

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



Volume 15, No. 5 May 23, 1994

What tightening?

Having raised the discount rate in half-point hikes to 3½%, and having set its target for federal funds at 4¼%, the Fed declared itself temporarily satisfied. "These actions," it stated, "combined with the three adjustments initiated earlier in the year by the FOMC, substantially remove the degree of monetary accommodation which prevailed throughout 1993."

Measured by any other yardstick, the Fed's tightening is nowhere to be seen. In fact, a good argument can be made that the Fed has become even more stimulative now than it was throughout the post-1987 crash period.

Let's review the evidence. First, the yield curve (Chart 1). It remains perched at the highest, i.e., steepest, point of the last 75 years. The Fed has attempted to close the gap by talking long rates lower and by providing cheap speculative financing for "carries." But to no avail. The market distrusts a discretionary money-printing central bank.

This distrust, expressed in the form of a spread, can only be allayed if and when the Fed seizes the initiative, raising rates *towards* and *beyond* the yields prevailing on 30-year paper. The Volcker Fed did this in 1979-81, ushering in a long period of falling inflation-expectations and interest rates. Unfortunately, the hard-earned gains were pilfered away in the course of the past 10 years, and in particular, since October 1987.

Next, the US dollar. It has fallen persistently (see Chart 2) and rather surprisingly in the face of lower European interest rates. Hardly a sign of a tightening monetary policy.

The accelerated expansion of bank credit (see Chart 3), now growing at an annualized 7.8%, and in particular the extraordinary pick-up in bank holdings of investments denote a typical easing in monetary policy rather than a tightening. The fact that bank loans are not growing at better than 4% per annum does not vitiate this observation: An expansion in bank assets can come about only in response to a generous provision of reserves. Clearly, the Fed has not been tightening.

Finally, the broad rise in commodity prices. In recent days, the CRB index has registered 3½ year highs, led by spectacular gains in coffee, copper, and cotton. These advances are neither isolated (see Chart 4 — showing that the majority of commodities constituting the index are above year-ago levels) — nor artificial. This is attested by the fact that a large number of commodities have inverted, developing what the trade terms a backwardation. In effect, premium prices are being paid for spot or nearby positions in

sugar, coffee, copper, crude oil, cotton, and soybeans, an indication that some tightness has developed.

What is becoming increasingly obvious is that the Fed delayed too long in raising rates and then acted too timidly. As we have suggested in previous issues (see in particular our January, February, and March issues), this inadequacy is inherent in the type of fiat money central banking that has evolved over the past half century. Without a proper anchor, central banks are unable to determine the precise supply of money that will satisfy demand. Interest rate manipulation is no more than just that; only by miracle can the central bank get it right. More often, interest rate manipulation has planted the seeds of booms and busts with their painful epilogue.

We are in the early stages of a Fed induced inflationary boom. In this case, as we have been suggesting for months, asset inflation is giving way to commodity inflation.

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Contributions by Albert D. Friedberg, David Rothberg, 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.

We're Moving...

Effective May 31, 1994, the offices of the Friedberg Group of Companies will be located at BCE Place, Suite 250, 181 Bay Street, P.O. Box 866, Toronto, Ontario, Canada, M5J 2T3. All telephone and fax numbers remain unchanged.

Chart 1

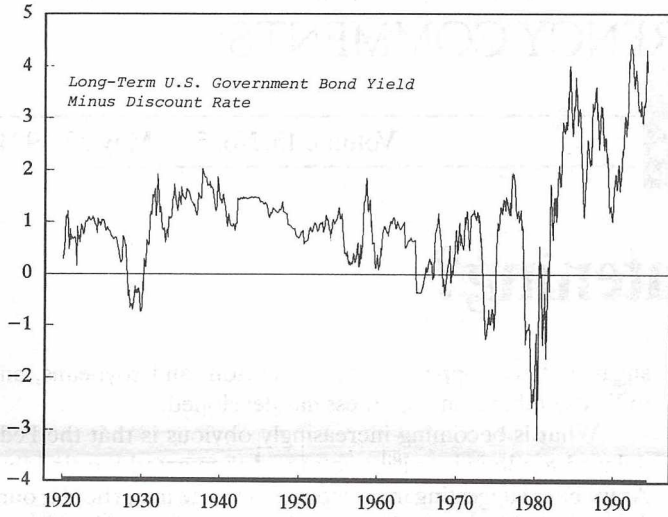


Chart 3

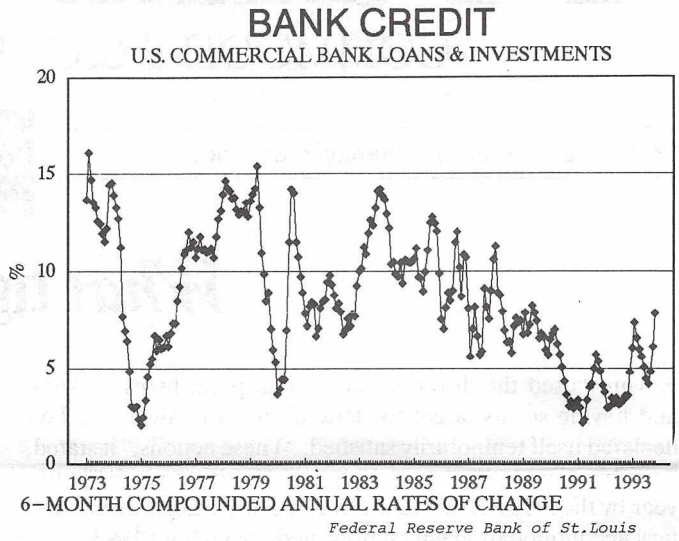


Chart 2

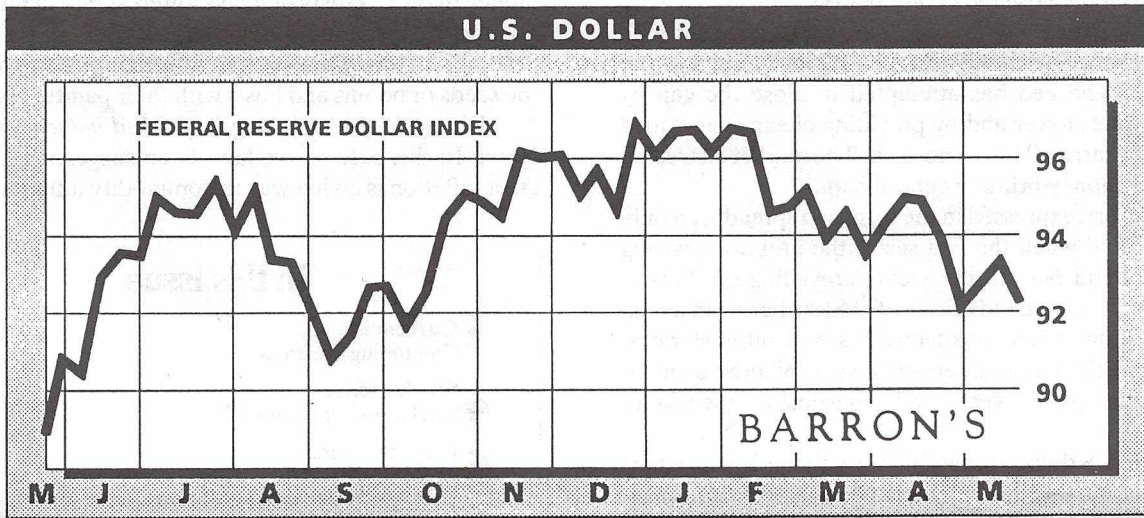


Chart 4

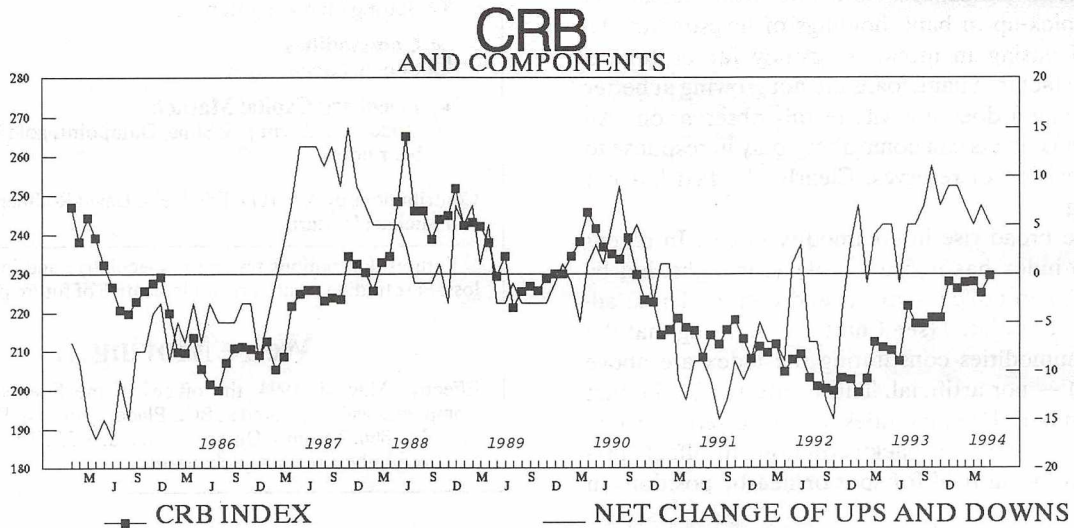


Chart 5



CURRENCIES

Fine-tuning the cross

Two significant events have taken place in recent weeks: 1) The renewed weakness of the US dollar *vis à vis* the DM despite interest rate convergence (in fact, based on December futures, US interest 3-month LIBOR rates exceed German rates by 65 basis points); 2) the concerted and massive central bank intervention in support of the US dollar around the DM 164 level. The latter event was significant in that it brought to an end another episode of "benign neglect" and even outright "talking down" of the US dollar by a US administration. In all probability, this change of heart came about in response to the weakening US bond market.

The end of the policy of shooting itself in the foot is highly beneficial to our short yen position. For, in effect, the only thing that stood in the way of a natural depreciation of the yen was the bullying of the US Treasury, the trade negotiator, and the liberal Washington-based think tanks, hoping to pry open the Japanese markets with the threat of a rising yen.

Economic data still support the view that the overvaluation of the yen is excessive: corporate profits are down for the fourth year in a row, wholesale prices are falling at an annual rate of 3%, export prices in May fell 2% from the year earlier. The government's Economic Planning Agency estimates that Japan's export industries are on average competitive at ¥117 to the dollar, as against the current ¥104. For the economy at large, Mr. Miyoshi, director general of the Keidanren Business Federation, reckons that each 5% rise in the yen/dollar rate knocks 0.3 of a percentage point off annual growth in GDP.

The Japanese economy is likely to get little or no relief from the planned income tax cuts for two reasons: User fees

are going up (subways, tolls, water, medical, etc.) and the consumption tax is likely to be raised by at least 7% if a cut in personal income taxes is extended into the fiscal year that begins April 1, 1995. This leaves the external sector via currency depreciation as the only engine of recovery. Thus, our view that in the end the yen will likely depreciate to 125-140.

In a surprising about-face, the Bundesbank has been aggressively cutting interest rates despite much-faster-than-estimated growth in M3 and in the recent pick-up in inflation. Decision makers at the central bank seem to have been persuaded to relent based on their forecast of a further decline of inflation resulting from the moderate settlements of this year's wage round. Discouraging April inflation readings — with year-on-year inflation at 3.1% and a three-month annualized seasonal adjusted rate up to 3% from 2.5% in March — are being cavalierly dismissed.

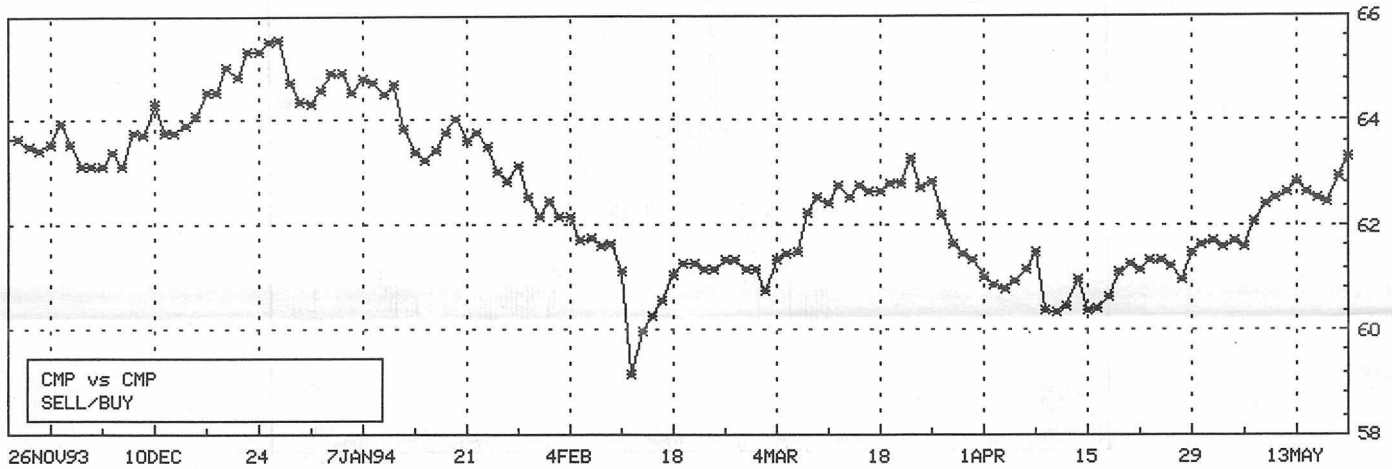
Money manipulators at the helm of the Bubba seem to believe that a steeply-sloped yield curve will induce greater monetary capital formation and thus slow the growth of M3 (which does not include long-term deposits). This rather absurd train of thought is probably a prelude to the total abandonment of M3 targets. Here goes the Bundesbank....

Our progressive loss of faith in the deutschemark, after having totally lost our faith in the US dollar, has persuaded us to find a better way to play the inevitable depreciation of the yen. We believe we have found the right formula: Substitute the long deutschemark leg in our cross trade with the Swiss franc.

STRATEGY: The long deutschemark/short yen cross trade has begun to pay off (see Chart 6), having moved to a new recent recovery high of 63.20. We have however, as discussed above, substituted in recent days the long deutschemark leg in favor of the Swiss franc, leaving us with a long Swiss franc/short

yen position. For those familiar with cross trading, we are notionally long deutschemark/short yen and short DM/long Swiss franc. This abstraction helps us set our stops more accurately: They should be raised, based on the DM/yen, to 59.90, New York close.

Chart 6 - DM/¥



Bloomberg

STOCK INDEXES

Stocks are not competitive

The stock market rallied last week, convinced that the Fed had accomplished its mission and that in fact interest rates would not have to rise further. The bulls' hopes are irrisory: without any new hikes, three-month Treasury bills yield 145 basis points more than stocks. Assuming an unchanged payout ratio, earnings will have to rise by an astounding 51% just to make dividends competitive with money market instruments. Given the longevity of the cycle, this looks highly improbable.

Moreover, an extension of the recovery should bring about higher interest rates, thus precluding any convergence. A bear market is in progress.

STRATEGY: On Friday May 20, via flash update, we advised reinstating short June S&P, then trading at 455.50, after having been stopped out a day earlier at 455.00. Place new stops at 457.30, good anytime.

Chart 7 - S&P June '94



PRECIOUS METALS

Ready to soar

The constructive South African election outcome did not trigger widespread liquidation in either gold or platinum. This was a sign that technically the market was in strong hands and capable of mounting a concerted and successful attack on recent highs. Especially encouraging was a lack of follow-through in gold after it broke below the late November and late February reaction lows.

Silver leads the advance, followed closely by platinum

and gold. Bulls are banking on the perverse behavior of precious metals — unlike other commodities, high prices beget increasing demand which in turn begets higher prices. Thus the formula for a spectacular bull market.

STRATEGY: Remain long July silver, July platinum, and August gold, raising stops to 5.27, 392, and 377 respectively, close only.

Chart 8 – Gold

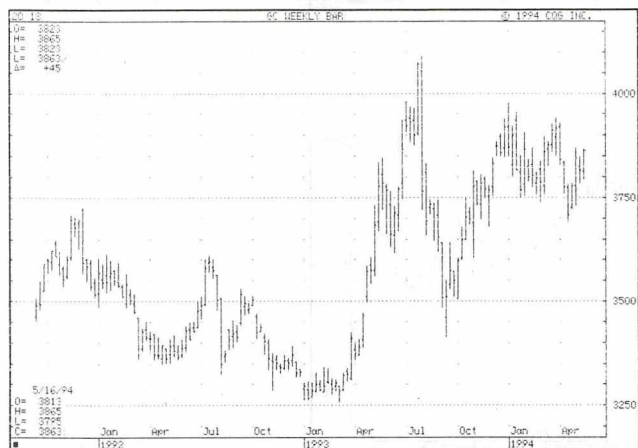


Chart 9 – Silver



CANADIAN DOLLAR

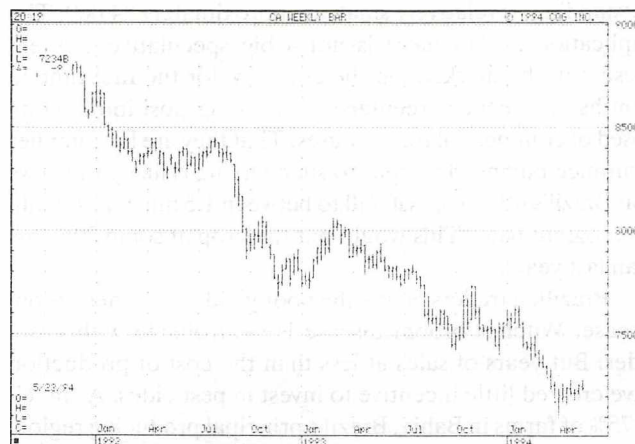
Bleeding

A meagre trade balance averaging no more than a monthly \$1 billion surplus is plainly not sufficient to offset the daily outflow of private capital in search of more hospitable climates. As a result, the government has had to borrow on a short-term basis non-resident balances, offering as much as 150 basis points premium over US rates.

Canada's net international reserves are dwindling rapidly with the critical phase of the political battle over Quebec yet to be felt.

STRATEGY: We are short September 1994 Canadian dollars at around 71.88, as per flash update on May 11. Retain stops at 72.95, close only.

Chart 10 – Canadian dollar



INTEREST RATE FUTURES

Betting on real tightening

The Fed remains accommodative despite its recent half-point hike in the discount rate and Fed funds. See our rationale in the opening comments in this month's issue.

In our opinion, the Fed will be forced to raise rates again and again in response to soaring commodity prices. Thus,

lower bond prices are in the offing.

STRATEGY: We reinstated (see update May 10) our short position in September T-bonds around 101.16. Stops were placed at 107.00, close only.

Chart 11 – Treasury Bonds

**COMMODITIES**

Cocoa

It would appear from the technical action that the bull market may have begun. Open interest, the number of contracts outstanding, is relatively small at approximately 84,000. The implication is that there is not a big speculative element present in the market. On the contrary, for the first time in months, a decent percentage of the long position is composed of commercial trade houses. That they are long implies insurance buying. The spur to such buying is likely the news that Brazil's mid-crop will fall to between 1.5 mln and 1.8 mln 60-kilogram bags. This would put the crop at some 30% less than last year's.

Brazilian traders blame the poor yield on witches broom disease. Witches broom disease is controllable with pesticides. But years of sales at less than the cost of production have created little incentive to invest in pesticides. As much as 75% of farms in Bahia, Brazil's principal producing region, are said to be affected by the disease. In its first stage witches broom can be controlled by pruning. In its second stage the

disease affects the tree itself. A report from Brazil says as many as 10% of all trees are affected by the disease in its second stage. In the same report a source stated: "Many farmers are abandoning properties and that creates a focus of the disease which spreads to other farms."

The Brazilian situation in many ways typifies the world supply situation. There is simply no way out of the string of deficits that began in 1991. As we said last month, the question of a bull market in cocoa is not if but when and how high. The first part may already be answered.

Coffee

The market has skyrocketed as a result of massive short-covering, the refusal of ICO (International Coffee Organization) member countries to release stocks held under the retention scheme to the satisfaction of exporters, and delays in deliveries of Robustas supplies as a result of the drought in Asia. Exporters complain the hysteria has created trading conditions so thin that unless stocks are released and sold in an orderly way, the market will never support actual business,

and the entire opportunity will be lost. On May 23 they meet to determine how much more of the retained stocks they will be allowed to sell. Given the legitimacy of their argument, it should be enough to brake this vertiginous climb. That coupled with deliveries that should soon arrive from Asia have rendered us less sanguine than we have been.

STRATEGY: *Coffee's dazzling performance will be repeated in the commodities theatre many times in the next several years. Let's take the first of many major profits. Cheers.*

Sugar

Most recent sugar data for the current crop year now predicts a deficit of as much 4.39 mln tonnes raw value. Given that last year's deficit was 1.3 mln tonnes, the market's response is rather startling. Why then has sugar not gone up like, say, coffee or cotton? The answer is that despite the reduced production, the affected countries, primarily India and China, have not come to the market to make up for shortages in a large enough way to cause mismatches. India, whose crop has been lowered to 9.8 mln tonnes from 10.5 mln tonnes last year (and 13.4 mln tonnes in 1991-92), has bought just several cargoes of whites, just enough only to temper domestic inflation and to satisfy exporters who need supplies in order to maintain an international marketing presence. China has kept true to a policy of allowing per capita consumption to fall rather than go to the market to make up for its smaller crops.

Does this mean sugar prices can be contained until next year when production is normalized? Trade experts seem to think so. Speaking at the Australian Sugar Convention May 19, Managing Director of Études et Recherches Sucrières, Patrick du Genestoux predicted sugar prices will trade between 8¢ and 12¢ in the foreseeable future.

We believe the trade is being either complacent or hopeful. (The bull markets of 1974 and 1980 induced too much competition from artificial sweeteners). Because of increased consumption in burgeoning Asia, world demand has been increasing by an average of 2 mln tonnes a year. Therefore, next year we might predict demand at 116 mln tonnes. Production would have to increase by 6 mln tonnes, or nearly 5%, just to stop the ongoing erosion of stocks. It seems unlikely. It also seems unlikely that the lack of mismatches will last forever.

STRATEGY: *We want to stay long. The trends in supply and demand are such that the market could echo the bull markets of 1974 and 1980, M. du Genestoux et ses confreres notwithstanding.*

In brief...

We remain pleased with our long position in soymeal. Larger-than-predicted export flows put a great deal of pressure on this season's crop. The risk-reward ratio is on our side.

— David B. Rothberg

FRIEDBERG CAPITAL MARKETS

Review of Mastec/Burnup & Sims

Security: 12% Convertible Subordinated Debentures

Maturity: November 15, 2000

Recent price: \$94.50

Yield to maturity: 13.73%

Recent stock price: \$8 per share

Conversion price: \$16.79 per share

The acquisition of Church & Tower Group was approved by Burnup & Sims' shareholders in March. The acquisition was effected by a stock swap valued at \$58 million. Following the acquisition, Jorge Mas Canosa, who was the controlling shareholder of Church & Tower, controls 64% of the combined company. The combined company's name was changed to Mastec Inc. and Jorge Mas Jr. was named chief executive.

As one of the conditions for the acquisition, Burnup & Sims has eliminated the equity ownership by National Beverage (NBC) by exchanging the \$17.5 million subordinated debentures issued by NBC to Burnup & Sims for the 3.15 million common shares of Burnup & Sims held by NBC. As a result, the only NBC-related investment that Mastec now has is \$12 million of NBC's 7% preferred stock.

According to the proxy statement, Church & Tower was

established in 1968 and is a highly profitable contractor that performs engineering, construction and maintenance work mainly for utility companies and municipal governments. It currently holds three master contracts covering outside plant work for Southern Bell (an affiliate of Bell South), and they accounted for approximately 70% of its total revenue.

Church & Tower's financial position and operating performance are impressive. Its total revenue almost doubled to \$34 million in 1992 from \$19 million in 1990. Revenue in the first nine months of 1993 was \$37 million, higher than the full-year revenue in 1992. The company has remained highly profitable throughout this period. Its gross margin was 34.2% and 34.6% in 1992 and the first three quarters of 1993, respectively. Its earnings before interest and tax margin and return on assets were 20% and 34%, respectively, in 1992. These ratios are much better than the 1992 industry averages.

The balance sheet of Church & Tower is very strong. With only \$2 million long-term debt, its debt to equity ratio was 0.43 at the end of September 1993. Its current ratio of 3.1 and operating cash flow to total debt ratio of 1.2 also indicated a very healthy liquidity position and strong cash-generating ability.

Its outstanding operating performance and strong balance sheet have led us to believe that Church & Tower's management will be able to run the combined business profitably by streamlining the operations. Given the background of Church & Tower's management, we believe it will be aggressively seeking opportunities outside the US — in Latin America, for example.

However, as mentioned in our last update in October, we believe the improvement in the bottom line of the combined company will not be seen until at least nine to 12 months following the acquisition. While Burnup & Sims reported a third-quarter (ended Jan. 31, 1994) net loss of \$585,000, which was much smaller than a year ago, Mastec reported its first quarter (ended March 31, 1994) proforma consolidated net loss of \$1.7 million. Since Mastec has changed its year-end to December 31 from July 31, we would not see the detailed financials until approximately a month later, when the first 10Q of Mastec is available.

On a proforma consolidated basis, we estimated the asset coverage of the convertible debentures has increased to

230% from 180%. This revised asset coverage should be more accurate than our previous estimate since the assets of both companies have been adjusted to reflect fair market values as required by the purchase accounting method used in the acquisition. The post-acquisition total debt to market capitalization ratio is approximately 0.8.

The convertible debentures are currently trading at \$94.5, which is approximately 9% below the estimated investment value. Although the debentures are callable at \$100, we believe Mastec may not want to call them in order to preserve cash for expansion purpose, unless the debentures trade at a large premium.

STRATEGY: *The acquisition of Church & Tower Group represents a major turnaround opportunity for Burnup & Sims. Under Church & Tower's management, the combined company should be able to expand and improve profitability. With a strong asset coverage and improved cash flow, the debentures' default risk is very small. These instruments are certainly a strong hold!*

Review of Datapoint Corp.

Security: 8 $\frac{7}{8}$ % Convertible Subordinated Debentures

Maturity: June 1, 2006

Recent price: \$70

Yield to maturity: 14.5%

Convertible at: \$18.10 per common share

Recent stock price: \$5.75

Based in San Antonio, Texas, Datapoint Corp. specializes in designing and manufacturing network-based computer hardware and software for business customers. Its major product categories include video telecommunications, local and wide-area networking, telephony systems, and relational database management.

Datapoint's revenue has been declining, and it has made money in only one (1991) of the past five years. Datapoint is in a highly competitive market and has experienced significant margin pressure. Although the demand for computer network products is growing rapidly, there are many players who target this market, and many of them (e.g., IBM and Microsoft) have much stronger financial and technical resources.

Another reason for Datapoint's poor operating results is its concentration on European markets, which are still in a deep recession. Of the company's total sales, 83% were destined to Europe in fiscal 1991, and the ratio went up to 89% in fiscal 1993. International sales accounted for 96.5% of Datapoint's total revenue in fiscal 1993. As a result, the company's earnings are very sensitive to the value of the US dollar.

The financial situation of Datapoint has deteriorated. While its quick ratio has declined from 1.16 in fiscal 1991 to 0.9 in the second quarter of fiscal 1994, its pretax operating

cash flow to interest ratio turned negative for the last 12 months. The free cash flow coverage of interest expense was a slim 0.02. However, the total debt-to-market-capitalization ratio remained below the alarming level of 2.

Datapoint is currently highly leveraged. The settlement of the patent infringement lawsuit in fiscal 1993 brought against it by Northern Telecom costs the company an additional \$15 million debt, plus future profit-linked royalties up to \$12.5 million within the next 10 years. The high level of debt resulted in a poor asset and interest coverage of its debt.

Furthermore, we are also concerned about when Datapoint can turn around. The video telecommunication and other computer network products will continue to be subject to a large number of competitive products and rapid technological changes. Nevertheless, Datapoint does have a solid position in Europe's telephony market, especially after entering into strategic alliances with AT&T. If the European economies can recover quickly, that will help Datapoint improve its operating results.

The company had unrestricted cash and marketable securities of \$10 million at the end of January 1994, which declined from \$34 million in fiscal 1991. Given its factoring and other secured credit facilities, we believe Datapoint will be able to meet its fixed charges for the next 18 months. After that, if Datapoint still cannot generate cash flow from its operations, it will have to restructure its financing.

Consequently, we believe Datapoint's convertible debentures should trade at the high end of the yield range of CCC-rated bonds. Our estimated fair yield is between 15% and 16%, which implies that the debentures are currently slightly overvalued.

Update on convertibles' downside risk

The US bond market has been volatile in the past two months. The US 30-year Treasury bonds dropped almost two full points on May 6 when the US employment figures came out to be much better than expected. The bond yield had shot up to a high of 7.65% before it came down gradually. On May 17, the US Federal Reserve, as widely expected, raised both the target Federal Funds rate and the discount rate by 50 basis points, to 4.25% and 3.5%, respectively. The Fed's action was regarded as a signal that it is determined to fight inflation. As a result, the bond market rallied, and yields retreated to the 7.25% range.

Despite the high volatility, the Treasury bond yield ended up little changed compared with two months ago. Similarly, the corporate bond market also has ended up little changed. The estimated investment values of the convertibles in our portfolio have been stable. Chart 12 indicates that two issues are currently trading above their estimated investment values: Coeur D'Alene and Datapoint.

We have downgraded Datapoint (see a separate analysis of Datapoint in this issue) based on its financial position. Therefore, we have adjusted its investment value downward. Coeur D'Alene still has the highest downside risk among the five because of its closeness to conversion value. With the

long-term interest rate trend stabilizing, we believe that the market will start to refocus on individual issues instead of the entire high-yield market. Consequently, it has again become more important to carefully monitor the credit standing of each debenture's issuer to determine whether the security is truly undervalued.

Chart 12
Convertibles' downside risk

Issuer	ATC	BSIM	CDE	DPT	GLYC
Credit rating	CCC2	B3	CCC2	CCC2	CCC2
Recent price (per \$100)	\$58.75	\$94.25	\$91.25	\$70	\$60.25
Yield	14.26%	13.80%	7.49%	14.57%	16.23%
Maturity (mm/dd/yy)	4/29/02	11/15/00	10/6/02	6/1/06	1/1/03
Estimated Investment value	\$69.0	\$106	\$72.6	\$66*	\$79.1
Downside risk	Nil	Nil	20.4%	5.2%	Nil

* We lowered its investment value based on Datapoint's financial position (see our article on Datapoint in this issue).

Gold bull/yen bear notes: a hidden gem?

Since we introduced the gold bull/yen bear medium-term notes issued by the Kingdom of Denmark, gold has been trading in the range of \$370 to \$395 per ounce. It has recently come back from \$370 to \$385, reflecting investors' concern that inflation will eventually come back in the face of a solid economic recovery.

The yen/US\$ exchange rate, on the other hand, has moved slightly against us in the past three months. The major reason is that the trade conflict with Japan has prompted the US government to talk up the yen. However, when the exchange rate fell close to ¥100 per US dollar, there was a concerted effort among central banks to defend the US dollar, pushing the exchange rate back to ¥104. We believe that the US government has recognized the adverse effects of a weak dollar on the US bond markets and, therefore, is unwilling to let the yen break the ¥100 level. Despite the short-term volatility, we still firmly believe that the yen will have to return to the ¥140 per US dollar level in the next two to three years to be in line with its economic fundamentals.

It seems to be well understood that the redemption value of the notes is linked to gold price and the yen/US dollar exchange rate on the maturity date. The way the gold price and yen/US dollar exchange rate affect the redemption value is indicated by the redemption formula, which clearly reflects our bullishness on gold and bearishness on the yen against the US dollar. Nevertheless, the coupon rate structure seems to be less well understood and has been regarded as a black box by some investors. We believe the movements in the yen/US dollar rate and the swap rate

differential in the past three months can serve as an excellent illustration of why the coupon rate is structured this way.

As you may recall, the coupon rate consists of two components. The first component is LIBOR less 55 basis points, which reflects the borrowing cost of the Kingdom of Denmark. The second component is two times the spread of the US five-year swap interest rate over Japan's five-year swap interest rate, less 510 basis points. The 510 basis points was the spread then prevailing when the notes were priced. While the first component is easy to understand, it is the second component that needs further elaboration.

The reason we put the second component into the coupon structure is to provide the notes with some hedge against the yen exposure. The theoretical basis is that if the yen, for reasons other than economic, continues to be overvalued against the US dollar, the swap differential should widen because in that case, the inflation pressure (or in fact deflation) in Japan will continue to be low while that in the US should rise. The widening inflation differential should translate into a widening interest rate differential. On the other hand, if the yen starts weakening against the US dollar, the swap differential should contract owing to narrowing inflation differential between the two countries. However, we believe that the inflation differential may not start narrowing until the yen/US dollar rate exceeds ¥125.

As a result, if, for some unforeseen reasons, the yen continues to be artificially kept at the existing level, or pushed even higher, the notes' return can be maintained to a certain extent by an increasing coupon rate over the life of the notes.

For example, the yen/US dollar rate has gone from ¥106 to ¥101 in the past three months; at the same time, the swap differential has expanded to 320 basis points from 210. If the notes' coupon rate were set now, it would be approximately 5.25%, compared with the 3.02% previously set for the first six months' coupon.

Chart 13 shows the yen/US dollar exchange rate and the swap differential for the past five years. The trend indicates a

reasonable degree of negative correlation between the two variables, with some time lag. The correlation is not perfect since interest rates are only a *proxy* for inflation and, in turn, inflation differential determines long-term exchange rates rather than short-term fluctuations. Furthermore, the effect of currency exchange rates on inflation will take time to come about, which creates the time lag.

— Edison Lee

Chart 13
5-Yr Swap Differential vs. Yen/US\$ Rate

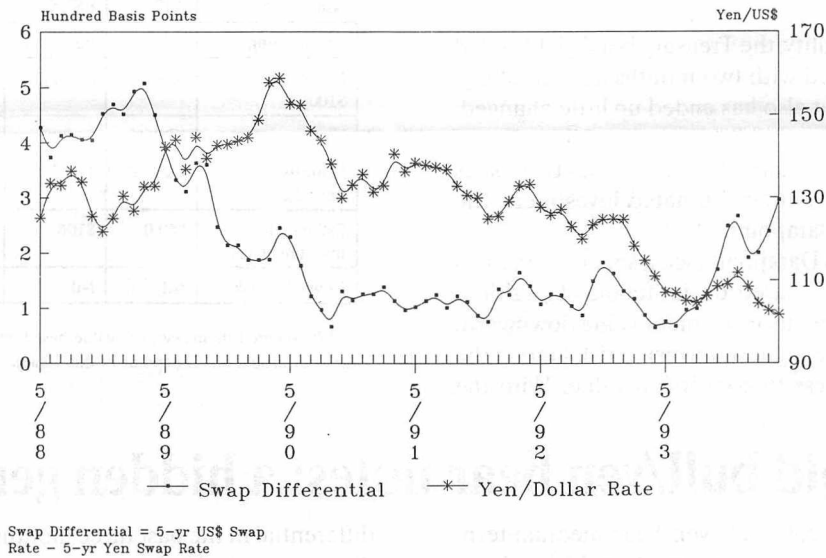


Chart 14
Breakeven exchange rates for US\$-based investor

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\$, DKr, BP, CD, SAR, ITL, and ARG) or revalue for DM, SF, FFr before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. Rates as of May 19, 1994.

	US \$	NEW ZEALAND	AUSTRALIAN \$	DEUTSCHEMARK	SWISS FRANC	DANISH KRONE	BRITISH POUND	FRENCH FRANC	CANADIAN DOLLAR	SOUTH AFRICAN RAND**	ITALIAN LIRA	ARGENTINEAN PESO
1 year	5.10%	C.I.L. '95 yields 13.54% (.543 NZ/US)										
2 year	5.74%		C.B.A. '96 yields 6.61% (.7164 A/US)	BNS '96 yields 4.96% (1.624 US/DM)		Denmark '96 yields 6.12% (6.493 US/Dk)	Sweden '96 yields 6.49% (1.4923 BP/US)			ESCOM '96 yields 11.60% (1.1838 SAR/US)	NIB '96 yields 8.16% (1.654 ITL/US)	
3 year	6.10%							Credit Lyon '96 yields 5.90% (5.605 US/Ffr)	R.B.C. '97 yields 7.88% (1.4435 Cdn/US)			
4 year	6.32%				G.E. '98 yields 4.21% (1.297 US/SF)							
5 year	6.54%	Fl. Ch. '98 yields 8.21% (0.543 NZ/US)										
6 year	6.63%	Tranzrail '99 yields 8.99% (0.515 NZ/US)		World Bk '00 yields 6.15% (1.604 US/DM)								
7 year	6.72%											BIC V '01 IRR 12.83% (1.474 US/Arg)
Spot Exchange Rate	—	.587	.7282	1.648	1.405	6.447	1.5135	5.637	1.3732	.2047	1.581	.998

*For example, since a US\$-based investor would receive 844 basis points (1354-510) by holding the C.I.L. NZ \$ bond, the NZ/US can depreciate to .543 NZ/US from the present spot exchange rate of

.587 NZ/US over the next 1 year 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 15 – FOREIGN CURRENCY BONDS

Date: May 19, 1994 We Offer The Following Bonds Subject To Change Without Prior Notice: Minimum US \$4,000 (CDN. \$6,000)

ISSUER/MATURITY DATE/COUPON	BID	OFFER	YLD. TO MTY.	NEXT PAYMENT INTEREST DATE
DEUTSCHE MARK DENOMINATED				
BANK OF NOVA SCOTIA 5½% 07/05/96 RRSP eligible	100.35	101.20	4.96 %	May 07
WORLD BANK 5½% 4/02/97 RRSP eligible	102.30	103.15	4.59 %	Feb. 04
WORLD BANK 9% 13/11/00 RRSP eligible	113.90	114 3/4	6.15 %	Nov. 13
KINGDOM OF DENMARK 6½% 15/04/98	100 3/4	-	-	Apr. 15
ARGENTINA 8% 5/10/98	99	99.85	8.02 %	Oct. 05
BK. FOREIGN ECO. AFFAIRS 7% 29/3/96	82 3/4	83.60	18.21 %	Mar. 29
FINNISH MARKKA DENOMINATED BONDS				
REP. OF FINLAND 11% 15/6/95	104.60	-	-	Jun. 15
ITALIAN LIRA DENOMINATED BONDS				
NORDIC INV. BANK 12¾% 19/04/96	106 ½	107.10	8.16 %	Apr. 19
GENERAL ELECTRIC 11½% 7/02/95	101.20	102.05	7.92 %	Feb. 07
SWISS FRANC DENOMINATED BONDS				
GENERAL ELECTRIC 4¾% 2/7/98	101.15	102	4.21 %	July 02
DANISH KRONE DENOMINATED BONDS				
KINGDOM OF DENMARK 9% 15/11/96	105 ½	106.35	6.12 %	Nov. 15
ECU DENOMINATED BONDS				
UNITED KINGDOM 9½% 21/02/01	110.35	-	-	Feb. 21
BRITISH POUND DENOMINATED BONDS				
KGDM OF SWEDEN 8¾% 29/5/96	102 7/8	104 1/8	6.49 %	May 29
FRENCH FRANC DENOMINATED BONDS				
CREDIT LYONNAISE 9½% 23/12/96	107.45	108.30	5.90 %	Dec. 23
JAPANESE YEN DENOMINATED BONDS				
WORLD BANK 5¾% 7/8/96 RRSP eligible	105.55	-	-	Aug. 07
CANADIAN DOLLAR DENOMINATED BONDS				
ONTARIO HYDRO 10¾% 08/01/96 (semi annual)	104 ½	106	7.00 %	Jul. 08
EKSPOFINANS 7¾% 5/11/97	97.90	-	-	Nov. 05
ROYAL BANK OF CANADA 9½% 7/1/97	101 ½	102 3/4	7.88 %	Jan. 07
SOUTH AFRICAN RAND DENOMINATED BONDS				
ESCOM 12% 1/5/96 (semi)	100.35	101.20	11.60 %	May. 01
AUSTRALIAN DOLLAR DENOMINATED BONDS				
COMMONWEALTH BANK OF AUSTRALIA 9¾% 15/05/96	104 3/8	105 5/8	6.61 %	May 15
NEW ZEALAND DOLLAR DENOMINATED BONDS				
NEW ZEALAND GOV'T 10% 15/7/97 (semi)	108 ½	109.35	6.65 %	Jul. 15
FLETCHER CHALLENGE 10.75% 15/12/97 (semi)	107.10	107.95	8.13 %	Jun. 15
FLETCHER CHALLENGE 10.15% 30/11/98 (semi)	106.35	107.20	8.21 %	May 30
CORPORATE INVESTMENT LTD. 13 1/2% 19/6/95 (semi)	87.85	90.35	13.54 %	Jun. 19
TRANZ RAIL LTD. 10% 15/10/99 (semi)	103.40	104 ½	8.98 %	Apr. 15
DB GROUP 7% 30/6/96 (semi) matures @ 85	92.35	93.20	3.64 %	Jun. 30
ARGENTINEAN PESO DENOMINATED BONDS				
ARGENTINA BIC V FIXED/FLOATING 1/05/2001 callable in full on every interest date	83.55	84.40	12.83 %	4th day of mth.
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS				
DATAPoint CORP. 8½% 1/6/06 CV @ \$18.11 p/sh (semi)	72 ½	74 ½	13.64 %	Jun. 01
BURNUP & SIMS 12% 15/11/00 (semi) CV @ \$16.79 p/sh	92 ½	94 ½	13.80 %	May 15
ATARI CORP. 5¼% 29/4/02 CV @ \$16.31 p/sh	56 3/4	58 3/4	14.26 %	Apr. 29
COEUR D'ALENE 6% 10/6/02 CV @ \$26.00 p.sh	89 ½	91 ½	7.49 %	Jun. 10
GLYCOMED 7 1/2% 1/1/03 CV @ \$14.06 p/sh (semi)	59 ½	-	-	Jul. 01
T.W.A. 10% 3/11/98 (semi)	70.40	71 ½	20.08 %	Aug. 01
U.S. DOLLAR DENOMINATED FIXED RATE BONDS				
FARM CREDIT CORP. 7¾% 10/06/96 RRSP eligible	101 ½	-	-	Jun. 10
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES				
KINGDOM OF DENMARK 25/3/97 (Gold call, JV put), (semi)	98 ½	99 ½	3.02 %	Sep. 25
UNITED KINGDOM 30/09/96 3 mo. LIBID-½ (qly) *callable @ 100	99.53	99.83	3 5/8 %	Jun30
BOCON 1/4/01 (30 day LIBOR) starting to accrue May 1, '97	86.30	87.15	10.68 %	May 1/97
ARGENTINA: SERIES L: FRB 31/03/05 6 mo. LIBOR +13/16 (semi)	79 5/8	80 3/8	9.64 %	Sep. 30

QOLD (in ounces, at market prices, can also be held in your bond account)

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

Chart 16

Recommended current portfolio allocations

1. Gold/Yen Bond	15%	6. Bk. For. Eco. CM	2½%
2. Fletcher NZ\$	15%	7. FRB/BIC	15%
3. Tranz Rail NZ\$	5%	8. U.K. FRN	20%
4. CIL NZ\$	5%	9. TWA 10%	5%
5. New Zealand Gov't	15%	10. European	2½%

HOTLINE UPDATE

Flash update, Monday, April 25, 9:00 am:

We recommended the sale of June S&P at the market; place initial stops at 455, good anytime. The market letter will be mailed Tuesday, April 26.

Tuesday, April 26:

There are no changes or new recommendations.

Friday, April 29:

There are three new recommendations for today, as well as recapping the flash update for this week.

The three recommendations in order of preference:

1. Buy July silver at the market, risking 498.00, close only.
2. Buy July platinum at the market, risking 385.00, close only.
3. Buy August gold at the market, risking 374.00, close only.

The recap of this week's flash for Monday, April 25, was recommending the sale of June S&P at the market; place initial stops at 455, good anytime.

Tuesday, May 3:

There are no new changes or recommendations.

Friday, May 6:

There are no changes or new recommendations.

Flash update, Monday, May 9, 4:50 pm:

Reinstate short T-bond positions. Sell September T-bonds at the market, place stops at 107, close only.

Tuesday, May 10:

This is a recap of our flash update at 4:50 pm, Monday, May 9, as well as a follow-up.

The flash was to sell September T-bonds at the market, placing initial stops at 107, close only. September T-bonds opened at 101.16.

Flash update, Wednesday, May 11, 4:45 pm:

Sell September Canadian dollar at the market.

Friday, May 13:

This is a recap of this week's flash updates as well as new recommendations.

On Monday we advised you to sell September bonds, which opened on Tuesday at 101.16; stops were placed at 107.00, close only.

On Wednesday we advised the sale of September Canadian dollars, which opened on Thursday at 71.88.

One new recommendation for today. Place stops on short September Canadian dollars at 72.95, close only. The next hotline update will be Wednesday, May 18.

Wednesday, May 18:

There is one new recommendation: We now favor the Swiss franc over the deutschemark. Therefore, those of you who are long DM against the yen should switch to long Swiss franc/short yen.

Flash update, Friday, May 20, 9:40 pm:

Reinstate short positions in June S&P at the market, presently trading at 455.50, risking 457.30, good anytime.

Friday, May 20:

This is a complete summary since our last market letter, dated April 24, of all liquidations of open positions and new recommendations that remain outstanding.

1. On Friday, April 29, we made three recommendations in order of preference: 1. Buy July silver, July platinum, August gold at the market, risking 49800, 38500, 37400 stop, close only.

On Monday, May 2 July silver opened at 53800, July platinum opened at 40300, August gold at 38980.

On Monday May 9, via flash update we advised the sale of September bonds, placing stops at 10700, close only. September bonds opened on May 10 at 101.16.

On Wednesday May 11, we advised the sale of September Canadian dollar at the market. September Canadian dollar opened on Thursday, May 12 at 71.88; stops were placed at 72.95, close only.

On Wednesday, May 18, we advised you to switch from long deutschemark/short yen to long Swiss franc short yen.

On Friday May 20, we advised you to reinstate short June S&P then trading at 455.50, risking 457.30, good anytime.

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