

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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### Single digits?

If there ever was such a thing as a classic bear market, the 1993 crude oil is paradigmatic.

It surfaces in the media in conjunction with a "bearish" piece of news (i.e., the possibility of Iraq's reaching an understanding with the UN in regards to selling \$1.6 billion worth of oil) to later disappear as prices rally in response to more protracted and complex kinds of negotiations. The media focus: Iraq's reappearance in the world market. The true story: overproduction, not Iraq, is the proximate cause of this decline.

Producers panic and threaten immediate action in the form of output curtailment, but more sober heads (i.e., Saudi Arabia) prevail and dismiss the danger (still heavily focused on Iraq), postponing an emergency session and pointing to the need to live within the previously agreed upon ceilings. The facts bear the Saudis out: July Opec production reached 24.7 million barrels per day (mbd) despite the agreement to cut third-quarter production to 23.582 mbd at the June Opec meeting. The Saudis set themselves apart from the likes of Iran and Nigeria who want the Saudis to, once again, become the swing producers, and they insist that first and foremost, overproduction must be cured.

Moreover, the Saudis have spent around \$18 billion to maintain and expand capacity to 10 mbd by the end of next year, up from 9.15 mbd currently. The expansion has come about one year sooner than expected. In view of this, how reasonable is it to believe that the Saudis will consent to become swing producers for anything longer than a few months? This dispute is about principles, not issues easily reconcilable.

At the same time, Kuwait, believing that it is entitled to produce 2.16 mbd, up from the June 1.6 mbd allocation (a view that seems eminently fair and that was promised to them earlier in the year), fails to sign the June agreement and moves to regain market share by discounting prices.

Called "netback agreements" by a different name (guaranteeing the refiners they will not lose money while moving oil through the refinery process), they evoke memories of the 1986 crash: then, as now, refiners were incentivized to book crude purchases in a saturated and falling market. Here, too, principles are at stake. The overriding principle: the have's must make way for the have-not's.

In this connection it is interesting to note that per capita, Iran's oil revenues in real terms are barely one tenth of what they were at the height of the Shah's reign.

These two questions of principles have, as yet, not been properly framed; both sides are adamant about their positions. Only in an atmosphere of *serious* crisis can they be galvanized into reaching a workable formula. A serious crisis can be defined only in market terms: a *rapidly* falling market.

Iraq almost provided such a catalyst.

*Unfortunately* for Opec (and fortunately for us, the bears) Iraq's chances of immediate success in lifting, at least partially, the embargo have receded. Opec has been left with a *slowly* disintegrating price structure, a sort of slow burning fuse, a crisis much too mild to produce dramatic results.

Moreover, the Iraq issue has succeeded in creating the conditions necessary for any great bear market: focus the attention of participants away from the genuine problem. The market begins to fluctuate (around a firmly established downtrend) in response to Iraq's news: The Iraqi delegation returns to the table, prices fall. They withdraw for one day, prices firm. Saddam Hussein agrees to a UN arms monitoring team inspection, prices fall some more (in the belief that a package deal is forthcoming, to lift the entire embargo). The UN inspection team expresses frustration, prices firm. And so on and on. The true story, serious overproduction, does not receive sufficient attention.

(Besides, the true *dynamics* of Iraq's reentry have, as yet, not been fully appreciated. As the inevitability of this event dawns on other producers, it is imperative that market shares be consolidated *now*. This explains Kuwait's insistence on increasing exports, even at a discount. And Iran's overpro-

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Contributions by Albert D. Friedberg, Dr. Steve H. Hanke, Edison Lee and Michael D. Hart.

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

duction. It is not merely dollars today; it is market share tomorrow. A satisfied Kuwaiti customer is less likely to buy in the future from another producer.)

The problem of serious Opec overproduction is being aggravated by Russian exports. With overall production starting to stabilize at around 7 mbd, and former Soviet republics exhibiting de facto conservation (due to a lack of foreign exchange), Russian exports in the January-June stretch have increased to 1.5 mbd, 32% more than the corresponding period of last year.

While conservation measures are virtually non-existent in the former Soviet Union, the precipitous fall in incomes coupled with the slow but inevitable rise in energy prices guarantee dramatic export gains in coming months. And it also guarantees the continuous erosion of world oil prices.

On the demand side, considering that continental Europe and Japan are in the clutch of a severe recession, and that the spectacular growth in China is about to be temporarily reversed (see our article "The Chinese rollercoaster" by Dr. Steve Hanke in this issue; in 1992 China's total consumption equalled 50% of Japan's and grew 8.7% over the year earlier!), little hope can be garnered.

An interesting development in recent weeks has been the heavy purchases of crude made by refiners (many of them assured of no-losses as discussed earlier) enjoying expanded profit margins (see Chart 1). This creates the impression that demand is highly price elastic. (At one point last week, the Brent market inverted into a backwardation, a rare occur-

rence in a supposedly glutted market. In more recent days, this condition has eased, and, once again, the normal contango has reappeared.) Nothing could be further from the truth.

Expanded profit margins are normal in falling markets as product price reductions are not passed on as quickly as the fall in crude (much as the prime lending rate does not fall as quickly as deposit rates). With time, the build-up in products depresses margins and restores them to their previous equilibrium levels.

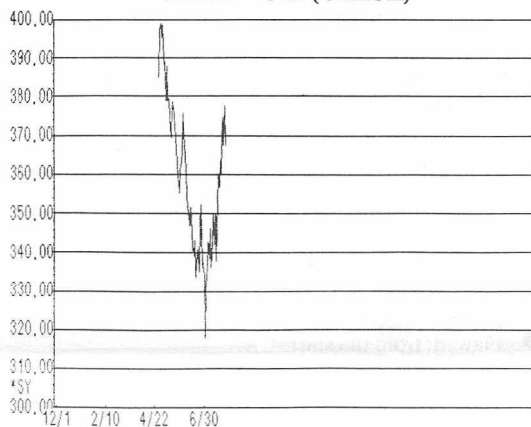
Understandably, however, a more permanent widening of the crack, accompanied by *inversion tendencies*, would signal to us that excess supplies are being well absorbed and the bear move is over. As matters stand today, we are far from such a point (see Chart 4).

In conclusion, it's a classic bear market, if ever there was one caused by Opec overproduction, increased Russian exports and falling demand, enlivened by the occasional, tantalizing suggestion of the (partial) lifting of the Iraqi oil embargo. Which, in turn, diverts the attention of market participants. And which by raising false hopes, frustrates the attainment of a full-blown crisis, and thus a resolution of the original problem. *N'est pas?*

Oil in single digits is the inevitable outcome of this classic bear market.

**STRATEGY:** Stay firmly short futures and/or long deferred puts (they are still relatively cheap).

Chart 1 - OIL (CRACK)



\$/bbl. Chart 2 - NYME CRUDE LIGHT SEP '93

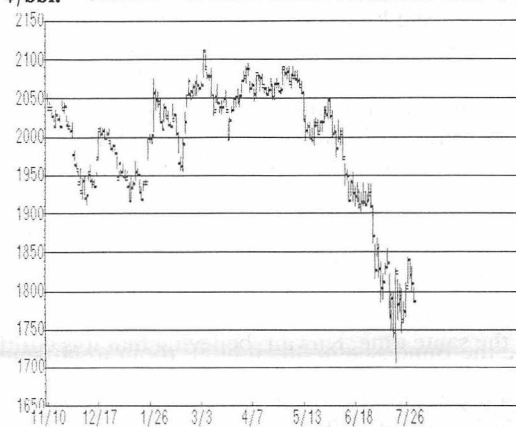
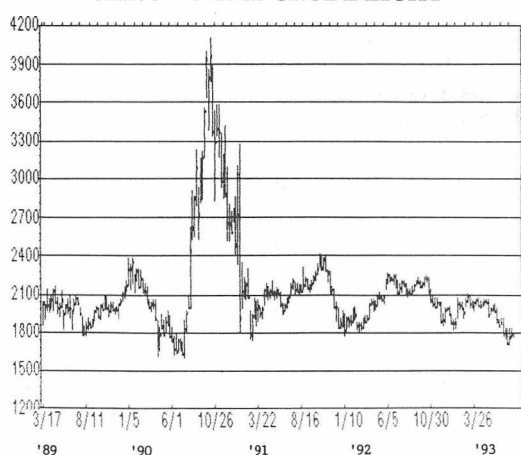


Chart 3 - NYME CRUDE LIGHT



\$/bbl. Chart 4 - CRUDE MARCH '94 - SEPT. '93



**EMS COMMENTS**

## Flawed, from the start

The instability of the EMS came to a head this past Thursday and Friday forcing the member nations to adopt much wider currency bands and putting an end, at least for the time being, to the much-hoped-for currency convergence.

Viewed just one hour after the historic announcement, it appears to be an eminently reasonable decision. The first alternative, a 6% band would have, in no time, run the same fate as its narrower predecessor. On the other hand, a general free-float would have caused exaggerated fluctuations, given the indeterminacy of exchange rates, a view that we have repeatedly propounded. Bands of 15% are broad enough to provide time for adjustment and to allow for significant real exchange-rate movements.

One more observation: from the Bundesbank's point of view the EMS was simply untenable, a point that we've made time and again in the past few years. Central banks can control successfully only one of two variables, money supply or the exchange rate, but never both. EMS intervention was bound to make hash of money supply targets; in just two days the Bundesbank created 60 billion deutschemarks in a futile attempt to hold the DM/French franc parity.

What is worse, the reality of the matter was that the Bank

of France was making Germany's monetary policy - as it lowered interest rates, the Bank of France would force the Bundesbank into an ever easier monetary policy. Towards the end of last week overnight rates were approaching 0%. It is beyond comprehension that the wise men at the Bundesbank did not perceive much earlier this incredible incompatibility. And of course, even with 15% bands the incompatibility remains.

Clearly what is hoped is that real and monetary divergencies in Europe would be small enough as to never lead to such a brusque fluctuation. But if it did, the Bundesbank would be once again in the hot seat.

### Short French franc/long deutschemark cross

We have finally been vindicated. Recently we even had a chance to increase this position (see Hotline Update for July 13).

At this writing (late Sunday night, Aug. 1) the cross is being quoted around 3.47, representing approximately a 2% devaluation from our entry point. We are confident that the depreciation will run somewhere between 5% and 9% once the Bank of France makes use of their new much-vaunted freedom to lower interest rates.

**DEUTSCHEMARK**

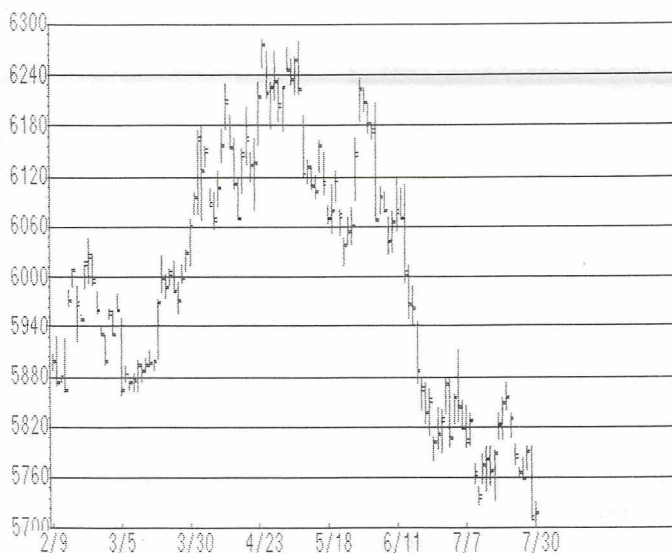
## Long again

We were stopped out of our long DM position as the Bundesbank unsuccessfully sought to defend the French franc (see the above comments on EMS). The new, expanded bands will give the Bundesbank much more room to implement a serious monetary policy.

In our view interest rates are not likely to go lower, and may in fact go higher, until the intervention overhang plus some is successfully mopped up.

**STRATEGY:** We like once again the long side of DM. Buy September '93 DM at the market and risk a close below 5650. Also, we like the short side of the three-month Euro-DM contract; add to the September and December short positions, which clearly reflect exaggerated low notions of future rates (6.55% and 5.92% respectively).

Chart 5 - CME DEUTSCHE MARK SEP '93



**JAPANESE MARKETS**

## Practically a no-brainer

Japanese statistics continue to paint a grim picture, belying official hopes and predictions. Output in June fell 5.1% year on year, its 21st successive month of decline. The previous record stretch was 20 months from May 1974 to the end of 1975. For the second quarter as a whole, industrial production was down 4.5% from the same period in 1992 and 1.7% below that of the first few months of the year. Earlier, Japan's Department Store Association had said that sales at Japanese department stores were 8.9% lower last month than a year earlier.

The new seven party opposition led by Mr. Hosokawa is facing the worst economic situation since the Great Depression. It will be interesting to see whether these widely divergent ideologies can unite for the simple purpose of passing a much needed tax cut. At the same time, the Bank of Japan is fast approaching the moment where it will be forced to lower once again the discount rate and slowly put an end to the ongoing deflation.

The outcome to the various policy choices can differ a

great deal. Thus, a tax cut and a discount rate cut will be favorable to the economy and stocks, and unfavorable to the yen. At the other extreme, *status quo* would be catastrophic to the economy, which would tend to overvalue further the already overvalued yen and in turn feed back into a new round of economic contraction.

In the middle, we believe that tax cuts are more powerful than a discount rate cut, as it would probably revive the economy and stabilize the currency: The deflation in real estate prices would, however, continue. On balance, financial assets will probably suffer from the prospects of rising economic activity and rising interest rates.

**STRATEGY:** *We are still long September '93 and December '93 Euro-yen futures and call options. The trade is practically a no-brainer given the state of the economy. We are still short the Nikkei, although here with a little more trepidation. Place stops at 21250, just slightly above highs.*

Chart 6 – SIMEX EUROYEN DEC '93

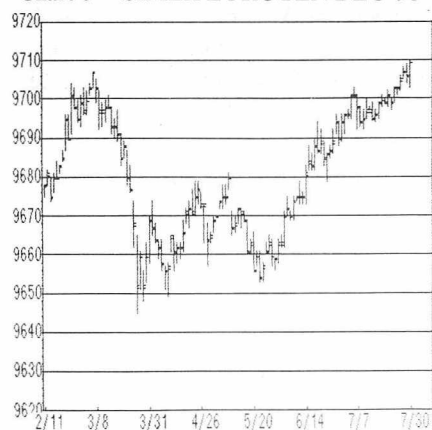


Chart 7 – CME JAPANESE YEN SEP '93

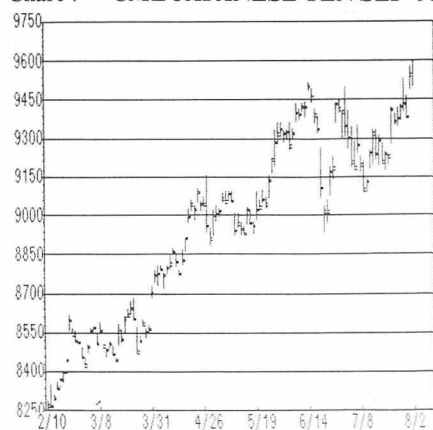
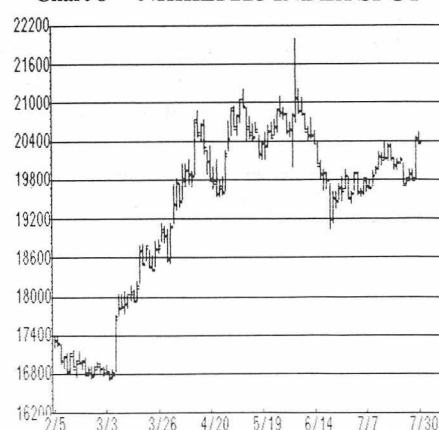


Chart 8 – NIKKEI 225 INDEX SPOT

**PRECIOUS METALS**

## Gold: Back into the long side

Pausing only briefly before attacking the \$400/oz. barrier, gold prices resumed their powerful uptrend this past Friday, closing at \$407/oz.

There are sufficient reasons to continue to excite the bulls: Further reductions in European interest rates, more anticipated devaluations with the possible breakup of the EMS, weak economic growth in the US, the reported suggestion that the Fed may ease once again, and so on.

While it is unlikely, that any of the above developments will trigger double digit inflation, much less hyperinflation, in any of the OECD countries (see this discussion in our last month's issue), it is also true that the market has got its bit by the teeth. Substantial trend-players are conducting an unrelenting and punishing assault on hedgers, who for the best

part of the past five or six years have basked in the glory of their success. One by one these mining companies have begun to face up to the extent of their hedge positions, providing rationale for — in retrospect — such unbecoming behaviour.

The responses thus far contain three statements: a) the hedging operations ceased "quite some time ago," usually April or May (which brings to mind the inevitable questions: Do hedgers sell only when prices are low?); b) only 30% to 40% of production has been sold forward (so shareholders don't need to worry if prices rise); c) they will not buy back the hedges.

The big longs don't really believe this last assertion, and so they press forward. Perhaps they think that this determina-

tion to not cover is merely a function of the size of the "loss." And perhaps they are right; would mining executives be as cool if the hedges were showing "losses" of over \$100/oz.?

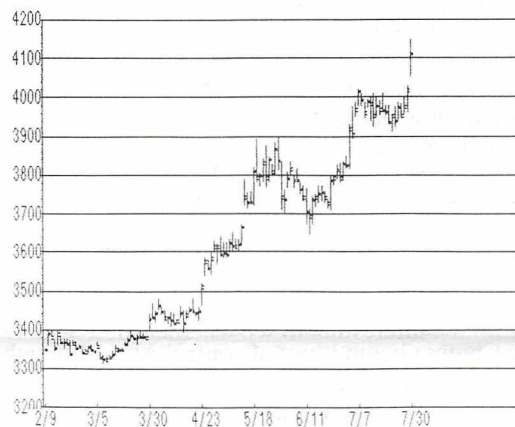
The fundamentals, however, are changing slowly and almost imperceptibly. The Chinese monetary rollercoaster (see Dr. Steve Hanke's article "The Chinese rollercoaster" in this issue) will not only slow gold purchases but most probably will cause a reflow of gold from the Chinese mainland. Optioned central bank gold will come back on the market, adding at least temporarily to spot supplies.

This is not to say that gold prices will fall back to resume their long bear market. Not at all. The lows have been seen for quite some time. Moreover, new recovery highs are in the making as the hedgers are taught an unforgettable lesson. What we are likely to see is a spectacular spike in prices that will be followed by an equally dramatic 50% to 65% retracement, as the fundamentals come into better view and the shorts are no longer a supportive factor.

**STRATEGY:** We exited our long position a little too soon (around 397, basis December '93 gold and 5.13, basis December '93 silver (see Hotline Update July 13 and 16), but we

reentered on the first opportunity of the crossing of the \$400/oz. level (see Hotline Update for July 30). Remain long, placing stops at \$388, close only (cancelling the day-only stop at 402, good anytime).

Chart 9 - COMEX GOLD DEC '93



**STOCK INDEX FUTURES**

**Stand aside**

The most recent range trading has produced one of the lowest price volatilities on record. (According to Peter B. Manthe of *Market Commentary*, the lowest volatility since early 1972, 40 weeks before the great market top. Does this mean anything, or is it just another demonstration of our fascination with statistics?).

Behind this facade of stability, technology stocks, former leaders of this bull market, have been taking a drubbing. Nevertheless, the market continues to exhibit surprising resilience. IPO activity last month reached new highs (see Chart

11), moving towards meeting net new cash inflows into equity mutual funds. In other words, supplies rise to meet demand.

The low level of interest rates remains the market's most powerful prop, justifying historically high multiples and historically low dividend yields. Since there is no telling when interest rates will turn up, it is futile to speculate on a possible market top. We are, however, fascinated by the cheapness of options. Portfolio insurance was never cheaper.

**STRATEGY:** Stand aside.

Chart 10

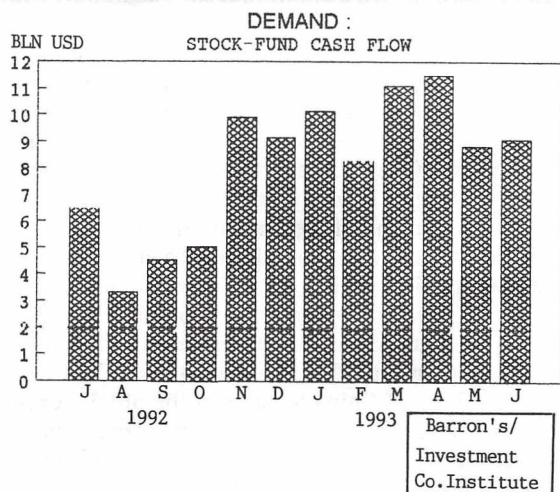
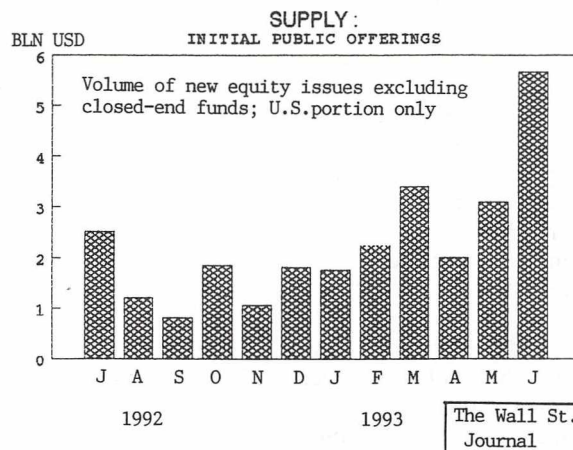


Chart 11



**CHINA****The Chinese rollercoaster**

The plethora of materials about developments in China boggle the mind. Dr. Marc Faber, one of Hong Kong's investment gurus, tells us in his report of July 10, 1993, that China is facing five problems that are endemic to countries in the transition from socialism to capitalism. In consequence, he is bearish and selling. Mr. Criton Zoakos, an analyst at Mr. Jude Wanniski's supply-side shop (Polyconomics, Inc.) spins a different tale. In his report of July 8, 1993, and another dated July 1993, he is bullish and buying because China has adopted some supply-side reforms.

*The Wall Street Journal*, in a lead editorial (July 16, 1993), concludes that money growth in China is controllable and that the Chinese boom is out of control. Alas, although all of these writings contain grains of truth, they are fatally flawed. Indeed, they all eschew analysis and favor polemics. So, what's the real Chinese story?

\* \* \* \* \*

Since 1990, the former Soviet Union and European communist-bloc countries — armed with foreign aid lobbyists, a host of transformation plans, and aid funds from the West — have attempted a smooth transition from socialism to capitalism. Alas, the trip has been anything but smooth. Those countries have all suffered economic collapse and, in most cases, very high rates of inflation.

In stark contrast, China has eschewed foreign advisers, transformation plans, and aid funds. Since experiments in economic liberalization began in 1978, the Chinese economy has averaged more than 9% annual real growth. Guangdong province, home of 65 million Chinese and three of China's Special Economic Zones (SEZs), has set the pace for new experiments and growth. Since 1978, real output in Guangdong has grown at a sizzling 15% per year on average. China's fabulous growth record over the past 15 years has been about as rapid as the so-called Asian Tigers — Hong Kong, Singapore, South Korea, and Taiwan. Thus, China can legitimately claim to be the fifth Asian, albeit giant, Tiger.

Contrary to claims made by the foreign aid lobbyists, a large socialist economy can and is making a successful transition to capitalism. Indeed, in 1978, state-owned enterprises (SOEs) account for about 80% of China's industrial output. Today, that figure is less than 50%, and is estimated by the Chinese government to fall to less than 25% by the turn of the century. The fuel for China's successful transition has not been government-to-government foreign aid largesse. Rather, it has been high rates of private savings and private, direct foreign investment, which amounted to \$37 billion between 1979 and 1992.

\* \* \* \* \*

How did China achieve its success? The first phase of reforms (1978-84) freed, in large part, farmers from central planning. Although farmers were required to sell quotas of produce to the government at controlled prices, they were free to sell surpluses at market prices. This liberalization boosted agri-

cultural output and rural savings dramatically. Indeed, farm output grew at about an 8% annual rate during the first-phase reforms. Not surprisingly, the liberalization of agriculture generated a great deal of political support for reforms among the 900 million Chinese who reside in the countryside.

The second phase of reforms (1984-88) saw the introduction of China's SEZs in which domestic savings could be profitably invested. These zones also quickly become magnets for foreign investment and imports of new technology. With the introduction of SEZs, China ended its strategy of economic isolation and import substitution.

It is important to stress that the nature and design of the Chinese reforms differ radically from the failed attempts by the former Soviet Union and European communist-bloc countries. The Chinese reforms were not explicitly designed. Rather, they were largely experimental, microeconomic reforms that focused on economic liberalization and not on the privatization of state-owned enterprises. To date, the reforms have neither required nor enhanced the government's ability to conduct macroeconomic stabilization policies. However, the reforms were started and proceeded over a long period of relative macroeconomic stability.

\* \* \* \* \*

China's macroeconomic stability has, indeed, been relative. Since 1978, China has experienced two complete business cycles and is currently close to the top of another economic boom. The duration of the Chinese cycles has been running about four years. For example, there have been two major cycle peaks (1984-85 and 1988) and three troughs (1981-82, 1986, and 1989-90).

During the first expansion (1983-85) under Hu Yao-bang, domestic demand soared, and by late 1984, the balance of trade started to deteriorate. At about the same time, inflation began to accelerate. Concerned by the deterioration in the current balance of payments and acceleration in inflation, the authorities imposed a credit squeeze and import controls in mid-1985.

In consequence, domestic demand dropped sharply, correcting the deterioration in the balance of trade and moderating inflation. Once domestic demand began to cool off and in an attempt to further restrict imports and stimulate exports, China's currency, the renminbi (RMB), was devalued in late 1985 and again in mid-1986. Incidentally, Hu Yao-bang was deposed as a result of the first boom-bust cycle.

The second cycle began in late 1986 and culminated in the 1988-89 inflation, which led to Tiananmen Square. The second cycle had all the hallmarks of the first. However, the balance of payments crisis was exacerbated by the reduction of foreign lending after Tiananmen Square. That required the People's Bank of China to support the official exchange rate by running down its foreign exchange reserves. Credit curbs were tightened from June 1989 onwards and import controls were once again imposed.

The economy responded in a predictable, orthodox man-

ner, slowing abruptly. The balance of trade improved sharply during the second half of 1989, and foreign exchange reserves were rising again by early 1990. Nevertheless, the Chinese authorities devalued the RMB in December 1989 and again in November 1990. Incidentally, Zhao Zi-yang was dismissed as a result of the second boom-bust cycle.

Now China is in its third major boom in less than a decade. Statistics for the first half of 1993 have just been released. They show that the money supply in June 1993 was 50% higher than June 1992 and that inflation in the 35 major cities was up 21.6% over June 1992. The GDP growth for the first half of 1993 was at an annual rate of 13.9%.

Not surprisingly, on July 2, 1993, Li Guixian, who had been governor of the People's Bank of China since 1988, "resigned." Zhu Rongji, the first vice prime minister, was brought in to run the central bank and restore some semblance of stability. Mr. Zhu has already announced a 16-point monetary squeeze program, and the central bank has poured more than \$100 million into foreign exchange swap markets to prop up the RMB. Alas, we fear that China is set for yet another rollercoaster ride.

Many claim that China's rollercoaster is the product of its underdeveloped, repressed financial system, where more than 85% of China's financial assets are held by state banks, and of the cash nature of the Chinese economy. No doubt these features have contributed to the queasy thrills produced by the ride. However, the ups and downs are generated by much more basic forces.

The People's Bank of China has adopted a pegged but adjustable exchange rate regime. That setup, whether it is adopted by a primitive or modern central bank, gives rise to monetary fluctuations, boom-bust cycles, and accelerations and decelerations in inflation rates. Those results are obtained because of the central bank's need to maintain equilibrium in the balance of payments at a pegged exchange rate.

Although somewhat stylized, we present the basics of the business cycle under pegged but adjustable exchange rates. These basics explain why the Chinese money machine produces a wild rollercoaster ride.

When a balance of payments surplus occurs, a surplus of foreign currency is offered for domestic currency in the local foreign exchange markets. To prevent an appreciation in the domestic currency, the central bank must purchase surplus foreign exchange and accumulate reserves. That accumulation of reserves allows the central bank to permit commercial banks to expand credit.

The banks' expansion of lending leads to an acceleration in money growth, which increases the domestic demand for goods and services. Consequently, more imports are sucked in, and the balance of payments deteriorates. As inflation picks up, exports become less competitive at the pegged exchange rate, and the current balance deteriorates. The net surplus of foreign currency on local markets turns into a net surplus of domestic currency. That requires the central bank to intervene, purchasing domestic currency and selling foreign currency. The reduction of central bank money induces

domestic commercial banks to cut back on their lending. Monetary growth decelerates or declines. In consequence, the trends for the economy, trade account and inflation reverse until the cycle repeats itself. Such are the ways of a typical stop-go cycle.

With minor qualifications, this stylized description explains what makes China's money machine run the way that it does. It also explains how the Bank of Japan operated between 1949 and 1971. During that period, the yen was pegged at 360 yen per US dollar. But since stringent capital controls were in effect in Japan, speculative, short-term private capital flows were never allowed to become a dominant feature of Japan's balance of payments.

Japan's trade and current account fluctuated from surplus to deficit, much as they do in China. The main counterpart to these surpluses and deficits was a change in the Bank of Japan's foreign exchange reserves. Typically, surpluses were associated with build-ups in the Bank of Japan's reserves and monetary accelerations, while deficits were associated with reserve drains and monetary slowdowns. In consequence, the Japanese money machine produced a pretty thrilling rollercoaster ride, with annual real growth during the 1949-71 period reaching highs of 13% and lows of zero.

The thrills stopped in Japan after the Bretton Woods system came to an end and Japan floated the yen.

**STRATEGY:** *Contrary to what The Economist, Financial Times, The New York Times, The Washington Post, and other conduits of the international chattering classes have told us, countries can transform themselves from socialism to capitalism without being showered with foreign aid from the West. China is certainly the largest case in point. Indeed, for 15 years, it has been successfully making a transformation of staggering proportions. Unless there is a massive political hiccup, these positive economic developments will continue to pick up speed. Consequently, from an economic point of view, China's future is bright, indeed.*

*That said, we must recognize the basics of the Chinese rollercoaster and the fact that China's boom-bust cycle is about ready to enter a bust phase. This will affect the Chinese economy and markets directly. It will also affect the Hong Kong economy and markets indirectly and to a much lesser degree.*

*Consequently, we remain exposed to the positive fundamentals in China. However, in light of China's rollercoaster, our "China accounts" have been adjusted accordingly. We are 50% invested in cash and 50% in non-property Hong Kong shares. We have no holdings in China per se.*

*We will have more to say about how to fix China's rollercoaster in a future issue. Incidentally, we have already passed our fixing recommendations along to the Chinese authorities and anticipate their response in the near future. Stay tuned.*

– Dr. Steve H. Hanke

**FREIDBERG CAPITAL MARKETS****Glycomed Inc.**

**Issue:** 7.5% Convertible Subordinated Debentures due Jan. 1, 2003

**Recent price:** \$84 10/16

**Yield:** 10.06%

**Recent stock price:** \$6.75 per share

**Conversion price:** \$14 per share

**The company**

Headquartered in Alameda, California, Glycomed Inc. is a leading biotechnology company dedicated to drug discovery based on complex carbohydrates. Its main products under development deal with three types of medical problems: tissue repair and regeneration, cardiovascular diseases, and inflammation. Glycomed's lead product, Galardin™, is in Phase II/III clinical trial for the treatment of corneal ulcer. Most of Glycomed's potential products, if successfully commercialized, will solve important medical problems that are not yet resolved.

**Carbohydrate-based drugs<sup>1</sup>**

In the past decade, the biotechnology industry has focused on reproducing protein and nucleic acids (genetic engineering) as a new approach to treatment of diseases. However, interest in carbohydrate-based drugs is growing rapidly since research and development in this area has made significant progress in recent years, particularly in treating cancer, inflammation, and infection. Some scientists even consider the development of carbohydrate-based drugs to be a new era in therapeutics.

Carbohydrates are ring-shaped compounds composed of oxygen, hydrogen, and carbon molecules. They are among the four major classes of biologically active molecules that provide the basis for biological processes in the human body: lipids, proteins, nucleic acids, and carbohydrates. Carbohydrates are an essential element in the human body that helps fight diseases. Scientific research indicates that they provide a key linkage between proteins that enables cells to communicate with one other.

Found on the surface of most human cells, carbohydrates are often attached to proteins or lipids and act as receptors for bacteria, viruses, and antibodies. When cells interact, they first come into contact with carbohydrates. Therefore, the theory behind carbohydrate-based drugs is to disable the receptor function of carbohydrates so that bacteria, viruses, or antibodies cannot find any binding sites to attach to.

The active part of each carbohydrate consists of only a small fraction of the molecule. By utilizing that small fraction, carbohydrate-based drugs can be engineered so that they are not destroyed in the stomach by gastric acid and gastric enzymes. Thus, unlike protein-based drugs, they can be taken orally without diminishing their effectiveness.

The carbohydrate-based drugs under development at various biotechnology companies have very broad clinical

applications. If these companies can successfully commercialize their products, they will have a multi-billion dollar market.

Despite the promising future of carbohydrates, there are technical problems that must be overcome. The complexity of carbohydrate structure has made it difficult to identify the exactly right structure to deal with a specific disease. Mass manufacturing of carbohydrates also can be a problem. The early approach, organic synthesis, takes weeks and produces very low yields. A more popular method is the enzymatic approach, which has a higher yield and produces no toxic residues. It is believed that with advances in biochemical technology, these problems with carbohydrates will be solved in the near future.

**Potential products of glycomed**

Glycomed's potential products can be divided into the following three groups:

## 1) Tissue repair and regeneration

*Galardin™ MPI:* The core product of this group and also the lead product of Glycomed. Currently in simultaneous Phase II/III human clinical trial, Galardin™ MPI eye drops have shown to be a potent inhibitor of the enzymatic processes responsible for the development of corneal ulcers. Just in the US, there are approximately 160,000 corneal ulcer cases each year. At \$300 per case, it represents a \$48 million market for Glycomed. Nearly 50% of the currently diagnosed corneal ulcers are caused by bacterial infection, while a growing number of cases are due to improper use of extended-wear contact lenses. Completion of the clinical trial is expected by the end of 1993, and a New Drug Application (NDA) filing with the Federal Food and Drug Administration (FDA) is targeted for the second half of 1994. If everything goes well, a product launch can be expected in 1995. In addition to treating corneal ulcer, Galardin™ also is in preclinical trial for treating vascularized cancer, which is its true long-term potential because of the much larger market.

*GMI306:* A carbohydrate that can inhibit blood vessel growth to treat cancer and diabetic retinopathy. This compound is currently in the laboratory research stage.

## 2) Cardiovascular disease

*Astenose™ (GM1077/1115):* An anti-restenotic drug. Restenosis is the re-narrowing of blood vessels following an angioplasty or coronary artery bypass graft surgery, which has happened to about one third of such patients. According to the American Heart Association, approximately 677,000 such surgeries are conducted every year in the US. At \$1,000 per surgery, Astenose™ has a potential market size of \$700 million. Glycomed developed Astenose™ under a collaborative agreement with Eli Lilly. However, owing to inconclusive toxicology findings on Astenose™ and a possible cut back on R&D expenditures, Eli Lilly sold the marketing rights back to Glycomed early this year. Glycomed is confident they will be able to prove the

<sup>1</sup>Most information in this section was drawn from The Genesis Report/Rx, The Genesis Group, New Jersey, January/February, 1992.

safety of Astenose™, and an Investigational New Drug (IND) filing with the FDA is targeted at the end of 1993.

*GM1445*: A carbohydrate that prevents intravascular clotting associated with deep vein thrombosis. This compound is currently in the laboratory research stage.

*PeriAid™*: A new drug delivery system. Glycomed obtained a worldwide exclusive license to this drug delivery system from the University of Washington and Harvard University. Initially targeted for use in cardiovascular surgeries, the PeriAid System consists of a flexible, polymeric sheath which contains a drug and can be attached to exactly where the blood vessels rejoin. Owing to its site-specific mechanism, the PeriAid system allows more rapid drug delivery, a smaller dose and reduced systematic side effects. An IND filing with the FDA is expected at the end of 1994

### 3) Inflammation

*GM 1380, GM1930 and Analogs*: A cell adhesion inhibitor that can treat inflammatory diseases, still in laboratory research with Genentech, Inc. Malfunctioning of the human immune system causes white blood cells to leave the circulation and penetrate into surrounding tissue, resulting in inflammation. The most common inflammatory diseases include arthritis, asthma, and psoriasis, which in combination have 31 million cases annually in the US and represent a multi-billion dollar market. The above compounds have shown the ability to block the target receptor sites on the blood vessel wall so that white blood cells cannot attach to the blood vessel, thus unable to leave the circulation. These compounds are among the first to demonstrate an effective biological response in animals moderating the cause of inflammation, and not merely the symptoms.

*GM1998 and Analogs*: A cell adhesion inhibitor. They were found to be particularly effective at treating such inflammatory diseases as adult respiratory distress syndrome and transplant rejection. An IND filing with the FDA is expected at the end of 1993.

### Prospects of Glycomed

According to the Genesis Group, carbohydrate-based drugs will be at least a multi-billion dollar industry in the future. Among the 16 biotechnology companies involved in carbohydrate development, Glycomed has the most promising products.

Glycomed claims to have put together the largest and the brightest research team in the carbohydrate industry. Its CEO, Alan Timms, Ph.D., spent 30 years at Monsanto and three years at G.D. Searle directing both medical research and clinical development. Its vice president of research, Neil R. Ackerman, Ph.D., joined Glycomed from Du Pont, where he directed a 100-person research staff that aimed to discover therapeutics for cancer, inflammatory and immune-based diseases. The senior management staff of Glycomed all have extensive experience in the pharmaceutical industry. We believe the company has a good mix of both research and management talents, which gives it the capability to carry products from initial research to final launch.

The company has actively pursued research collaboration with large pharmaceutical companies, which is an im-

portant source of financing and complementary technologies for biotechnology companies. Glycomed completed a three year collaborative agreement with Eli Lilly at the end of 1992. It has just announced an extension of the collaborative agreement with Genentech, Inc. through 1997 in cell cohesion research. The new agreement provides funding to Glycomed of up to \$24 million, including a \$3.5 million equity investment and up to \$10 million in support payments. The extended collaboration with Genentech will speed up Glycomed's research in inflammation-treating compounds and also improve the latter's financial position.

Glycomed also has entered into collaborative agreements with certain research organizations to speed up the R & D process. In April 1992, it entered into a major collaboration with the Alberta Research Council ("ARC") in Canada for inflammation-related research. ARC is a leader in complex carbohydrate technology, and Glycomed believes the collaboration will put it two years ahead of schedule in developing IND candidates. The agreement with ARC has been further broadened in July this year, under which ARC will develop and test certain compounds discovered at Glycomed in return for payments upon achieving specified milestones.

Glycomed's potential products have a wide range of clinical applications. The inflammation product line particularly has the largest market size. Since these products potentially can cure currently untreatable diseases, their profit potential is substantial. More important, Glycomed's strong research and management team will give it an advantage in commercializing product candidates. Given its sensible business strategies, we believe Glycomed's prospects are extremely bright.

### Financial position of Glycomed

Until now Glycomed has not generated any revenue from product sales and has suffered a loss every year since its founding in 1987. The accumulated deficit at the end of March 1993 was \$33.5 million. Its net loss for fiscal 1992 was \$8.2 million. The net loss for the first nine months of fiscal 1993 increased substantially to \$14 million, mainly because of much higher R&D expenses.

Glycomed has met its financing needs through two equity and one bond offerings. It first went public in June 91, raising \$16 million. It raised \$40 million in a second public stock offering in October in the same year. In December 92, it issued \$50 million convertible subordinated debentures, yielding a net of \$47.9 million. At the end of March 1993, it had unrestricted cash of approximately \$87 million.

The product that is closest to final FDA approval is Galardin™ MPI, which is expected in late 1994. If the product is duly approved, it will start generating revenue for Glycomed in 1995. Therefore, the projected earliest time that Glycomed will start making a profit is 1997 or 1998.

The losses of Glycomed will continue and be even larger in the next few years, as R & D efforts are stepped up. We believe its current cash holdings, together with the funding from the new agreement with Genentech, can meet its cash needs until early 1996, assuming an average annual R&D expense of \$34 million. As a result, Glycomed may need additional financing of approximately \$45 to \$50 million before it eventually turns a profit.

## Valuation of security

The 7.5% convertible subordinated debentures are trading at \$85, yielding 10.86%. In fact, the debentures have no default risk for the first three years since \$11.7 million has been put in an escrow account to pay interest up to January 1, 1996, which is the first call date. If the stock price rises to the conversion level by then, Glycomed will force conversion by calling the debentures.

The yield of 10.06% may not seem very high for a triple-C-rated bond. However, the real upside potential of the debentures lies in its conversion option. R. Fradd of Montgomery Securities projected that Glycomed's earnings per share by fiscal 1998 would be \$2.13. With a projected annual growth rate of 40% therefrom, we believe the stock can command a price-earnings multiple of 30, at \$64 per share. Based on a 25% discount rate, the stock will be worth approximately \$41 per share at the beginning of 1996.

A more conservative projection from Cowen & Company shows \$1.5 earnings per share in fiscal 1998. If we use a lower price-earnings multiple of 20 and a higher discount rate of 35%, the stock will be worth approximately \$16 per share in early 1996.

We believe the estimate of Cowen & Company is very conservative. However, even at \$16 per share (higher than the conversion price) in 1996, the debentures, if converted, will yield 20.6%. Based on the more optimistic earnings estimate of Montgomery Securities, the debentures' yield, if converted in 1996, will be as high as 75.6%!

Glycomed's stock price is currently at around \$6.50, which is a historic low. The stock price fell from \$11 to its current level following the debenture offering and the problem found on Astenose™. Nevertheless, we believe that even without Astenose™, Glycomed's product mix is still very promising. At \$6.50 per share, its total debt to market capitalization ratio is only 0.7, a very favorable level. If Glycomed incurs another \$30 million debt, the ratio will only go up to 1.1 at the current stock price.

**STRATEGY:** *We believe the 7.5% convertible subordinated debentures of Glycomed offer an excellent opportunity to capitalize on future exciting biotechnologies while providing the security features of a bond investment. Friedberg Mercantile Group will be making a continuous market in the security.*

## Burnup & Sims Inc. update

**Issue:** 12% Convertible Subordinated Debentures due 2000

**Recent price:** \$87 (15% yield)

**Recent stock price:** \$1.875 per share

**Conversion price:** \$16.79 per share

Burnup & Sims is one of the leaders in the communications system services industry. Its core business is to design, install and maintain communications systems for telephone, cable television and utility companies in the US. Such services accounted for 87% of the \$153 million total revenue in fiscal 1992. Most of these services are conducted under fixed price contracts.

Owing to the recession, Burnup reported a net loss of \$9.3 million for the year ended April 1993, which included

approximately \$3 million writedown on assets. Burnup has suffered a loss three years in a row and the loss of \$9.3 million has been the highest since 1983. The company has experienced substantial price pressure in recent years. Many of its core business telephone contracts have suffered losses because of fiercely competitive bidding, especially from smaller regional companies. Growth has been negative since all its major customers have aggressively reduced capital expenditures in view of the weak economy.

Both the operating performance and financial position of Burnup have been deteriorating. Its gross and operating margins have steadily declined from 17.1% and 6.4% in fiscal 1988, to 13.1% and 0.8% in fiscal 1992, respectively. If we excluded the interest and dividend income from its holdings of National Beverage Corp's preferred stock and debentures, its operating margin in fiscal 1992 would have been negative. Furthermore, the pretax interest coverage has fallen from 2.57 in fiscal 1988 to a mere 0.24 in fiscal 1992. Over the same period, the pretax operating cash flow to interest ratio has decreased from 4.12 to 0.36. Its stock price has recently dropped below \$2 per share, raising the total debt to market capitalization ratio to 4, an uncomfortable level.

Despite its deteriorating financial position, we believe Burnup's immediate default risk is low. Its cash and cash equivalent holdings at the end of March 1993 were \$5.2 million, which could cover the projected \$4.2 million interest and principal payment in the next 12 months. If it needs more cash for operating purpose, it can liquidate or borrow against the \$7.5 million real estate investments that it possesses.

Burnup's core business is in a mature industry with low entry barriers and strong buyer power. Nevertheless, it is one of the industry's largest players and has developed significant expertise and reputation. In addition, the industry is still in a rapid growth phase in many developing regions of the world, such as South America, Eastern Europe and Asia Pacific. If it can leverage its experience and expertise by participating in those fast-growing markets, we believe Burnup has a chance of reversing its declining trend. It has recently announced the formation of joint ventures in South America and Eastern Europe, which seems to be heading in the right direction.

**STRATEGY:** *No additional purchases should be made of Burnup's 12% convertible subordinated debentures until we have had an opportunity to review its latest financial position and business strategies in October.*

## Trans World Airlines, Inc. update

**Issue:** 17.25% Senior Notes & 16% Senior Notes

**Status:** Defaulted and being reorganized

**Recent price:** \$29

Since we recommended the above securities last month, Trans World Airlines, Inc. (TWA) has secured a postponement of its confirmation hearing with the Bankruptcy Court from July 15, 1993 to August 11, 1993.

According to TWA, they deferred the hearing to obtain more time to negotiate with some creditors and airport authorities and to accommodate management changes. However, the investment community believes that the most important reason is to give TWA more time to negotiate financing

arrangements to improve its liquidity.

On July 13, TWA named William Howard, former Chairman of Piedmont Aviation Inc., as TWA's new chairman and chief executive. Robin Wilson and Glenn Zander, the airline's co-chief executives since last fall, will stay as vice-chairmen. Howard has an excellent track record at Piedmont, now part of USAir, where he led the company through the early years of deregulation, and is a well-respected figure in the industry. Although there is no guarantee that his success at Piedmont will carry over to TWA, we believe his appointment will make it easier for TWA to secure short-term financing.

TWA's operating performance has continued to improve. Its revenue yield per passenger mile has grown 17% from January to April this year, compared with 1% for the airline industry. Total bookings also have increased in 1993 despite a 13% reduction in domestic seating capacity and a 17% cut in

international flights. TWA's net loss has narrowed to \$19.5 million in May, from \$27.2 million in April and \$48.2 million in May a year before.

According to the creditors committee attorney James Spiotto, all unsecured creditor classes and most secured creditor classes have approved the reorganization plan. TWA is still negotiating with aircraft financiers, who as a class of creditors have rejected the plan. We believe that will not be a major obstacle since in the worst case, TWA can seek confirmation under the "cramdown" provisions.

If TWA's reorganization plan is confirmed on August 11, it will emerge from Chapter 11 by the end of August, by which time the proposed new securities also will be issued. We believe our previous analysis and valuation of the above securities are still valid, and they remain an attractive buy for investors with high risk tolerance and low liquidity needs.

**Chart 12  
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, CD, SAR, ITL, ARG, FIN) or revalue for SF, JY before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. Rates as of July 29, 1993.

	US. \$	NEW ZEALAND	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE	BRITISH POUND	FRENCH FRANC	EUROPEAN CURRENCY UNIT	CANADIAN DOLLAR	SOUTH AFRICAN RAND**	ITALIAN LIRA	ARGENTINEAN PESO	FINNISH MARKKA	
1 year	3.52%		C.B.A. 14% '94 yields 5.43% (.6639 A\$/US)				Denmark 9% '94 yields 7.96% (7.013 Dkr/US)									
2 year	4.15%										Ont. Hyd. '96 yields 6.20% (1.3379 Cdn/US)		G.E. 11½% '95 yields 8.40% (1.7436 ITL/US)			Finland 11% '95 yields 6.54% (6.1285 FIM/US)
3 year	4.45%			Bk of NS '97 yields 6.12% (1.8180 US/DM)		World Bank '96 yields 3.64% (103.88 US/JY)		Sweden '96 yields 6.49% (1.4044 BP/US)	Credit Lyon '96 yields 6.70% (6.3158 Ffr/US)		RBC '97 yields 6.81% (1.3759 Cdn/US)	Escom '96 yields 12.10% (1.1801 US/SAR)	NIB 12½% '96 yields 8.83% (1.8206 ITL/US)			
4 year	4.80%			WB 5½% '97 yields 5.56% (1.7843 US/DM)							Eksporthin '97 yields 6.67% (1.381 Cdn/US)					
5 year	5.16%	Fletcher Chall yields 9.55% (.4500 NZ/US)			Australia 5% '98, yields 4.56% (1.480 US/SF)											
7 year	5.47%			World Bk 9% '00 yields 6.29% (1.8300 US/DM)												
8 year	5.58%									US 9¼% '01 yields 7.26% (1.0035 ECU/US)					BIC V '01 yields 15.13% (1.997 US/ARG)	
Spot Exchange Rate	-	.5521	.6762	1.7335	1.523	106.33	6.725	1.4883	5.9245	1.1307	1.2867	2.227	1.6095	.9989	5.8565	

\*For example, since a US\$-based investor would receive 439 basis points (955-516) by holding the Fletcher Challenge NZ bond, the NZ\$ can depreciate to .4900 NZ/US from the present spot exchange rate of

.5521 NZ/US over the next 5 years for the NZ\$ 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 13**

**Recommended bond portfolio allocation**

For new portfolios, we recommend the following investments\*:

- |                           |     |                               |     |
|---------------------------|-----|-------------------------------|-----|
| 1. T.W.A. Convertibles    | 5%  | 6. New Zealand Treasuries '97 | 6%  |
| 2. Glycomed Convertibles  | 2%  | 7. Argentina's BOCON '01      | 22% |
| 3. Datapoint Convertibles | 5%  | 8. Italian lira bonds         | 25% |
| 4. Atari Convertibles     | 7%  | 9. Finnish markka bonds       | 10% |
| 5. Fletcher Challenge NZ  | 10% | 10. Deutschemark bonds        | 8%  |

\*The above allocation is listed in order of preference. Existing portfolios should redeploy continuing cash flows accordingly.

**Chart 14  
FOREIGN CURRENCY BONDS**

Date: July 29, 1993

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. ANNUAL YLD. TO MTY.	NEXT PAYMENT INTEREST DATE
<b>DEUTSCHE MARK DENOMINATED</b>				
BANK OF NOVA SCOTIA 5½% 07/05/96 RRSP eligible	97.90	98 3/4	6.12 %	May 07
WORLD BANK 5½% 4/02/97 RRSP eligible	100.10	100.95	5.56 %	Feb. 04
WORLD BANK 9% 13/11/00 RRSP eligible	114.55	115.40	6.29 %	Nov. 13
<b>FINNISH MARKKA DENOMINATED BONDS</b>				
REP. OF FINLAND 11% 15/6/95	106.70	107.55	6.54 %	Jun. 15
<b>ITALIAN LIRA DENOMINATED BONDS</b>				
NORDIC INV. BANK 12¾% 19/04/96	107 ½	108.10	8.83 %	Apr. 19
GENERAL ELECTRIC 11½% 7/02/95	103 ½	104.10	8.40 %	Feb. 07
<b>SWISS FRANC DENOMINATED BONDS</b>				
GOVT. OF AUSTRALIA 5% 30/10/98	100	102	4.56 %	Oct. 30
<b>DANISH KRONE DENOMINATED BONDS</b>				
KINGDOM OF DENMARK 9% 15/11/94	100.30	101.15	7.96 %	Nov. 15
<b>ECU DENOMINATED BONDS</b>				
UNITED KINGDOM 9½% 21/02/01	109.60	110.45	7.26 %	Feb. 21
<b>BRITISH POUND DENOMINATED BONDS</b>				
KGDM OF SWEDEN 8¾% 29/5/96	104 3/4	105.60	6.49 %	May 29
<b>FRENCH FRANC DENOMINATED BONDS</b>				
CREDIT LYONNAISE 9½% 23/12/96	107.30	108.15	6.70 %	Dec. 23
<b>JAPANESE YEN DENOMINATED BONDS</b>				
WORLD BANK 5¾% 7/8/96 RRSP eligible	105.05	105.90	3.64 %	Aug. 07
<b>CANADIAN DOLLAR DENOMINATED BONDS</b>				
ONTARIO HYDRO 10½% 08/01/96 (semi annual)	109 3/4	110.60	6.20 %	Jul. 08
EKSPOITFINANS 7¾% 5/11/97	103	103.85	6.67 %	Nov. 05
ROYAL BANK OF CANADA 9½% 7/1/97	105.95	106.80	6.81 %	Jan. 07
<b>SOUTH AFRICAN RAND DENOMINATED BONDS</b>				
ESCOM 12% 1/5/96 (semi)	99.70	100.55	12.10 %	Nov. 1
<b>AUSTRALIAN DOLLAR DENOMINATED BONDS</b>				
COMMONWEALTH BANK OF AUSTRALIA 14% 01/07/94	106 ½	107.35	5.43 %	Jul. 07
<b>NEW ZEALAND DOLLAR DENOMINATED BONDS</b>				
NEW ZEALAND GOV'T 10% 15/7/97 (semi)	112.14	112.99	6.24 %	Jul. 15
FLETCHER CHALLENGE 10.15% 30/11/98 (semi)	98.48	99.33	9.55 %	May 30
<b>ARGENTINEAN PESO DENOMINATED BONDS</b>				
ARGENTINA BIC V FIXED/FLOATING 1/05/2001 callable in full on every interest date	93.11	93.96	15.13 % IRR	4th day of mth.
<b>U.S. DOLLAR DENOMINATED FIXED CONV. BONDS</b>				
DATAPOINT CORP. 8½% 1/6/06	85	86	11.22 %	Jun. 01
CV @ \$18.11 p/sh (semi)				
BURNUP & SIMS 12% 15/11/00 (semi)	85	87	15.54 %	Nov. 15
CV @ \$16.79 p/sh				
ATARI CORP. 5¼% 29/4/02	60	61	12.95 %	Apr. 29
CV @ \$16.31 p/sh				
COEUR D'ALENE 6% 10/6/02	105 ½	107	5.00 %	Jun. 10
CV @ \$26.00 p.sh				
T.W.A. 17¼% 15/3/93 (in Chapter 11 bankruptcy)	27 5/8	28 5/8		in default
<b>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</b>				
FARM CREDIT CORP. 7¾% 10/06/96 RRSP eligible	107 ½	108.10	4.64 %	Jun. 10
<b>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</b>				
UNITED KINGDOM 24/09/96	99.75	100.05	3 1/8 %	Jun. 30
3 mo. LIBID-½ (rily) *callable @ 100				
BOCOR 1/4/01 (30 day LIBOR) starting to accrue May 1, '97	76.15	77	10.21 %	May 1/97
ARGENTINA: SERIES L: FFB 31/03/05	72 3/4	73 3/4	12.02 %	Sep. 30
6 mo. LIBOR + 1½ (semi)				

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

**HOTLINE UPDATE**

**Tuesday, June 29:**

There are no changes or new recommendations. The market letter is in the mail.

**Friday, July 2:**

There are no changes or new recommendations.

**Tuesday, July 6:**

There are no changes or new recommendations.

**Flash update, Thursday, July 8, 12:00 noon:**

As per our comments in the market letter of June 27, we have taken advantage of the recent rally to take profits in corn; therefore, liquidate long positions.

**Friday, July 9:**

There is one new recommendation: Cover short September Canadian dollar at the market and stand aside.

Also the following is a recap of recommendations for the week: On Thursday, July 8 via flash update we liquidated long September corn positions at the market, then trading at 244, based on our June 27 market letter advice.

**Flash update, Monday, July 12, 9:10 a.m.:**

Buy September Japanese yen at the market, currently trading at 9117; place initial stops at 9025, close only.

**Tuesday, July 13:**

As per our flash update of Monday July 9, we bought September Japanese yen at approx 9117; change stop to 90.50, close only, replacing 9025 close only. We continue to advise retaining and or adding to the short French franc/long DM positions.

**Flash update, Wednesday, July 14, 9:35 a.m.:**

Buy September DM at the market, placing stops at 5725, close only. Currently the September DM is trading at 5778.

**Flash update, Friday, July 16, 9:25 a.m.:**

Liquidate long December gold positions at the market, cancelling the 364.00 stop, good anytime. Currently December gold is trading at 397.

**Friday, July 16:**

The following is a recap of this week's recommendations.

On Monday we bought September Japanese yen at approx 9117, placing stops at 90.50, close only.

On Tuesday, we advised to retain and/or add to the short French franc/long DM positions.

On Wednesday we bought September DM at approx 5778, placing stops at 5725, close only. This morning, Friday, we liquidated long December gold positions at approximately 397. There is one new recommendation for Monday morning: Liquidate long December silver positions at the market.

**Flash update, Monday, July 19, 11:15 a.m.:**

Accept profits on long Japanese yen positions; liquidate September Japanese yen at the market, currently trading at 9225. Replace this position by buying September DM at the market, currently trading at 5825.

**Friday, July 23:**

Following is a recap of this week's recommendations.

On Monday, July 19, we liquidated long December silver positions at approximately 5.13. The same day we liquidated long Japanese yen positions at approximately 0.9225 and replaced this positions by buying long September DM at approx 58.25.

**Tuesday, July 27:**

There are no changes or new recommendations.

**Flash update, Friday, July 30, 10:20 a.m.:**

Re-enter the long side of December gold, presently trading at 406.00. Placing tight stops at 402.00, good anytime.

**Friday, July 30:**

This is a complete summary since our last market letter dated June 27 of all liquidations of open positions and new recommendations that remain outstanding.

On Tuesday, July 13 we advised retaining and/or adding to the short French franc/long DM position.

On Friday, July 30 via flash update we bought December gold at 406.00, placing initial stops at 402.00, good anytime.

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