

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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Fundamentals supporting the US dollar

Fundamentals are firmly in place for a renewed and significant rise in the US dollar.

One can sense the coming change by paying attention to the weak arguments being advanced by dollar bears in support of their position. Basically, they have no story.

The market is driven by short-term technical traders romping stops in response to indications that the Fed has been supporting the Mexican peso or that the monthly trade deficit widened by half billion dollars or that the US economy has begun to show signs of a slowdown.

None of these stories by themselves or in combination have enough substance to support a bear move were it not for the fact that the old contingent of dollar bulls has lost its footing after being wrong for most of the past three years. Shaken up and bloodied by the refusal of the US dollar to rise for all the good reasons (especially against the yen), they are surrendering to the facile siren of the charts. Their exhaustion can be tracked by reading some of the more recent headlines from *The Wall Street Journal*: "Dollar continues to drop as investors seek havens in the mark and the yen" (Jan. 13, 1995). One wonders, precisely, why are they seeking havens?

On January 16, *The WSJ* proclaims that "Worried bulls fear recent dollar drop may mean new lows for US currency." Worried bulls? And just to describe the hopelessness of the situation, the paper points out that the "dollar rises only slightly against the mark despite strong US data" (January 18, 1995). Two days later, a headline in the same paper reads, "Dollar sags against resurgent mark despite consensus on rate boost soon" (Jan. 20, 1995). One can hardly conjure up a more pitiful description of impotence.

The facts, however, are otherwise. The US economy remains extremely strong, with indications that fourth-quarter GDP may have hit a 5% rate of growth. The NAPM price index has moved above 80, which in the past has been a reliable pre-cursor of an acceleration in the rate of inflation in consumer prices (see Chart 1).

The PPI for intermediate goods is inflating at a double digit pace. Bank loans plus commercial paper are growing at almost a 13% annualized rate, the fastest since early 1989.

In short, inflation is about to become a problem, and the Fed will have little or no choice but to continue raising interest rates after a brief interlude caused by the Orange County affair.

As we pointed out last month, Fed posture is no longer accommodative, despite the fact that the front part of the yield curve — two-year notes minus Fed funds — remains as steep as, if not steeper than, it has been for the past year.

Adjusted reserves over the past eight weeks have fallen at an annualized compounded rate of change of 8.6% and at an annualized 11% since immediately after the August tightening. This has resulted naturally in a very weak rate of growth since early September '94 for the monetary aggregates M1 (minus 1.6%) and M2 (0.1%). At the same time, banks have had to liquidate securities in order to finance growing loan demand: In the six month to November '94 commercial bank total investments fell at an annual rate of 4.5%, while total loans increased in the same period by 9.7%.

There is, then, little question that the Fed has tightened. The "inflation" momentum carried over from the easy money years is, however, considerable and will not be easily tamed. For, indeed, there is a crucial difference between the stock of liquidity and the flow of liquidity.

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

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

The US economy's reservoir, or stock, of liquidity was augmented all through the '80s, and more particularly since 1987 (except for a very brief interlude in late '88 early '89), well beyond the needs of the economy.

This stock of liquidity does not disappear just because the Fed tightens. Excess liquidity needs to be absorbed by rising real income even as the Fed chokes off the continued production of new liquidity. If one could view the growth in holdings of commercial banks' investments as one of the counterparts to the increase in the stock of liquidity, one would see that these holdings increased by over \$400 billion since early 1988 and have fallen only in recent months — induced by the strong pace in economic activity and the Fed's closure of the monetary spigot — by a mere \$25 billion.

The bugbear of the trade deficit can also be dismissed. As our friends at Goldman Sachs point out, the widening of the US trade deficit is due mainly to the higher rate of growth of domestic demand in the US compared with Germany and Japan.

About \$30 billion of deterioration in the US trade balance in 1994 versus 1993 can be accounted for by the fact that domestic demand rose about three percentage points faster in the US than the average of the OECD. Furthermore, a close examination of the export performance of the three countries to common regions (European Community excluding Germany, and Pacific Rim excluding Japan) shows a very competitive US economy (see Charts 2 and 3).

In fact, the US has had the best trade performance to Europe (not including Germany) and the second best trade performance to the Pacific Rim (not including Japan). We should note that the Goldman Sachs analysis uses changes in the nominal value of exports in each country's currency to avoid incorporating J-curve effects that would be caused

by changes in currency valuation.

The report also notes that both consumer goods and capital goods exports are rising more quickly in the US than in Japan and Germany. Clearly, trade flows are consistent with an undervalued US dollar.

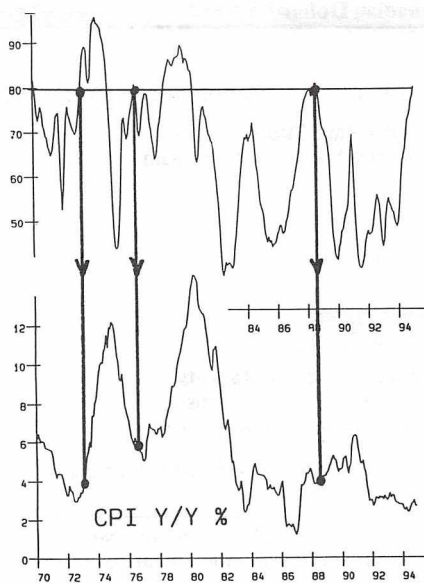
Finally, the Mexican connection. It has been argued that Fed intervention on behalf of the Bank of Mexico, by supplying dollars, weakens the US dollar. As a result, anything that prolongs or aggravates the peso crisis, such as the current congressional deadlock on the \$40 billion rescue plan is thought to be bearish for the US dollar. This, of course, can be true only if the Fed does not sterilize the intervention. But there's no indication that this is the case. As noted earlier, adjusted reserves have fallen over the past eight weeks, a period that covered the various intervention episodes.

There is little substance behind the US dollar's recent fall. Technical considerations and a number of misconceptions have succeeded in breaching the already weakened US dollar bulls' positions. We have taken advantage of the situation, fully conscious that the fundamentals are powerfully pointing the other way. It is only a matter of time before they assert themselves.

STRATEGY: 1. Long-term investors should begin positioning themselves on the long side of the US dollar. Short-term currency traders should remain long Swiss francs, raising stops to 7800, basis March 1994, close only.

2. The Japanese yen is weakening dramatically against the DM and Swiss franc; retain the very profitable short yen/long Swiss franc spread. The Swiss franc leg should be closed out and replaced with the DM should the SF/DM move above 0.8445, New York close.

Chart 1
PURCHASING MANAGERS INDEX



ISI Group

Chart 2

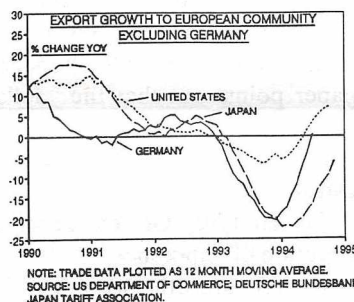
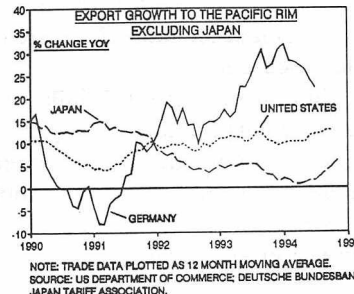


Chart 3



Goldman Sachs International.

Chart 4

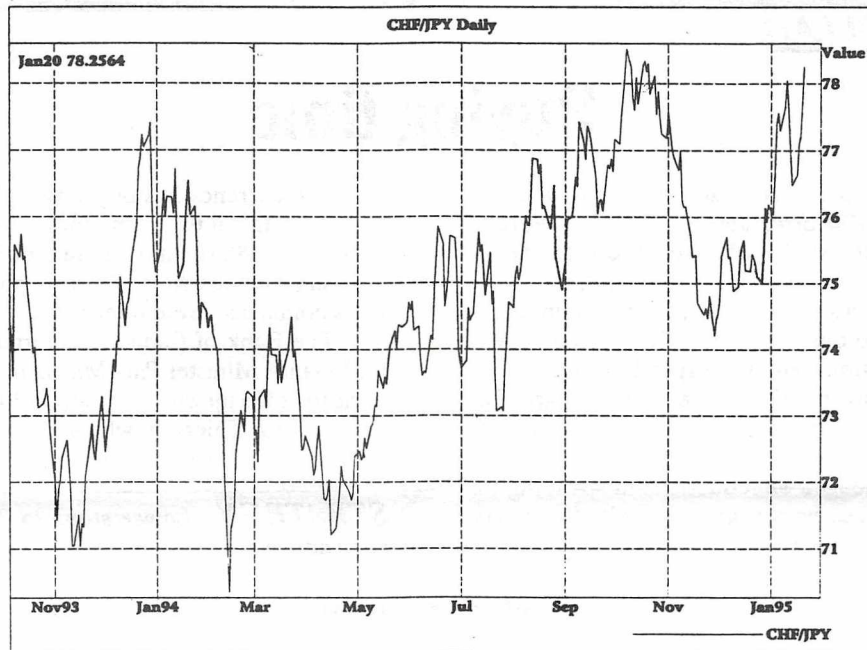


Chart 5

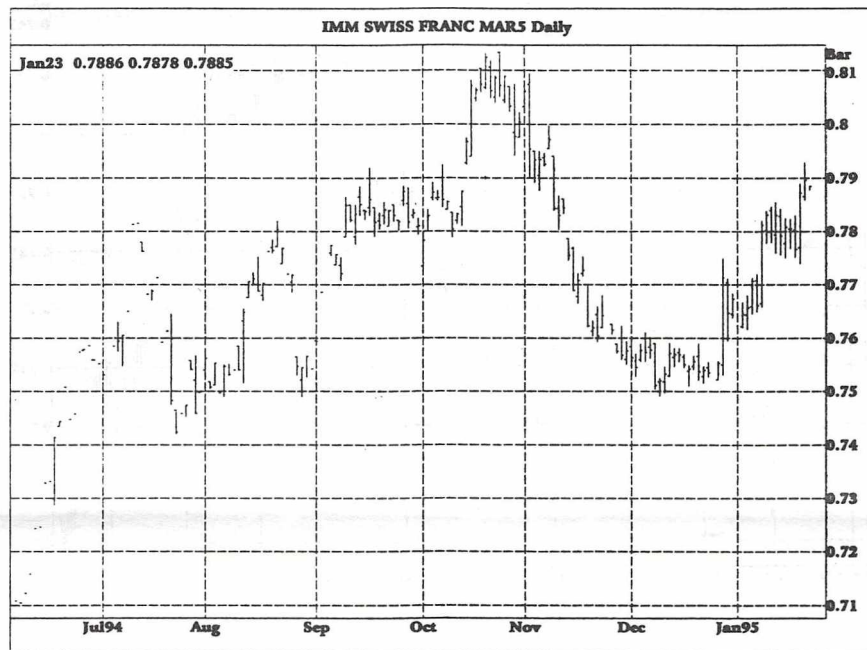


Chart 6
DM/¥



CANADIAN DOLLAR

Buying time

In an article entitled "It'll take more than rhetoric to strengthen Canada's Dollar" (*The Wall Street Journal*, Jan. 20, 1995) and reproduced in this issue, Michael Walker, President of the Vancouver-based Fraser Institute, takes note of the market's scepticism about Ottawa's promise of fiscal virtue in its upcoming budget. He also observes correctly that the issue is not about deficit reductions but rather spending cuts.

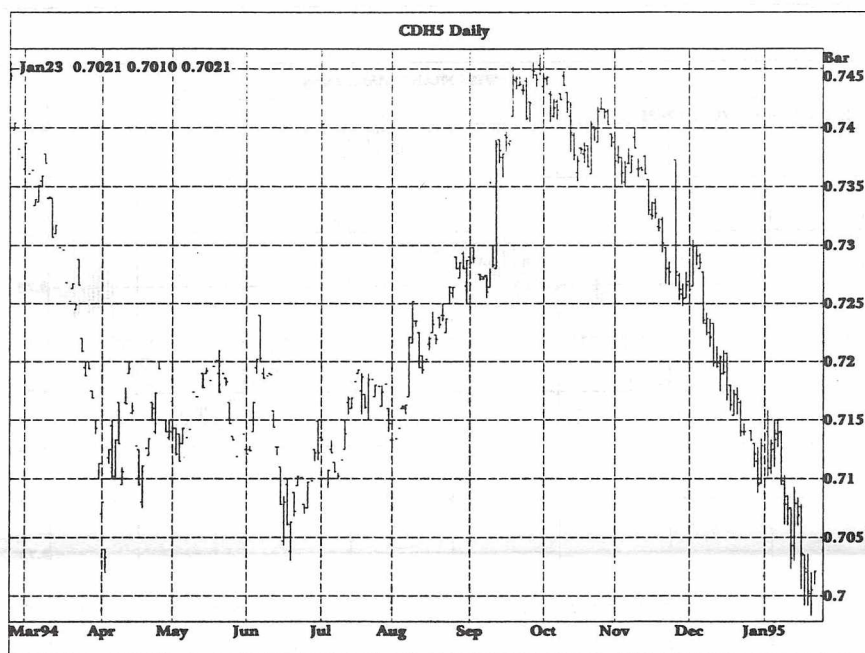
Regrettably, the government has spent a good part of its intellectual resources in trying to deliver a deficit target of 3% of GDP for the year after next. It would have been a lot more constructive to have pledged \$2 reductions in spending for every \$1 reduction in taxes every year for the next four years, regardless of where that took the actual deficit.

The currency has begun to stabilize, underpinned by a slow-moving but firm tightening of monetary conditions. On Friday, Jan. 20, the interest rate differential on three-month deposits widened to +220 basis points from as little as -20 basis points just seven weeks ago.

The Bank of Canada's determination should buy time for Finance Minister Paul Martin and his provincial counterparts to come up with "strong, credible policies" in the words of Governor Thiessen, who added that "it is very important that we get this fiscal thing sorted out and sorted out properly."

STRATEGY: Lower stops to 70.40, basis March '95, good anytime.

Chart 7 – Canadian Dollar

**THE AMERICAS**

It'll take more than rhetoric to strengthen Canada's dollar

Michael Walker

During the last week or so, a few articles, including an editorial in this paper, have been blamed for pushing down the value of the Canadian dollar and boosting Canadian interest rates. The Journal editorial invited readers to imagine Can-

ada as an honorary Third World country, while a respected currency trader mused whether the currency had to drop a further 10%. Canadian Prime Minister Jean Chretien reacted angrily, calling the critics armchair quarterbacks who didn't

know anything about running a country.

The extent to which the matter irked the prime minister, an Eisenhower-style leader, can be judged by the fact that it occasioned his first press conference in eight months. During the course of his "defense of the dollar," Mr. Chretien noted that he would without fail hit his deficit target of 3% of gross domestic product the year after next. Then, to show that he was a nice guy, he added that he was not going to cut program spending to the point that it affected the level of decency in Canada. Tax increases, on the other hand, might be necessary.

To provide moral support, Ontario's Socialist premier, Bob Rae, who for his own tax and regulatory policies could probably be elected business promoter of the year by the city of Buffalo, N.Y., entered the fray by noting: "If we slash and burn, we're going to replace one kind of deficit with another — the kind of deficit in which we don't make the investment in education that we need to make, and in which we have kids who are not getting the kind of child care and the sort of direction they need. And that's as big a deficit and that's potentially as big a problem as the financial deficit which we all recognize has to be dealt with."

While there is great respect for Finance Minister Paul Martin, there is even greater concern about the cadre of left-leaning cabinet members whose sympathies are with Mr. Rae and the so-called decency agenda. That's why the dollar fell again even though the tax cost of "decency" won't be revealed until the federal budget is released late next month. And there is widespread concern in Canada that the needed spending cuts won't materialize.

A Fraser Institute survey of the country's top pension fund managers — 50 managers responsible for \$200 billion (Canadian) — in late November revealed that 64% thought it was at least somewhat unlikely that the finance minister would hit his announced 3% deficit target. And 82% thought that the 3% deficit target was still too high for the economy; even that "modest" target will add about \$70 billion (US) to Canada's total national debt. What's worse, Canada, like the US, is expected begin cyclical cooling later this year that will raise the stakes on controlling the deficit.

The main reason for the lack of confidence that reflects itself in the value of the currency is the market's skepticism about the government clearing a path through Canada's entitlement programs. The extent of the entitlements problem can be judged from the fact that Canada, with one-tenth the number of workers, spends 65% as much (in US dollar terms) as the US does on unemployment insurance. Whole segments of communities and whole areas of some provinces are utterly dependent on this government handout. And the largest single block of beneficiaries is in the province of Quebec.

This is another reason for market skepticism concerning the political will to make the needed cuts. In the face of the continuing threat of Quebec separatism, it would be difficult, even for a free-market ideologue, to make the sort of cuts that are required. For a prime minister from Quebec with "de-

centy" on his mind, the challenge could well prove insurmountable. And so Mr. Chretien naturally sees tax increases as the only way out.

Every finance minister in living memory who has tackled Canada's spending problem has found in the end that tax increases have been the most expedient — even, if in the end, the most politically disastrous — path. The cumulative effect of this taxing effort is that Canada's tax burden — 37.3%, as a fraction of GDP — is nearly seven percentage points higher than the weighted average of our trading partners. The fact that 82% of the pension fund managers mentioned above think that the sole method of deficit control ought to be spending cuts helps explain why Mr. Chretien's musings about tax increases resulted in a falling value of the dollar.

Nevertheless, while Canada's debt-to-GDP ratio places us squarely in the category of Third-World-style indebtedness, there are some segments of our nation that know exactly how to deal with spending problems. In fact, to see how it should be done, our federal officials need go no farther than the province of Alberta (governed by a party from the political right) and Saskatchewan (governed by a Socialist colleague of Mr. Rae's).

Both of the provinces faced staggering deficits and, in the case of Saskatchewan, were on the verge of default when they adopted programs of tough spending control. Using the Cato Institute's Fiscal Performance Index (14 indexes that rate things like the decrease in the per-capita tax burden, government spending per capita, etc.), the Fraser Institute recently discovered that of the 34 US states and 10 Canadian provinces that were rankable, Alberta came out with the best overall score for 1994. Its secret? Deficit cutting entirely based on spending cuts and an avoidance of tax increases. In addition, Saskatchewan and Prince Edward Island scored better than any of the states.

This superior performance of the Canadian provinces should be factored into any calculation of the rate at which we are speeding toward the debt wall. There are two reasons: First, the serious pursuit of balanced budgets in all but two or three Canadian provinces means that the aggregate public debt of the country will grow less rapidly. Second, when the federal government shifts spending programs to the provincial level in an attempt to balance its own books, the provinces will probably pull out their axes. It's just as well that the most likely outcome of the Quebec crisis also involves the devolution of power to the provinces.

Regrettably, it is the federal government and our inimitable prime minister — not the pioneering provincial premiers — who will occupy center stage in the next crucial months. That prospect leads many, including a majority of our pension fund managers, to believe that we are at least somewhat likely to encounter an escalation of our financial crisis.

Mr. Walker is president of the Vancouver-based Fraser Institute. Reprinted with permission from the Jan. 20, 1995, edition of The Wall Street Journal, © 1995 by The Wall Street Journal. All rights reserved.

INTEREST RATE FUTURES

Long-term bonds are no bargain

As discussed in our opening comments, the Fed has actively begun to choke off liquidity, given the enormous stock of liquidity built up in recent years. The process is likely to last a great deal longer than currently expected.

Despite commercial bank liquidation and net redemptions being experienced by the bond funds, support is still to be found among traders focusing on the inflation "fundamentals." But to project the consumer price inflation of the last 12 months out to 20 or 30 years is an extremely naive and dangerous game. It can't possibly form the basis for computing real rates of interest.

More likely, the market is projecting a much higher rate of inflation for the next 20 to 30 years than the rate prevailing at this time, thus reducing adjusted real rate of return to perhaps no more than the historic norm. If so, there is absolutely no basis for being bullish on long-term bonds.

This fallacy can be corroborated by comparing the dif-

ferential between index-linked Gilts with UK Treasuries for a similar maturity. As an example, the 2.5% of 08/16/13 index-linked Gilt yields 463 basis points less than the 8% Treasury of 09/27/13, yet the last 12 months' inflation was in the neighbourhood of only 2.5%.

Clearly, it is demonstrably incorrect to say that real rates, based on the Treasury issue are equal to 6% (8.52% minus 2.5%); rather, the market anticipates a much higher inflation rate for the next 18 years than the current one. While there is no way we can prove this for the US, because US index-linked securities don't exist, it would surprise us if real rates were higher in the US than the UK.

Long-term bonds are no bargain.

STRATEGY: Remain short as per Hotline Update of Jan. 3, maintaining stops at 100.24, basis March, close only.

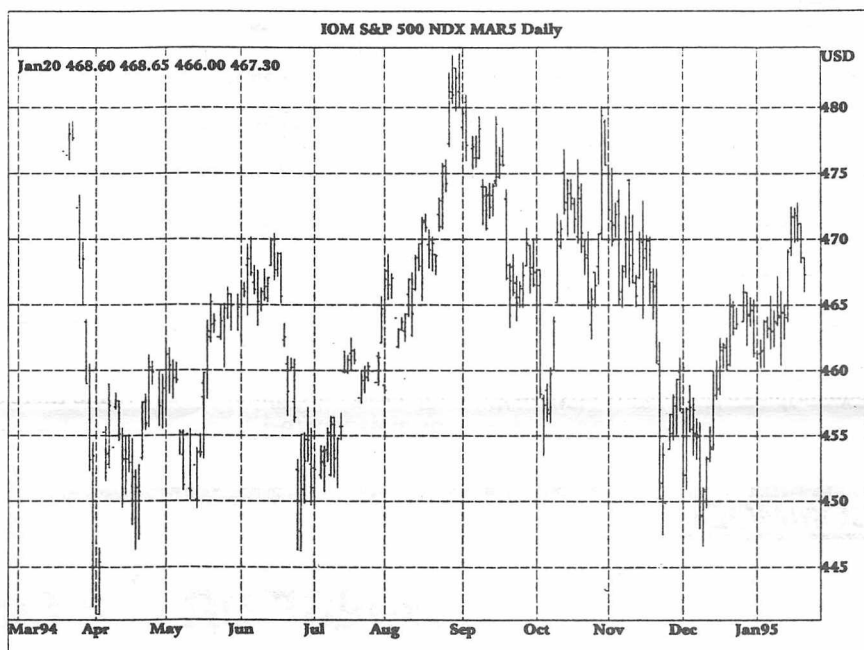
Chart 8



STOCK INDICES

STRATEGY: Stand aside.

Chart 9



PRECIOUS METALS

Extremely bullish

The 1994 Gold Fields Mineral Services report on the gold market observes that private investors contributed a net 218 tonnes to gold supply last year, whereas in 1993 they helped on the demand side by investing in 321 tonnes, adding that "doubts about gold's ability to break through the perceived US\$400 a troy ounce price barrier...led to the liquidation of many of the long positions which had been established by the end of 1993."

We would add that it also led to a massive bear raid, as evidence by the dramatic 40,000-contract expansion in the open interest as the market retreated from the \$385/oz. level and punctured for a number of days the \$375/oz. support that held for the better part of the past year.

The bear trap has been shut (see Chart 11), entrapping a still large short position, one capable of finally catapulting prices beyond the \$400/oz barrier. Silver, too, has formed an intriguing base just below the \$5/oz. level, capable of supporting a move through the old highs.

We remain extremely bullish.

STRATEGY: On Friday Jan. 20, via the Hotline Update, we advised reentering the long side of the gold market, placing initial stops \$381.50, basis April 1995, close only.

Remain long silver and platinum, as stops were never triggered. Once they break out above \$5/oz. and \$436/oz., respectively, we will raise stops.

Chart 10

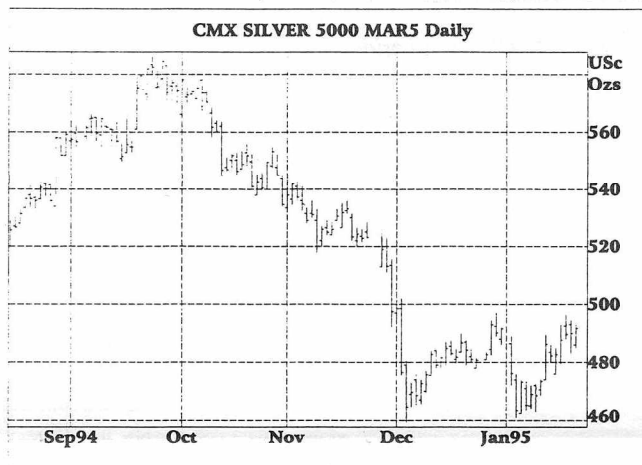
Gold Supply and Demand (tonnes)				
	1993	1994*	1993	1994*
Supply			Demand	
Mine production	2,280	2,304	Fabrication	
Official sales	519	46	Jewellery	2,501 2,469
Old gold scrap	535	531	Electronics	183 191
Forward sales	210	30	Official coins	119 72
			Other	183 189
			Bar hoarding	137 188
			Gold loans	65 47
Option hedging		28	Option hedging	35
Disinvestment		218	Investment	321
Total	3,544	3,156	Total	3,544 3,156

Source: Gold Fields Mineral Services. * = estimated

Chart 11



Chart 12



COMMODITIES

Sugar on the edge

On Friday, Jan. 13, sugar bears got some good news: Two independent sugar trade associations projected 1994-95 Indian sugar production at 12 million to 12.5 million tonnes, up sharply from the miserable 1993-94 season.

The markets had been watching India carefully to get an idea of its import requirements. Indian production in the first two and a half months of the crop year was 2.84 million tonnes, 0.95 million tonnes above the same period last year.

Although it's still early in the campaign, analysts assume that these results show much improved growing conditions. Analysts were also quick to predict that the 500,000 tonnes India was slated to import in 1995 will have to find another home. Spot March sugar promptly dropped sharply to close out the week with losses of almost 1.5¢, or 9.5%. Did the market overreact? The evidence suggests that it did.

By no means does an Indian crop, even at the high end of 12.5 million tonnes, come as a shock. Virtually every analyst predicted a return to the robust crops seen in the early part of the decade. And some estimates were actually higher. Furthermore, the idea that India would stop importing was rapidly quashed.

As soon as the market had its first significant price correction, India was said to be shopping for over 100,000 tonnes of sugar for delivery from May to August. In addition, a host of other countries seized the opportunity and bought on the price dip. Indonesia bought somewhere between 100,000 and 200,000 tonnes; China was good for up to 200,000 tonnes.

The market's tightness could easily be seen in the persistent backwardation. Not only did the price recover most of its losses, but also the March/May spread exploded from -16 ticks to +14 a week after the "bearish" Indian crop news hit the market.

The market can afford few "accidents." Australia, now the world's largest exporter, is widely being counted on to make up the shortfall caused by permanently smaller crops in countries like Cuba and China. However, just in the past few days, it's been reported that the crop is under stress, because the heavy rain that fell across Australia missed the Queensland cane belt where most of Australia's sugar is grown.

This market could hardly afford any such disappointment from Australia.

– Sholom Sanik

STRATEGY: We have advised reentering the long side of the market (see Hotline Update, Jan. 20), placing initial stops at 13.90, basis March '95, close only.

Chart 13



FRIEDBERG CAPITAL MARKETS**Kiwi Income Property Trust**

(All currency and cent figures in this article are in New Zealand currency)

Exchange: Listed security on the New Zealand Stock Exchange

Recent price: \$1.03 per unit

P/E: 14.9X

Price to book: 0.95X

Market cap: \$189 million

The Trust

The Kiwi Income Property Trust was established in August 1992 and acquired its first three properties shortly thereafter. The trust became a public open-ended fund in February 1993 and finally went public on the New Zealand Stock Exchange in December of the same year.

The manager of the trust is equally owned by FCMI Financial Corp. in Toronto, Ross Green and Richard Didsbury, the latter two of which have extensive and substantial property investment experience in New Zealand. The purpose of setting up the trust is to take advantage of the upturn in the property sector in New Zealand, which is a result of the solid economic recovery.

The objective of the trust is to maximize returns by acquiring a diversified portfolio of prime investment property. The major property acquisition criteria include the following:

- a secure and sustainable cash flow
- potential superior growth
- value-adding potential

The manager of the trust intends to actively manage the portfolio, attempting to identify trends and opportunities before the general market is aware of them.

The manager's compensation formula has two components. The first component is a fee of 0.75% of the gross value of the trust fund during each financial year. The second component is a performance-based fee, which is 20% of the average annual capital appreciation in the preceding three years, but which cannot exceed 1.0% of the average gross value of the trust fund. Therefore, the compensation system is designed to motivate the manager to achieve long-term growth for the trust rather than to take an opportunistic approach.

Portfolio analysis

Chart 14 indicates the latest geographic distribution of the properties being held by the trust. Chart 15 lists the types of property in the portfolio. The trust currently has a geographically diversified portfolio of properties, although it is slightly overweighted in Wellington, which is the capital of New Zealand and a financial center. Measured by value, 22% of the properties are located in Auckland, which is the largest

city of New Zealand (33% of the population) and the country's trade and business center.

The trust is currently overweighted in retail properties with a view to benefiting from the recovery of this sector in this cyclical upturn. The retail sector usually leads other sectors (e.g., commercial, industrial, and residential) in the recovery stage of a property cycle. When New Zealand's economic growth continues, we expect the trust to switch more into commercial and finally industrial properties.

The portfolio's average occupancy rate is 94%. Only two properties have an occupancy rate below 80%. These two properties together constituted only 12.7% by value and 13.6% by gross rentable area of the portfolio. In fact, 52.7% of the portfolio by value (51.5% by gross rentable area) has 100% occupancy. The portfolio's lease term is generally long. In the commercial and industrial sector, more than 85% of the leases run more than five years. In the retail sector, however, leases are generally six years with market rent review every two years. This lease structure enables the trust to position its retail properties to suit the rapidly-changing retail market conditions.

Financial analysis and valuation

The Trust acquired New Zealand Land Ltd. (NZLL) in December 1994 in order to diversify its property portfolio. The acquisition was effected by issuing five trust units for every six NZLL shares and one trust unit for every eight NZLL options. The trust in total issued 33 million units for the acquisition and increased the number of units outstanding to 159 million. Following the acquisition, the trust privately placed 24.3 million units at \$1.10 each to reduce the debt level. Currently the level of bank debt of the trust was at \$59.2 million, which is 21.6% of total assets, and is also the second-lowest among the four property stocks trading on the New Zealand Stock Exchange.

The trust currently has 183.6 million units outstanding. The acquisition of NZLL has raised its net tangible assets (NTA) per unit to \$1.08. Therefore, the trust unit is now trading at a slight discount to its NTA.

In addition, the weighted average rental yield (rental divided by property value) of the trust is 9.89%. Since the trust is required by the trust deed to distribute all net income to its unitholders, the annual gross investment yield (income distributed divided by unit price) of each unit is approximately 9.7%.

We believe an investment in the trust will provide not only quite a high income level but also substantial capital growth opportunity. The properties underlying the portfolio all have high occupancy rates and long-term leases. According to the estimate of McIntosh Baring, the trust's portfolio

currently is only 22% over-rented, the second-lowest among the four property stocks in New Zealand. Over-renting means the current contract rent exceeds the market level, so that rental and capital growth will be limited. Given the relatively low over-renting rate, we believe the trust should have substantial capital appreciation potential in the next three to five years.

STRATEGY: *The considerable increase in interest rates in New Zealand over the past 12 months has weakened the price of Kiwi Income Property Trust shares along with the general decline in share prices. Nevertheless, we are very optimistic about New Zealand's property market. We believe the strong*

economic growth and improving industrial competitiveness in the next few years will lift property prices well above present levels. This is so because the interest rate rise has restricted supply growth in the market, while the economy continues to grow and absorb present capacity. Moreover, with the current six-month interest rate at 9.5%, the yield curve in New Zealand is inverted. Consequently, we see the potential for a moderate interest rate decline in the near future, especially at the long end (five to 10 years), which will certainly revalue properties via an expansion in the cap rate. Therefore, we recommend investing in the Kiwi Income Property Trust as a preferred way to obtain exposure to the property sector of New Zealand.

– Edison Lee, CFA

Chart 14
Geographic Distribution of Property Held by the Trust (1)

City	% by Value (2)	% by Gross Rentable Area
Auckland	22.4	27.0
Hamilton	19.8	26.4
Palmerston North	15.7	10.7
Wellington	36.2	28.9
Christchurch	5.9	7.0
Total	100.0 (\$243 million)	100.0 (134,327 m ²)

(1) Excluding the 50% interest in Majestic Center in Wellington, which is 9% of the portfolio by value.

(2) The properties held by the Trust are appraised every year.

Chart 15
Types of Property Held by the Trust (1)

Property Type	% by Value	% by Gross Rentable Area
Retail	53.0	50.7
Commercial	42.0	36.9
Industrial	5.0	12.4
Total	100.0	100.0

(1) Including the 50% interest in Majestic Center in Wellington.

A note on our portfolio allocations

Events in Mexico have sown panic in other Latin debt and equity markets. This has produced in our opinion an extraordinary opportunity in Argentina's peso-denominated debt.

While the risks of a devaluation are ever present, especially if a run on the banking system forces the central bank to bail out a large number of financial institutions, they are minor in our opinion. Furthermore, this risk is worthwhile accepting in view of the extraordinary returns available (yields in excess of 30% per annum to maturity.)

We have thus advised the following changes: a) swapping the dollar-denominated Series L FRB into the peso-

denominated Bic 5 and b) increasing our recommended portfolio exposure to 20% from 15%.

We remain extremely constructive on the outlook for the New Zealand dollar and New Zealand dollar debt. We believe that total returns in US dollars during 1995 will easily exceed the attractive coupons.

Finally, in line with our opening comments, we believe that the balance of the portfolio should be kept in floating-rate US dollar instruments, such as the UK FRN and/or the gold bull/yen bear Kingdom of Denmark note.

This portfolio should produce in our opinion outstanding results in 1995.

Chart 16 – Recommended current portfolio allocations

1. New Zealand (8%) '98 Gov't	15%	5. CILNZ\$	5%
2. DB Group NZ\$	10%	6. FRB/BIC V	20%
3. Tranz Rail NZ\$	10%	7. U.K. FRN	20%
4. New Zealand (10%) '97 Gov't	20%		

Chart 17
FOREIGN CURRENCY BONDS

DATE: January 20, 1995

We offer the following Bonds subject to change without prior notice: Minimum US \$5000 (CDN \$6000)

ISSUER / COUPON / MATURITY DATE	BID	OFFER	YTM	CURR. COUPON	NEXT INTEREST PAYMENT DATE
DEUTSCHE MARK DENOMINATED BONDS					
Bank of Nova Scotia 5 5/8% 7/5/96 RRSP	98.3	99.15	6.31		May-07
World Bank 5 7/8% 4/02/97 RRSP	101.4	102.25	4.68		Feb-04
World Bank 9% 13/11/00 RRSP	113.8	114.65	5.93		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	97.15	98	6.83		Apr-15
Argentina 8% 5/10/98	82.75	83.6	13.94		Oct-05
Bk. Foreign Eco. Affairs 7% 29/3/96	85.65	86.5	21.06		Mar-29
Kgdm. of Spain (Floating) 29/6/02 (semi)	99.21	99.51	-	5.4375	Jun-29
FINNISH MARKKA DENOMINATED BONDS					
Rep. of Finland 11% 15/6/95	100.9	101.75	5.93		Jun-15
ITALIAN LIRA DENOMINATED BONDS					
Nordic Inves. Bk 12 3/8% 19/04/96	101.3	102.15	10.32		Apr-19
General Electric 11 1/2% 7/02/95	99.4	100.25	2.24		Feb-07
SWISS FRANC DENOMINATED BONDS					
General Electric 4 3/4% 2/7/98	97.9	98.75	5.15		Jul-02
DANISH KRONE DENOMINATED BONDS					
Kgdm. of Denmark 9% 15/11/96	101.5	102.35	7.53		Nov-15
ECU DENOMINATED BONDS					
United Kingdom 9 1/8% 21/02/01	102.75	103.6	8.34		Feb-21
BRITISH POUND DENOMINATED BONDS					
Kgdm. of Sweden 8 3/4% 29/5/96	99.95	100.80	8.03		May-29
FRENCH FRANC DENOMINATED BONDS					
Credit Lyonnaise 9 1/2% 23/12/96	102.85	103.7	7.33		Dec-23
JAPANESE YEN DENOMINATED BONDS					
World Bank 5 3/4% 7/8/96 RRSP	103.65	104.5	2.69		Aug-07
CANADIAN DOLLAR DENOMINATED BONDS					
Ontario Hydro 10 7/8% 8/01/96 (semi)	100.6	101.85	8.79		Jul-08
Eksportfinans 7 3/4% 5/11/97	94.35	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/11/97	97.75	98.75	9.85		Jan-07
SOUTH AFRICAN RAND DENOMINATED BONDS					
ESCOM 12% 1/5/96 (semi)	96.15	97	14.70		May-01
AUSTRALIAN DOLLAR DENOMINATED BONDS					
Commonwealth Bk. of Australia 9 3/4% 15/5/96	98.30	-	-		May-15
NEW ZEALAND DOLLAR DENOMINATED BONDS					
New Zealand Gov't 10% 15/7/97 (semi)	101.3	102.15	9.01		Jan-15
New Zealand Gov't 8% 15/7/98 (semi)	96.6	97.45	8.87		Jan-15
Fletcher Challenge 10.75% 15/12/97 (semi)	99.00	-	-		Jun-15
Fletcher Challenge 10.15% 30/11/98 (semi)	97.6	98.45	10.64		May-30
Corporate Investment Ltd. 13 1/2% 19/6/95 (semi)	80.2	82.7	49.36		Jun-19
Tranz Rail Ltd. 10% 15/10/99 (semi)	97.3	98.15	10.50		Apr-15
DB Group 7% 30/6/96 (semi) matures @ 85	88.35	-	-		Jun-30
ARGENTINEAN PESO DENOMINATED BONDS					
BIC V Fixed/Floating 1/5/2001 Callable in full on every interest date	54.3	56.3	31.95		4th day of mth.
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS					
Burnup & Sims 12% 15/11/00 CV@16.79 p/sh (semi)	94.25	95.75	13.06		May-15
Atari Corp. 5 1/4% 29/4/02 CV@16.31 p/sh	51.25	52.75	17.07		Apr-29
Coeur D'Alene 6% 10/6/02 CV@ 26.00 p/sh	76.75	78.25	10.35		Jun-10
Glycomed 7 1/2% 1/1/03 CV@14.06 (semi)	54.25	55.75	18.28		Jun-01
California Microwave 5 1/4% 15/12/03 CV@28.44 p/sh (semi)	117.25	118.75	2.85		Jun-15
U.S. DOLLAR DENOMINATED FIXED RATE BONDS					
Farm Credit Corp 7 3/4% 10/06/96 RRSP	100.1	100.95	6.95		Jun-10
T.W.A. 10% 3/11/98 (semi)	60.5	61.75	29.84		Feb-01
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES					
Kgdm. of Denmark 25/3/97 (Gold call, JY put), (semi)	92	93	-	5.84	Mar-25
United Kgdm. 30/9/96 3 mo. LIBID-1/8 (qly), callable @100	99.83	100.13	-	6.25	Mar-30
Bocon 1/4/01 (30 day LIBOR) starts accruing May 1, 1997	63.2	64.05	25.18		May-01-97
Argentina: Series L:FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	55.5	57.5	18.89	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.

HOTLINE UPDATE

Friday, December 23:

There are no changes or recommendations. (Please note: the market letter for December was sent out this past Tuesday, December 20.)

Tuesday, December 27:

There are no changes or recommendations.

Flash Update, Thursday, December 29, 11:45 am:

Buy March Swiss francs at the market, presently trading at .7675.

Friday, December 30:

There are no changes or recommendations.

The following is a recap of a flash update for Thursday, December 29, at 11:45 am. We advised you to buy March Swiss francs at the market, then trading at .7675.

Flash Update, Tuesday, January 3, 1995, 9:00 am:

1. Sell March S&P at the market; place stops at 466.70, good anytime.
2. Sell March T-bonds at the market, presently trading at 98.27; place stops at 100.24, good anytime.
3. Place stops on long March Swiss francs at .7619, good for today only.

Tuesday, January 3:

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

Via flash update today at 9:00 am we advised the following:

1. Sell March S&P at the market; initial stops were placed at 466.70, good anytime.
2. Sell March T-bonds at the market, then trading at 98.27; initial stops were placed at 100.24, good anytime. We have one new recommendation. We advise you to place stops on long Swiss franc positions at .7600, close only.

Friday, January 6:

There are no changes or recommendations. The following is a recap of the recommendations made this past week.

On Tuesday, January 3, via flash update at 9:00 am, we advised you to: 1. Sell March S&P at the market; initial stops were placed at 466.70, good anytime. March S&P opened on Wednesday, January 4 at 462.50. 2. Sell March T-bonds at the market, then trading at 98.27; initial stops were placed at 100.24, good anytime. 3. We also advised you on Tuesday via flash update to place stops on long March Swiss francs at .7600, close only.

Tuesday, January 10:

We have one new recommendation. Raise stops on long March sugar to 15.20, good anytime.

Friday, January 13:

There are no changes or recommendations. The following is a recap of the recommendation made on Tuesday, January 10. We advised you to raise stops on long March sugar to 15.20, good anytime. March sugar opened on Wednesday, January 11 at 15.35

Tuesday, January 17:

There are no changes or recommendations.

Friday, January 20, 1995:

This is a complete summary since our last market letter dated December 20, 1994, of all liquidations of open positions and new recommendations that remain outstanding:

On Thursday, December 29, via flash update, we advised the purchase of March Swiss francs at the market, then trading at .7675. Stops were placed at .7600, close only. On Tuesday, January 3, via flash update, we advised the sale of March T-bonds at the market, then trading at .9827; stops were placed at 100.24, good anytime.

For today Friday, January 20, we have two new recommendations. Buy April gold at the market; place stops at 381.50, close only. 2. Buy March sugar at the market; place stops at 13.90, close only.

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