATED BONDS				
EUROPEAN INV.BANK 8 3/4% 12/07/95	99¼	100	8.73%	Jul.12
JAPANESE YEN DENOMINATED BONDS				
GOVT. OF CANADA 23/7/93 5 5/8% RRSP eligible	100.90	101.65	4.14%	Jul.23
CANADIAN DOLLAR DENOMINATED BONDS				
ONTARIO HYDRO 10 7/8% 08/01/96 (semi annual)	106 5/8	107 3/8	8.47%	Jan.08
GOVERNMENT OF CANADA (semi annual) 7% 06/12/93	99.10	99.70	7.21%	Jun.06
NEW ZEALAND DOLLAR DENOMINATED BONDS				
TOURIST HOTEL 0% 04/06/93	91 5/8	92 5/8	7.67%	4/6/93
SOUTH AFRICAN RAND DENOMINATED BONDS				
ESCOM 11% 31/10/93 (semi)	95	95 3/4	14.45%	Apr.30
AUSTRALIAN DOLLAR DENOMINATED BONDS				
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	110 3/8	111 3/8	7.91%	Jul.07
WORLD BANK 15/03/93 12 3/4% RRSP eligible	103 7/8	104 5/8	6.62%	Mar.15
ARGENTINEAN PESO DENOMINATED BONDS				
ARGENTINA BIC V 1/05/2001 callable in full on any interest date	93.15	93.90	19.38%IRR	4th day of mth.
U.S. DOLLAR DENOMINATED FIXED CONV.BONDS				
PACIFIC SCIENTIFIC 7 3/4% 15/06/03 (semi) CV @$38 p/sh	87	88½	9.67%	Jun.15
ALLIANT COMPUTER 7.25% 15/05/12 (semi) CV @$39.75 p/sh	27	30	26.24%	May 15
COOPER CO'S 10 5/8% 01/03/05 (semi) CV @$27.45 p/sh callable in 1995	91	93½	11.94%	Sep.01
DICEON ELECTRONICS 5.5% 1/3/12 (semi) CV @$39.50 p/sh	37	39½	15.85%	Sep.01
BURNUP & SIMS 12% 15/11/00 (semi) CV @$16.79 p/sh	77½	80	17.13%	May 15
U.S. DOLLAR DENOMINATED FIXED RATE BONDS				
FARM CREDIT CORP. 7 3/4% 10/06/96 RRSP eligible	103½	104¼	6.52%	Jun.10
REPUBLIC OF ARGENTINA 7/10/93 11% (semi) 1 yr. put	104	104 3/4	7.43%	Apr.07

U.S. DOLLAR DENOMINATED FLOATING RATE NOTES	BID	OFFER	CURRENT COUPON	
UNITED KINGDOM 24/09/96 3 mo.LIBID-1/8 (qtly)*callable @ 100	99.99	100.29	4 1/16%	Jun.30
REPUBLIC OF ITALY 30.04/93 3 mo Limean (qtly)	99.60	100	4 1/16%	Jul.31

Although we monitor these issues specifically, we also can fill any order in any foreign bond.

For further information and current prices please call:
FRIEDBERG CAPITAL MARKETS (416) 364-2700

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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, SAR, DKr, BP, FFr, ECU, CDN, SAR, ARG) or revalue (JY) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. **Rates as of May 15, 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	4.06%	Tourist Hotel '93 yields 7.67% (.5163 NZ/US)	World Bank 12¾% '93 yields 6.62% (.7395 A/US)	EIB 5½% '93 yields 7.84% (1.668 US/DM)		Canada 5⅝% '93 yields 4.14% (129.90 US/JY)	Denmark 8% 93, yields 9.27% (6.524 Dkr/US)	Sweden 9⅜% '93 yields 9.29% (1.735 BP/US)				ESCOM 11% '93 yields 14.45% (.2643 US/SAR)	
2 year	5.07%		CBA, 14% '94, yields 7.91% (.7183 A$/US)										
3 year	5.70%			Sweden 7¼% '95, yields 8.43% (1.738 US/DM)					EIB 8¾% '95, yields 8.73% (5.885 FFr/US)				
4 year	6.14%			Bk. of Nova Scotia 5⅝% '96, yields 8.30% (1.745 US/DM)							Ontario Hydro '96 yields 8.47% (1.3116 US/CD)		
5 year	6.59%			*World Bank 5⅞% '97 yields 7.87% (1.709 US/DM)									
6 year	6.77%				Australia 5% '98, yields 6.97% (1.5028 US/SF)								
9 year	7.10%									U.K. 9⅛% 2001 yields 8.41% (1.1433 ECU/US)			***BIC V '01 yields 19.38% (.3726 $/ARG)
Spot Exchange Rate	N/A	.5342	.7577	1.610	1.486	129.8	6.2125	1.822	5.4065	1.2759	1.2025	.2907	.99

*For example, since a US$-based investor would receive 128 basis points (787-659) by holding the World Bank DM bond, the DM can depreciate to 1.709 US/DM from the present spot exchange rate of 1.610 US/DM over the next 5 years for the DM investment to break even with current US$ 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.

***Yield in this case is a determined internal rate of return.

Recommended bond portfolio allocation for new portfolios

For new portfolios, we recommend the following investments:

DM and/or ECU fixed-rate bonds	45%
US dollar high-yield convertible bonds	20%
Canadian dollar bonds	20%
Argentina BICV	15%

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FOREX RATES & UPDATE

Currency	*Spot*	*3-Month*	*12-Month*	*Comments vis à vis US$*	*Comments vis à vis DM (Spot DM: 1.6120)*
Belgian franc	33.28-33.32	33.74-33.81	34.87-35.01	Remain long	Neutral
Danish krone	6.2325-6.3275	6.4185-6.4295	6.5650-6.5875	Remain long	Neutral
Dutch guilder	1.8180-1.8200	1.8443-1.8468	1.9097-1.9112	Remain long	Neutral
Finnish markka	4.3725-4.3825	4.4735-4.4865	4.7225-4.7475	Remain long	Neutral
Greek drachma	191.10-191.40	197.10-198.40	217.10-225.40	Neutral	Neutral
Hong Kong dollar	7.7330-7.7340	7.7290-7.7340	7.7380-7.7530	Neutral	Neutral
Irish punt	1.6580-1.6588	1.6315-1.6343	1.5705-1.5788	Remain long	Neutral
Italian lira	1215-1217	1240-1243	1306-1311	Remain long	Neutral
Malaysian ringgit	2.5245-2.5255	2.5485-2.5615	2.6000-2.6200	Neutral	Neutral
New Zealand dollar	.5335-.5345	.5300-.5310	.5210-.5240	Neutral	Neutral
Norwegian krone	6.3030-6.3080	6.4045-6.4145	6.6470-6.6695	Remain long	Neutral
Portugese escudo	134.00-134.20	137.60-138.40	145.50-147.70	Remain long	Remain long
Singapore dollar	1.6380-1.6390	1.6355-1.6370	1.6280-1.6435	Neutral	Neutral
Spanish peseta	100.80-101.00	102.95-103.17	108.40-108.80	Remain long	Remain long
Swedish krona	5.8160-5.8210	5.9265-5.9370	6.2000-6.2200	Remain long	Neutral

Explanatory Notes

*Indicates change in recommendation from last issue.

	US$	DM
Currency expected to firm against both currencies.	Buy	Buy
Currency expected to strengthen against US$ and weaken against DM.	Buy	Sell
Currency expected to weaken against both major currencies.	Sell	Sell
Currency expected to weaken against US$, but strengthen against DM.	Sell	Buy
Term used to liquidate short position but does not imply a new buy recommendation.	Cover	
Term used to indicate sale advice of previous long position, but does not imply a new short sale recommendation.	Liquidate	

HOTLINE UPDATE

Tuesday, April 14:
Good afternoon. There are no changes or new recommendations.

Thursday, April 16:
There are no changes or new recommendations.

Tuesday, April 21:
There are no changes or new recommendations.

Friday, April 24:
There are no changes or new recommendations.

Tuesday, April 28:
There is one new recommendation to raise the stop on the Canadian dollar to 8305, stop close only. There are no other changes or new recommendations.

Friday, May 1:
There are no changes or new recommendations.

Tuesday, May 5:
There is one new recommendation to buy June deutschemark at the market. Place initial stops at 5910, stop close. Follow similar recommendations for all EMS and EMS-related currencies.

Friday, May 8:
This is a review of recommendations for the week.

We purchased June deutschemark at 6075 as per Tuesday, May 5 update and placed initial stops at 5910, close only. There are no other changes or recommendations.

Tuesday, May 12:
There are no changes or new recommendations.

Friday, May 15:
This is a complete summary since our last market letter dated April 12 of all liquidations of open positions and new recommendations that remain outstanding.

We were stopped out of the Canadian dollar on May 8 at 8294 as per our revised stop of 8305 on close only on Tuesday April 28, and we purchased June deutschemark at 6075 as per our Tuesday May 5 update, and placed initial stops at 5910, close only.

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