

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



Volume 15, No. 10 November 27, 1994

### The climate changes

For the first time in this cycle, it appears that monetary conditions are actually tightening.

The first and most interesting piece of evidence is the very substantial decline in adjusted reserves that occurred in the weeks prior to the 9th of November, days *before* the Fed raised short-term rates by 75 basis points. This large drop in commercial bank reserves — a minus 12.5% annualized rate over the 9/14 to 11/9 period — may have been caused by the massive currency intervention carried out by the Fed in late October. Whatever its cause, it is clear that the Fed did not see fit to sterilize this intervention, a sign that it had understood that the dollar's weakness was caused by nothing more prosaic than easy money.

Pressure on reserves and accelerating loan demand (see Chart 1) contributed first to a significant deceleration in the growth of commercial banks' total investments (see Chart 2). As suggested in previous issues, it would not take much loan demand (at the same time as reserves growth flattens) for banks to turn net sellers of securities. This is precisely what happened in October as banks liquidated (measured on a months over six months ago basis) Treasuries and other fixed-rate instruments at the fastest rate in over 20 years. The implications are clear: from being the bond market's best friends, banks have become one of its worst enemies. Moreover, given the enormous investment portfolio accumulated over the past four years, the Fed will not easily be able to influence the supply of loanable funds. The conversion process — from securities to loans — will keep the private sector well supplied with credit for many months to come.

Aside from having stoked the fires of speculation, the massive reliquification of the early '90s carries — as we have not tired to repeat over and over again — an interesting price tag: the Fed's loss of control over the credit markets.

Chart 1

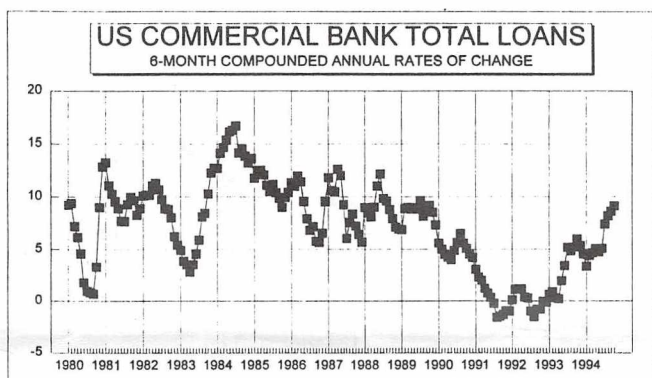
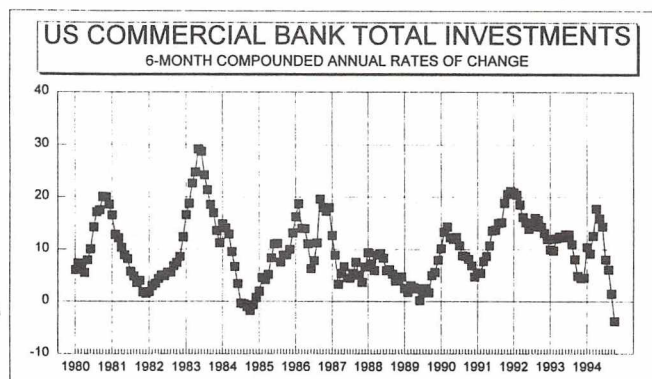


Chart 2



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Contributions by Albert D. Friedberg, Edison Lee, and Michael Hart.

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

**T-BONDS**

# Fundamentals bearish; stay short

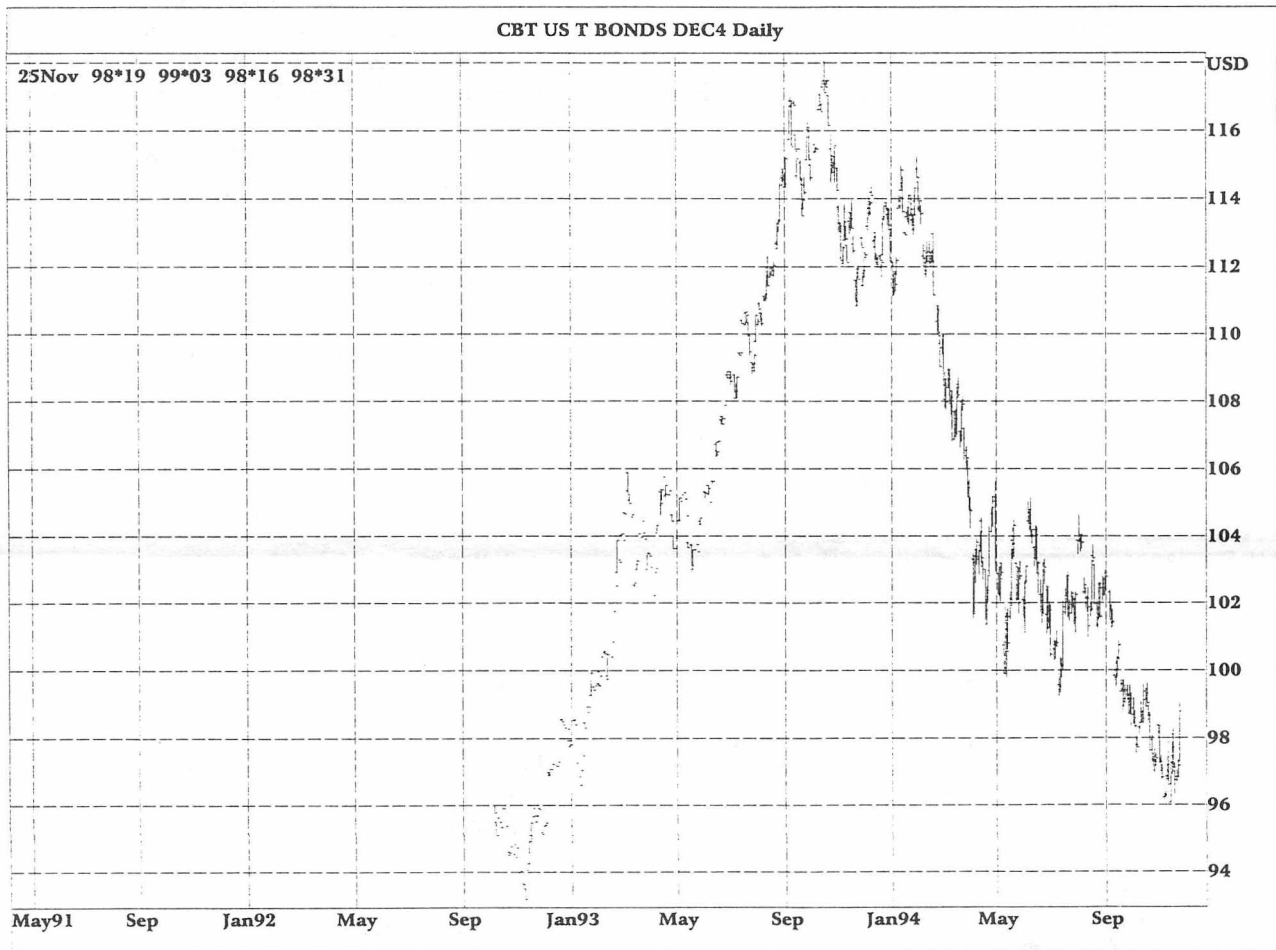
On the back of the stronger dollar and more substantial evidence of tightening, bond investors rationalized a somewhat more bullish scenario and drove yields down 20 basis points from recent highs. One is hard put, however, to make a good case for owning 20- and 30-year maturities when 5-year ones yield a mere 25-30 basis points less.

Fundamentals remain bearish. For one thing, the steep yield curve from three months to two years out, approximately 175 basis points, is a sign of unfinished business. For

another, net redemptions in bond funds and the incipient liquidation of commercial banks' investment holdings paint a poor prospective supply/demand balance. Finally, Republican gains in the Congress may bring about tax cuts without corresponding spending decreases, at least in the near term, posing a real risk of overheating.

**STRATEGY:** Remain short, lower stops to 103.01, close only.

Chart 3



**CURRENCIES**

# The Fed supports the dollar

The late October currency intervention proved more effective than on other occasions, principally because it was not sterilized, therefore tightening monetary conditions.

Sentiment on the US dollar had been adversely affected by a buildup in inflationary expectations and a belief that the Fed has been too soft. Conversely, the dollar has acted well whenever market participants have sensed a coming economic slowdown. In short, dollar holders have been terrified at the prospects of an uncontrolled boom while they have waxed in the shadow of an assertive Fed and the whiff of deflation. The pattern is repeating itself: The market has now sensed a coming economic slowdown; talk is rife that a recession will set in by the end of 1995, if not sooner. Weakness in cyclical stocks, as for example General Motors and the steels, confirms this sensation.

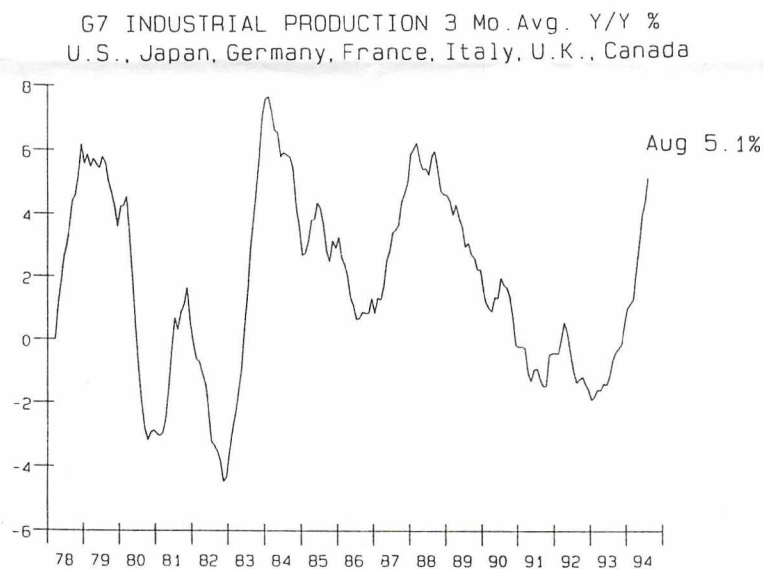
It is difficult to make a case for recession in the next 12 to 24 months, except that recessions occur regularly and the probability of their occurrence rises with the age of the recovery. The synchronized industrial boom (see Chart 4) spanning Europe, North America, South America, Southeast Asia and particularly China, India, and Australasia militates against a recession "around the corner." If so, doubts about an uncontrolled boom will appear and reappear a number of times in the next two years with the consequent bouts of dollar selling. For now, sentiment is still smiling on the dollar, and the correction has yet to run its course. (The use of the term "correction" does not mean to imply necessarily that the dollar is in a major secular downtrend. Rather, it is meant to

be applied to an intermediate movement; even if the US\$/DM 1.48 level were to have begun a secular uptrend, the present move should not extend beyond 1.60. Moreover, the successive bouts of dollar selling that we foresee do not necessarily imply new dollar low. *That* will depend on how determined the Fed will prove.)

Japan's trade surplus in October (see Chart 5) fell faster than expected for the third month in a row, thanks to a 24% surge in imports. Exports, on the other hand, rose 10.4%. A slight pickup in domestic demand and the overvalued yen are helping to suck in imports; significantly, import penetration in the domestic market may be growing. While monetary conditions remain taut (bank loans are down 0.2% for October, over a year ago), fiscal policy has been stimulative. As the trade surplus shrinks, the yen should begin to weaken, although constrained somewhat by deflationary pressures. A very weak stock market, however, may persuade the incoming new governor of the Bank of Japan to ease money and thus allow a smoother transition to a more normalized parity.

**STRATEGY:** *You are long Swiss francs against short Japanese yen at a cross of 76.10 yen per Swiss franc, as per the November 10 flash update. The two components of this cross, i.e., DM/yen and DM/SF are hurting us; we remain comfortable with the first component and a bit doubtful about the second component. Therefore, should the DM rise above 85 centimes, basis London close, we advise liquidating the SF and replacing it with the DM.*

Chart 4

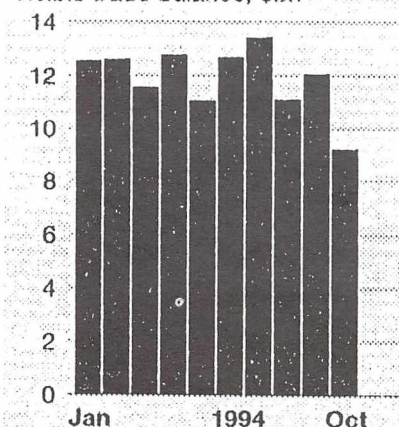


International Strategy & Investment

Chart 5

**Japan**

Visible trade balance, \$bn



Source: Datastream

Financial Times

Chart 6

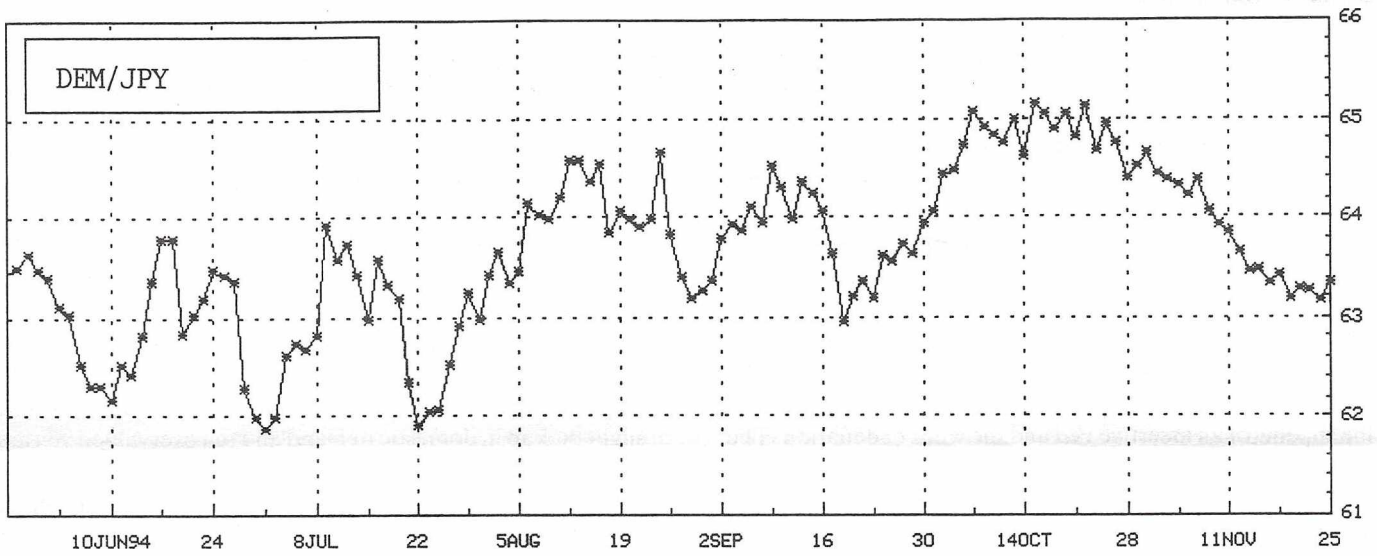
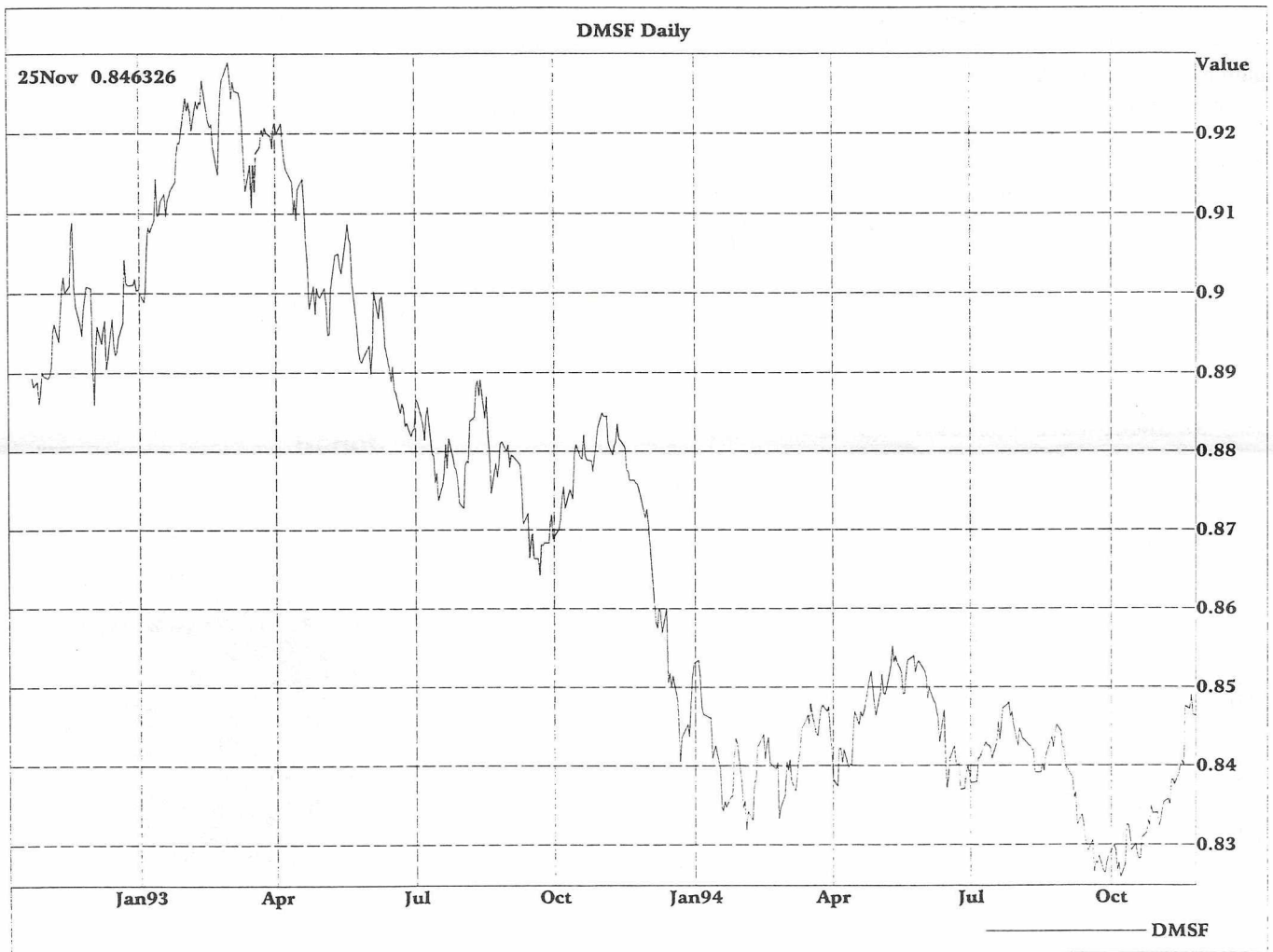


Chart 7



**STOCK INDEX FUTURES**

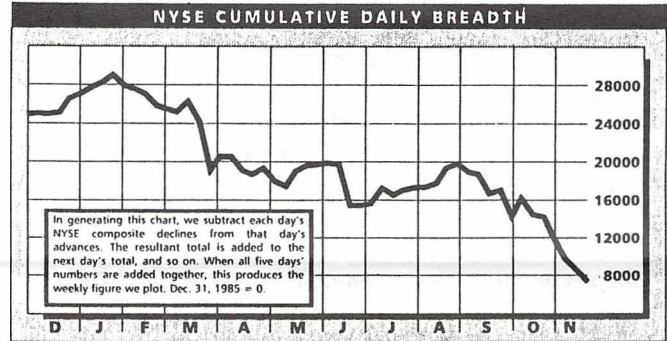
# Topping out

Monetary conditions continue to deteriorate. Breadth, even allowing for the enormous amount of closed-end bond funds and other financial issues, is disastrous (see Chart 8).

Significantly, the market did something this week that it has not done in 64 years, namely, move below the October four-year cycle low before the calendar year is over. This observation is made by Peter Eliades in *Stockmarket Cycles*, and according to him, carries ominous consequences. Because this occurrence is so unusual and because the last time it happened was October 1930, after which the market fell a staggering 77.9%, one ought, perhaps, to heed this warning.

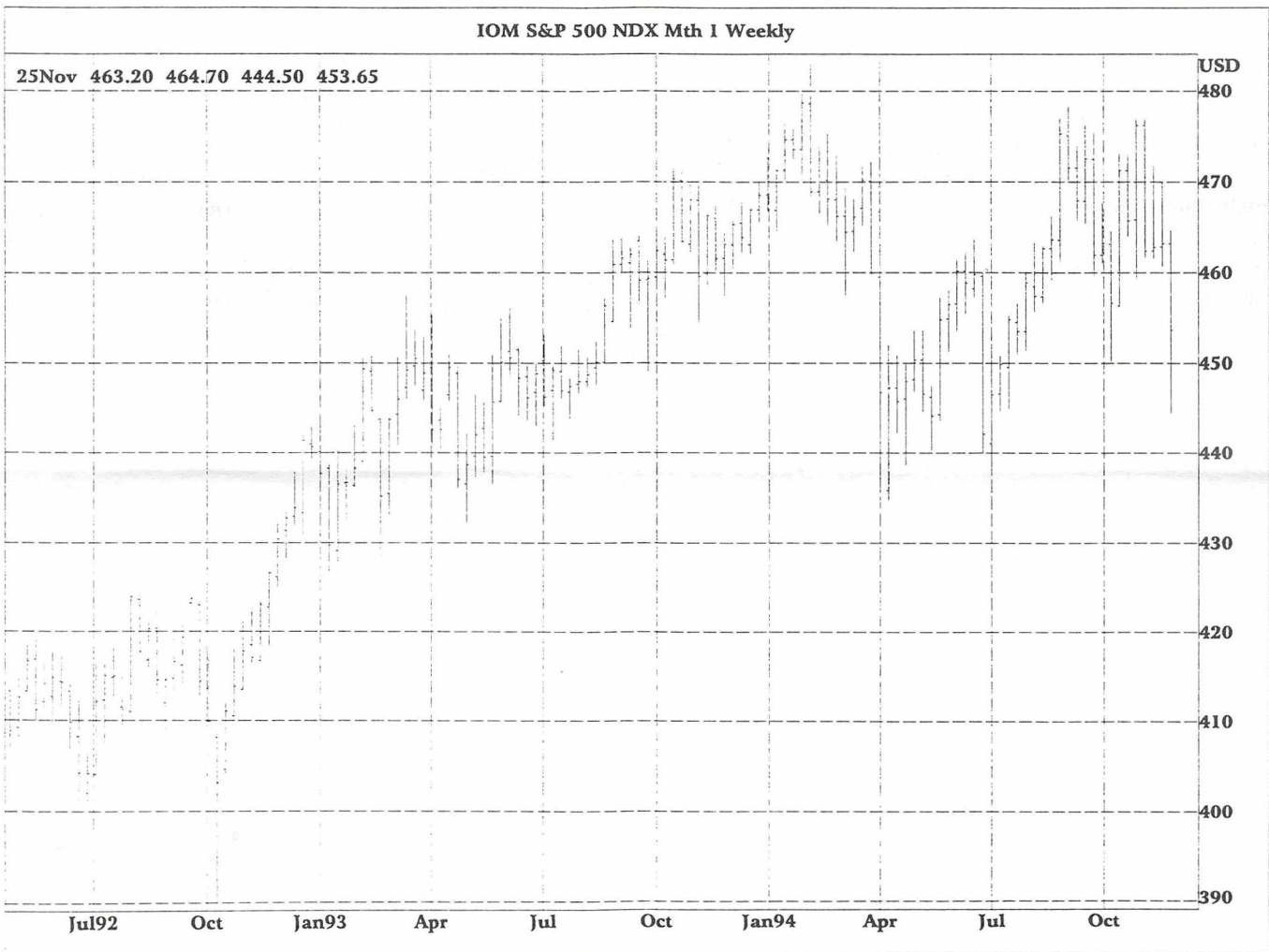
**STRATEGY:** Remain sidelined for now, but ready to pounce on the short side on any move below 444.00.

Chart 8



Barron's

Chart 9



**CANADIAN DOLLAR**

# The long, slippery slope to insolvency

The post-Quebec election euphoria produced only a brief interlude in the 1992-94 bear market. The Canadian unit extended the rally begun in mid-June, reaching the vicinity of \$0.75 in the aftermath of the narrow PQ victory. Attesting to the vigor of the move was the unusually large US\$1,088 million increase in international reserves in September resulting from official government operations.

The recovery, though, lacked follow-through; light but persistent selling from late September on caused the Canadian dollar to ease 60 points by the end of October. The gentle decline may have been more severe had the Bank of Canada not intervened to the tune of \$225 million.

The suddenness of the reversal in capital flows reflects a chronic and lasting current account deficit (running at close to C\$7.5 billion per quarter) and a nation unable to attract sufficient net private capital. The state of affairs has caused Canada's net external indebtedness to balloon from \$110 billion in 1980 to \$313 billion in 1993, and from 35.5% of GDP to a current 44% of GDP.

This situation is unsustainable in the long run as many developing countries have discovered. Canada's \$4 billion primary current account deficit (which excludes debt servicing flows) almost guarantees that the country's net external indebtedness will continue to grow in the near future. This is so, as nominal GDP is not expected to grow faster than the effective rate of interest (i.e., the ratio of net payments to non-residents to the amount of net external indebtedness —

9.2% in 1993) paid by Canadian borrowers.

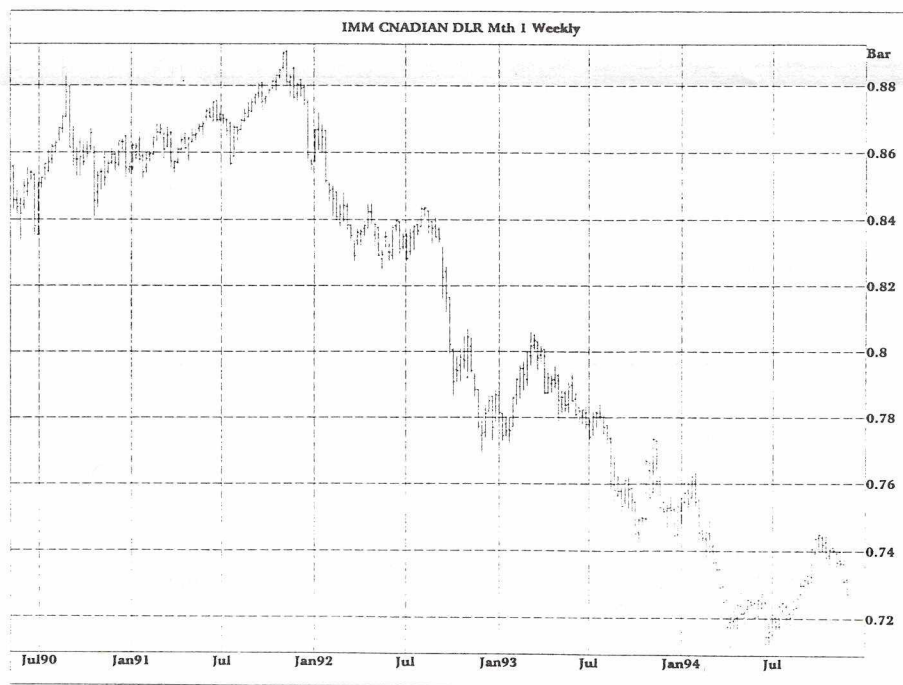
The external debt problem is not as well known as the domestic debt one, but both originate in the same source; an enormously unproductive and wasteful state (federal and provincial) that spends and taxes recklessly, burdening its citizens with an ever-heavier mass of dead weight. Far-sighted capital flees, leaving an impoverished middle class holding the bag.

Canada has been sliding down the slippery slopes of insolvency ever since the Trudeau years (the '70s). Unfortunately, it appears that nothing short of a major financial crisis will prompt a genuine reversal of policies.

Left on its own, the Canadian dollar will continue to fall until the exchange rate is cheap enough to produce a massive trade surplus and reverse the current account deficit. Alternatively, the Bank of Canada can engineer a widening of interest rates differentials *vis à vis* the US and attract short-term capital inflows to offset the monthly "leakage." In this case, the country's net external indebtedness will rise further. At some point, however, foreign creditors will balk, and the inevitable adjustment will begin.

**STRATEGY:** We advised liquidating long Canadian dollar positions on a close below 73.60 and simultaneously initiating new, short positions (see Hotline Update for Nov. 7). You are therefore short at approximately 73.30, with initial stops at 73.50, close only, basis nearby contract.

Chart 10



**PRECIOUS METALS**

**(Bullish) holding pattern**

Lack of follow-through on the downside, coinciding with the heavy buildup in the open interest, augurs well for a new and successful attempt at the highs.

**STRATEGY:** *Although we were stopped out of our long positions in silver and platinum, we are anxious to reenter the long side of the market. Keep posted. Remain long gold with stops at 386, basis February '95, close only.*

**SUGAR**

**Explosive!**

Reflecting tightening supplies, sugar prices have moved into significant backwardation from May '95 forward.

China is expected to import 1.5 million tons in 1994-95, and Cuba's disastrous crop is forcing Russia to enter the world market for a minimum of 500,000 tons.

The overall supply/demand balance remains bullish to extremely bullish. The International Sugar Organization has projected a 1.9 million ton deficit for the year and a carryover of a mere 29.2 million tons, well below the magic 30% of consumption that in the past catapulted prices into the stratosphere.

While sentiment has become a bit too one-sided for our taste, the "tape" and steep inversion spell the near certainty of a huge short-term rise. What's more, implied volatility levels remain relatively modest, indicating little retail participation.

Hang in there.

**STRATEGY:** *You're long as per Hotline Update of October 21 at 12.82, basis March '95. Remain long, with stops at 13.25, close only (ample enough to withstand the coming increase in volatility but not as low as to produce a loss on the initial position).*

Chart 11



**FRIEDBERG CAPITAL MARKETS****Buy on dip!****Security:** Argentina's floating-rate bonds due 31/03/05**Coupon:** 6-month LIBOR plus 13/16%**Recent price:** \$69.50**Yield to maturity:** 14.2%

Argentina's sovereign debts have been weak in recent weeks because of concerns about the nation's fiscal condition and rising US interest rates. However, our medium-term outlook of Argentina's economic fundamentals remains very positive, and therefore we view the recent weakness as a good opportunity to add positions.

In line with other Argentine debts, the floating-rate bonds (FRBs) have dropped 10% in price over the past four weeks. The discount margin over LIBOR has widened to 583 basis points from 384 basis points. The weakness resulted from a combination of factors, which included a perceived trend of weakening fiscal position, more supply of government debt, and a worsening US interest rate environment.

We believe the perceived weakening of Argentina's fiscal position played the most important role in driving down the FRB's price. The government of Argentina indicated in late October that for the first time since 1991, it would incur a small budget deficit in 1994. The news followed the release of a much smaller third-quarter budget surplus, which declined sharply to \$10 million from \$1.7 billion in both the second quarter this year and the same period a year ago.

Since the general election is scheduled for June 1995, many investors attributed the worsening fiscal position to easing spending controls by the government. Consequently, the worry about further deterioration of fiscal condition has developed. While we agree that Argentina's fiscal position has slightly deteriorated, we strongly believe that it is well under control and the current government is determined to maintain at least a balanced budget in the foreseeable future. Furthermore, recent polls show that President Carlos Menem's Peronist party will almost certainly be reelected, thus removing the uncertainty whether the current economic reform will continue.

The projected small deficit for 1994 (0.2% of GDP) is essentially due to unexpectedly high pension cost and discretionary tax cuts and incentives. The government is also facing a flood of lawsuits by pensioners, who sued for past unpaid benefits since the pension payments were de-linked from inflation in 1991. A favorable court ruling to the pensioners has caused a substantial increase in payments in the third quarter, turning the social security system into a deficit. The Menem Administration has appealed to the Supreme Court in the hope of reversing the previous court ruling. While there is no final ruling yet, we believe the government will very likely win the case.

Moreover, the government is also taking other steps to reduce the high pension costs. It has presented a bill to Congress that puts upper limits on special pensions and restricts the power of judges to award compensation for unpaid benefits. The bill should be passed before year-end. In addition, it has included in the 1995 budget a clause that gives the government wide latitude in cutting spending. President Menem already said that he would use his power of veto if Congress is to modify this particular clause. The government also recently ordered public spending cuts of 1.3 billion pesos to finance the shortfall in the pension system. The order bans all government purchases of goods and services until year-end. The above actions together indicated that the government is determined to maintain a tight fiscal policy.

Argentina has been quite active in the international capital markets recently. In addition to a 10 billion Euroyen issue and a \$500 million global bond issue in October, there was an auction a few days ago of \$400 million in dollar- and peso-denominated debt. According to J.P. Morgan, the total borrowing need of the Argentine government in 1995 will be approximately \$5.6 billion, with \$2.6 billion coming from the international financial markets. Out of the \$5.6 billion total borrowing, only \$600 million will be new debt. Therefore, despite the seemingly large amount of borrowing, the external debt to GDP ratio will remain at a low level of 26.7%. The external debt to export ratio will continue to decline to 366%.

The tight spending control and the fixed-rate convertibility scheme have produced a very low inflation environment. Consumer prices rose only 3.4% in the 12 months ended October 1994, versus 7.4% for 1993. The government's target is an annual 3% rise in a combined consumer and wholesale price index. For the 12 months to October, the target index rose only 2.45%, which is well within the limit.

Consequently, the FRBs have been oversold by the market relative to Argentina's economic fundamentals. We believe the country's fiscal position will remain healthy, and its external debt position will continue to improve. Standard & Poor's recently indicated its continued optimism about Argentina's credit prospects.

Finally, as pointed out before, the FRBs' floating-rate structure will insure investors against rising interest rates in the US. Any price weakness due to the market's misconception that FRBs should trade against US Treasuries presents a buying opportunity. We maintain our target price of \$95, based on a discount margin of 150 basis points over LIBOR.

**Update on Datapoint Corp.****Security:** 8% Subordinated Convertible Debentures**Maturity:** Jan. 6, 2016

**Recent price:** \$23  
**Yield to maturity:** 40.6%  
**Recent stock price:** \$2.25

### *Latest financial results*

Datapoint reported a 17% decline in revenue to \$173 million and an \$8.5 million operating loss before non-cash charges for fiscal 1994 (ended July). Management explained that half of the revenue decline was due to a strong US dollar and the other half was due to weak sales in Europe. It lost some big customers in France. Also initial sales of the new videoconferencing products, which they believed would be a blockbuster, were disappointing.

The company wrote down all its goodwill associated with its European operations and took a restructuring charge, which in total amounted to \$72 million. These non-cash charges inflated the net loss to \$95 million.

Datapoint has finally decided to downsize its workforce in Europe. Staff reduction is very expensive there. Datapoint has delayed its downsizing decision until now, which is one reason that the company is in such a bad shape. It laid off 140 employees in one of its European subsidiaries, and incurred a restructuring charge of \$13.4 million. In other words, it costs almost \$100,000 to lay off one employee!

Datapoint's gross margin continued to deteriorate, to 37.9% for fiscal 1994 from 39% for fiscal 1993. Its operating expenses went up to 39.8% of sales from last year's 35.5%. Because of the excess workforce, revenue per employee declined by 12%, and it has declined for three consecutive years.

### *Financial position*

Datapoint's financial position has deteriorated to a point where it needs immediate cash infusion. Unrestricted cash declined to \$6.2 million at the end of July 1994 from \$22.4 million a year ago. Accounts payable skyrocketed by 61% to \$25.6 million. Its current ratio was 0.81, the first time below 1.0 since fiscal 1989.

Its operating cash flow was negative \$6 million, and the total debt to market capitalization ratio stood at a high level of 5.8. We believe the unrestricted cash level now should be down to \$3 million, since the first fiscal quarter is usually a weak one for Datapoint. It just announced that it sold some non-strategic assets to raise additional cash, and, as a result, it will have no difficulties in making the \$2.9 million interest payment on the convertible bonds, which is due on December 1.

Based on our conversation with Datapoint's management, we believe that a major part of the assets sold is a piece of raw land that it owned in San Antonio, Texas. Its cost of the land is \$5 million. The company indicated that it could possibly sell the land for slightly higher than the cost.

Despite the success in this asset sale, the ability of Datapoint to raise more cash in the intermediate term is very limited. Most of its assets have been pledged as collateral. The only major assets that are free are the fixed assets (equipment and fixture) located outside the US, which had an approximate book value of \$14 million. However, given the rapidly eroding market value of these assets, we believe

the amount of cash that can be raised by pledging these assets will not be substantial.

Another potential source of cash is from lawsuit settlements. Datapoint currently has a number of lawsuits outstanding in which it sued other firms for infringing on its patents of videoconferencing technology. It has settled with one firm out of court and received \$0.5 million. Further cash receipts from such settlements cannot be ruled out (a similar case is Atari), but the timing and amount are highly uncertain.

### *Asset coverage*

Since most assets have been pledged and the amount of senior debt is very high (estimated at \$114 million), the potential recovery rate of the convertible bonds will be very low in a liquidation scenario. Our estimate is below 10¢ per dollar.

We believe the company may be attractive to some other multimedia computer companies as an acquisition candidate. Nevertheless, owing to its poor operating performance and highly leveraged balance sheet, it certainly will not command a high multiple now. At its fiscal 1994 EBITDA of \$2.2 million, a buyer has to pay a 59X multiple in order for the convertible bonds to be covered at 23¢ per dollar. Unless Datapoint can drastically cut costs and boost its sales, it is difficult for the convertibles to be sufficiently covered in a buyout situation.

**STRATEGY:** *As a result, we believe Datapoint's convertible bonds have a substantial downside risk at the moment. Sell.*

## TWA still negotiating

**Security:** 10% senior secured notes due Nov. 1998

**Recent price:** \$55.5

**Yield to maturity:** 29.9%

TWA is still in the process of negotiating with various creditor groups regarding its restructuring proposal. As per our last update, its initial exchange offer does not seem attractive at all at least to the 10% noteholders.

FMG is on the 10% noteholders' committee negotiating with TWA's management in an effort to reach a satisfactory restructuring formula. The cost of joining the committee is the prohibition of communicating the negotiation details with the public and trading of the notes based on such insider information. However, we believe that participation in the negotiation process is extremely important. Only in so doing can we ensure that any deal or decision will be in the best interests of our clients who hold the 10% notes.

While we are not allowed to report the status of the negotiations, TWA did indicate to the public that it intended to move quickly with its restructuring plan. Therefore, you may expect final results of the negotiations to come before year-end.

TWA did not make the November 3 interest payment on the 10% notes. As a result, the interest in arrears will be an issue included in the negotiation.

## Higher coupon on gold/yen note

As pointed out in our May 1994 issue, the coupon rate on the gold bull/yen bear note was structured to provide a hedge against a persistently strong yen against the US dollar. It is working out as expected. The second coupon rate was set on October 25 at 5.84%, much higher than the first one of 3.02%.

The higher coupon rate is precisely due to the yen's continued strength against the dollar. The Japanese yen has appreciated by another 4% against the dollar, trading at around 96 to 97 yen per dollar, since our last discussion on the coupon rate. While we continue to believe that the yen's value has to eventually drop significantly against the dollar to

reflect its economic fundamentals, the coupon structure does provide some cushion against any surprises. A possible surprise scenario is a disastrously high inflation situation in the US where the dollar will be worth substantially less against all major currencies.

Chart 12 shows the yen/dollar exchange rate and the swap rate differential (US swap rate minus Japanese swap rate) since May 1988. The trend of a negative correlation is increasingly visible. A higher swap rate differential will result in a higher coupon rate for the gold/yen note.

— Edison Lee, CFA

Chart 12

### 5-Yr Swap Differential vs. Yen/US\$ Exchange Rate

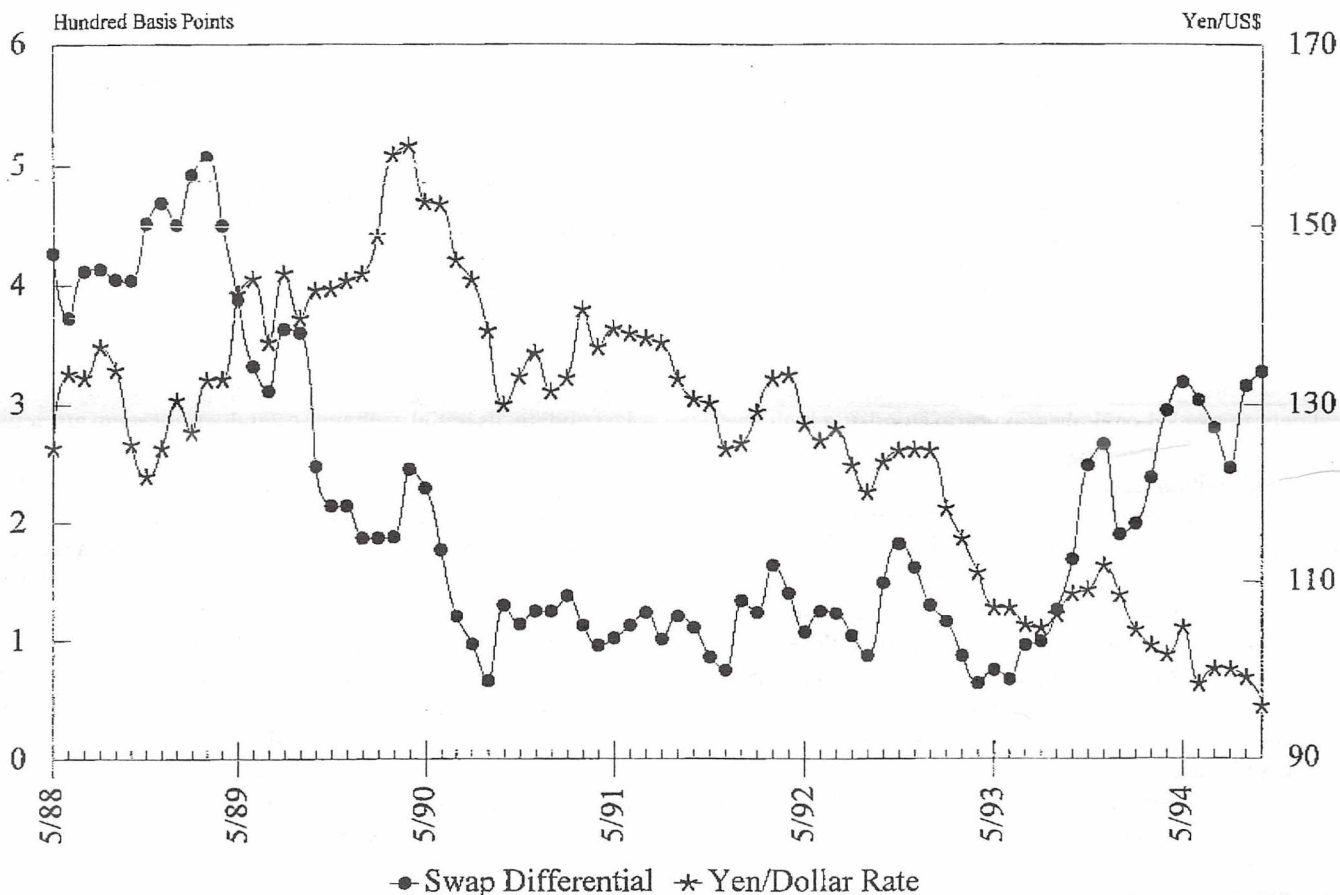


Chart 13 – FOREIGN CURRENCY BONDS

DATE: November 25, 1994 We offer the following Bonds subject to change without prior notice: Minimum US \$4000 (CDN \$6000)

ISSUER / COUPON / MATURITY DATE	BID	OFFER	YTM	CURR. COUPON	NEXT INTEREST PAYMENT DATE
<b>DEUTSCHE MARK DENOMINATED BONDS</b>					
Bank of Nova Scotia 5 5/8% 7/5/96 RRSP	98.4	99.25	6.16		May-07
World Bank 5 7/8% 4/02/97 RRSP	100.5	101.35	5.19		Feb-04
World Bank 9% 13/11/00 RRSP	111.6	112.45	6.41		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	97.5	98.35	6.67		Apr-15
Argentina 8% 5/10/98	100.1	100.95	7.69		Oct-05
Bk. Foreign Eco. Affairs 7% 29/3/96	88.75	89.6	16.24		Mar-29
Kgdm. of Spain (Floating) 29/6/02 (semi)	99.28	99.58	-	4.9375	Dec-29
<b>FINNISH MARKKA DENOMINATED BONDS</b>					
Rep. of Finland 11% 15/6/95	101.6	102.45	5.98		Jun-15
<b>ITALIAN LIRA DENOMINATED BONDS</b>					
Nordic Inves. Bk 12 3/8% 19/04/96	101.7	102.55	10.19		Apr-19
General Electric 11 1/2% 7/02/95	99.65	100.5	7.94		Feb-07
<b>SWISS FRANC DENOMINATED BONDS</b>					
General Electric 4 3/4% 2/7/98	97.8	98.65	5.16		Jul-02
<b>DANISH KRONE DENOMINATED BONDS</b>					
Kgdm. of Denmark 9% 15/11/96	101.95	102.8	7.41		Nov-15
<b>ECU DENOMINATED BONDS</b>					
United Kingdom 9 1/8% 21/02/01	103.1	-	-		Feb-21
<b>BRITISH POUND DENOMINATED BONDS</b>					
Kdgm. of Sweden 8 3/4% 29/5/96	100.70	101.55	7.55		May-29
<b>FRENCH FRANC DENOMINATED BONDS</b>					
Credit Lyonnaise 9 1/2% 23/12/96	103.65	104.5	6.58		Dec-23
<b>JAPANESE YEN DENOMINATED BONDS</b>					
World Bank 5 3/4% 7/8/96 RRSP	103.6	104.45	2.98		Aug-07
<b>CANADIAN DOLLAR DENOMINATED BONDS</b>					
Ontario Hydro 10 7/8% 8/01/96 (semi)	102.85	104.35	6.70		Jan-08
Eksportfinans 7 3/4% 5/11/97	97.3	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/11/97	100.35	-	-		Jan-07
<b>SOUTH AFRICAN RAND DENOMINATED BONDS</b>					
ESCOM 12% 1/5/96 (semi)	95.65	96.5	14.84		May-01
<b>AUSTRALIAN DOLLAR DENOMINATED BONDS</b>					
Commonwealth Bk. of Australia 9 3/4% 15/5/96	99.90	-	-		May-15
<b>NEW ZEALAND DOLLAR DENOMINATED BONDS</b>					
New Zealand Gov't 10% 15/7/97 (semi)	102.3	103.15	8.63		Jan-15
New Zealand Gov't 8% 15/7/98 (semi)	97.2	98.05	8.63		Jan-15
Fletcher Challenge 10.75% 15/12/97 (semi)	99.90	-	-		Dec-15
Fletcher Challenge 10.15% 30/11/98 (semi)	98.15	99	10.46		Nov-30
Corporate Investment Ltd. 13 1/2% 19/6/95 (semi)	81.55	84.05	35.28		Dec-19
Tranz Rail Ltd. 10% 15/10/99 (semi)	97.1	97.95	10.54		Apr-15
DB Group 7% 30/6/96 (semi) matures @ 85	81.9	82.75	11.19		Dec-30
<b>ARGENTINEAN PESO DENOMINATED BONDS</b>					
BIC V Fixed/Floating 1/5/2001 Callable in full on every interest date	67.9	68.75	18.92		4th day of mth.
<b>U.S. DOLLAR DENOMINATED FIXED CONV. BONDS</b>					
Datapoint Corp. 8 7/8% 1/6/06 CV@18.11p/sh (semi)	24.25	-	-		Dec-01
Burnup & Sims 12% 15/11/00 CV@16.79 p/sh (semi)	93.25	94.75	13.30		May-15
Atari Corp. 5 1/4% 29/4/02 CV@16.31 p/sh	58.25	-	-		Apr-29
Coeur D'Alene 6% 10/6/02 CV@ 26.00 p/sh	85.25	-	-		Jun-10
Glycomed 7 1/2% 1/1/03 CV@14.06 (semi)	51.25	52.75	19.25		Jan-01
California Microwave 5 1/4% 15/12/03 CV@28.44 p/sh (semi)	114.5	116	3.20		Dec-15
<b>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</b>					
Farm Credit Corp 7 3/4% 10/06/96 RRSP	100.85	101.7	6.50		Jun-10
T.W.A. 10% 3/11/98 (semi)	55.5	-	-		Feb-01
<b>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</b>					
Kgdm. of Denmark 25/3/97 (Gold call, JY put), (semi)	96	-	-	5.84	Mar-25
United Kgdm. 30/9/96 3 mo.LIBID-1/8 (qtlly), callable @ 100	99.74	100.04	-	5	Dec-30
Bocon 1/4/01 (30 day LIBOR) starts accruing May 1, 1997	78.9	79.75	16.53		May-01-97
Argentina: Series L:FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	68.25	69.5	14.19	6.5	Mar-31

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

client eligibility determined at point of sale.

Chart 14 – Recommended current portfolio allocations

1. New Zealand (8%) '98 Gov't	10%	4. CILNZ\$	5%	7. FRB/BIC V	10%
2. Tranz Rail NZ\$	10%	5. Bk. For. Eco. DM	2.5%	8. U.K. FRN	27.5%
3. New Zealand (10%) '97 Gov't	15%	6. Spain DM	10%	9. Atari	5%

**HOTLINE UPDATE**

**Flash Update, Tuesday, October 25, 8:45 am:**

Buy March silver at the market, presently trading at 543.00; place stops at 536.00, good anytime.

**Tuesday, October 25:**

There are no changes or recommendations. The following is a recap of this week's flash. Buy March silver at the market, then trading at 543; stops were placed at 536.00, good anytime.

**Friday, October 28:**

There are no changes or recommendations. The following is a recap of this week's flash. On Tuesday, October 25 via flash update at 8:45 am we advised you to buy March silver at the market, then trading at 543.00; stops were placed at 536.00, good anytime.

**Flash Update, Monday, November 7, 5:30 pm:**

Raise stops on long December Canadian dollar to 73.60, close only, from 73.05; in the event you are stopped out, we also advise to reverse positions and go short the Canadian dollar.

**Tuesday, November 8:**

There are no changes or recommendations. The following is a recap of this week's flash. Raise stops on long December Canadian dollar to 73.60, close only, from 73.05; in the event you are stopped out, we also advise to reverse positions and go short the Canadian dollar.

**Flash Update, Thursday, November 10, 8:30 am:**

1. Buy March silver at a limit of 507.00, good for today only.
2. Close out, outright, long December Swiss franc positions at the market, presently trading at 77.73.

One new recommendation. Buy Swiss Francs/sell Japanese yen on an equal dollar basis; the cross is presently trading at 76.10.

**Friday, November 11:**

We had one new recommendation for Friday's Hotline Update — Buy February gold at the market; risking 386.00, close only.

The following is a recap of this week's flashes. On Monday, November 7 via flash update at 5:30 pm we advised you to raise stops on long December Canadian dollar to 73.60, close only, from 73.05; in the event you were stopped out, we also advise to reverse positions and go short the Canadian dollar. On Thursday, November 10 via flash update at 8:30 am, we advised you to buy March silver at a limit of 507.00, good for Thursday only. NB: This was not executed. Also on Thursday, November 10 at 10:50 am via flash update we advised you to close out, outright, long December Swiss franc positions at the market, then trading at 77.73. We also recommended you buy Swiss francs/sell Japanese yen on an equal dollar basis; the cross was then trading at 76.10.

**Tuesday, November 15:**

There are no changes or recommendations.

**Friday, November 18:**

There are no changes or recommendations.

**Tuesday, November 22:**

There are no changes or recommendations.

**Friday, November 25:**

This is a complete summary since our last market letter dated October 23, of all liquidations of open positions and new recommendations that remain outstanding.

On Monday, November 7 we raised stops on long December Canadian dollars to .7360, close only and advised to reverse positions and go short the Canadian dollar — PLEASE NOTE that on November 15, the December Canadian dollar closed at .7330; therefore, you were stopped out of your long position and are presently short Canadian dollars.

On Thursday, November 10, we advised you to liquidate long December Swiss franc positions then trading at 77.73 and recommended the purchase of Swiss francs against the sale of Japanese yen on an equal dollar basis. The cross was trading at 76.10.

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