

# FRIEDBERG'S

## COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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### Mexico: wrong prescription, wrong signal

The banking and saving and loans crisis of the '80s taught the government nothing. *That* one was caused by the FDIC's guaranteeing the first \$100,000 of every deposit, removing whatever market discipline depositors could have exercised.

Gamble-happy banks and S&Ls were free to lend and invest as they chose, raising billions of dollars on a moment's notice by paying one eighth of a percentage point more than competing institutions. Bankers could rest assured: Poor performance would never lead to a run.

Excessive risk-taking was promoted with this incredibly generous insurance scheme. (Economists call this a problem of "moral hazard" behavior.) A decade later, the US government is guaranteeing the holders of Mexican Tesobonos in the name of avoiding a presumed financial meltdown and an international depression.

Nonsense. It is true that Mexico was facing a serious liquidity crisis. Over \$28 billion of short-term Tesobono notes was maturing during 1995; \$10 billion of these mature in the first quarter alone. (Tesobonos were issued by the Mexican government as a means of maintaining investments in the local market during a period when both local and foreign investors were uncertain about the stability of the currency.)

It is hard to say who was more naive: the lenders or the borrower. By September 1994, the short-term notes came to represent as much as 33% of the government's domestic debt, up from a mere 3% at the end of 1993. Dollar-linked Tesobonos came to substitute peso-denominated Treasury bills, or Cetes. (And the reason was simply that the government refused to raise domestic interest rates sufficiently to protect investors from a possible devaluation. And of course, a much tighter monetary policy would have raised domestic savings and cut the yawning current account deficit. But we are not going to cry over spilled milk.)

The inability to roll over maturing Tesobonos would have forced Mexico to reschedule these obligations into longer-dated securities with maturities of \$3 billion to \$5 billion due every year for the next several years. The alternative, for holders to convert their pesos into dollars in the free market, would have entailed a substantial loss of principal as they chased dollars higher.

A sort of equilibrium, at generally higher dollar/peso rates, would have been reached: Those in need of immediate liquidity would have put up with a significant 20% to 30%

haircut; others would have settled for safer longer-term maturities (still linked to dollars); and yet others could have accepted longer-term peso notes if attractively priced. (It is not hard to see that the current 44% per annum rates are woefully inadequate when viewed against the backdrop of an expected 40% to 50% inflation rate and a yet-to-be-drawn-up fiscal and monetary program.)

The non-market solution proposed by the Clinton administration lets the naive and greedy holders of Tesobonos off the hook, despite the fact that they earned above-average returns for more than a year. But there's more. A lot more:

- It rewards Mexico for following imprudent monetary and debt management policies.
- It has paralyzed the Mexican government, which, two full months after the crisis, does not as yet possess a clear view of the situation or a workable program.
- It tells the world, once again, that there are institutions and countries too big to fail.

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

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

- It reassigns resources precisely to those recipients who are too large to fail.
- Finally, it will give strong ammunition to Mexican nationalists, as increasingly the US will be seen as an imperialistic power dictating terms to an impoverished and capitalist-ravished nation. The resultant backlash could easily undo the benefits of Nafta.

*If it is not too late, Mexico should politely decline the aid being offered and begin to discuss with its creditors terms for a rescheduling. Far from the much-feared worldwide financial meltdown, the Tequila episode will have strengthened market forces. In emerging markets, caveat emptor will again be the watchword.*

## ARGENTINA

# A risk... and an opportunity

Rarely do developing nations enjoy the privilege of muddling through.

At the first sign of trouble, expectations — based on the recent past — almost always doom developing nations' attempts to reform. The few nations in recent years that endured the post-honeymoon blues (Chile 1980-83 and New Zealand 1987-91) managed to achieve this wonderful condition, the privilege of muddling through. This privilege allows them to make small mistakes without being unduly punished.

Argentina has just such an opportunity. Because its economic foundations are almost rock-solid, it must collect every ounce of political will to endure the crisis. It cannot afford to hesitate nor even to *appear* to vacillate.

First, a word about the foundation. In the first stage of reform (1991-94), the government fostered overall economic efficiency by simplifying the tax system and by stressing deregulation and privatization. This program helped achieve 5% annual gains and labor productivity. During this period, ex-interest and ex-privatization, the central government achieved budget balance. Total government debt, external and internal, fell from \$76 billion in 1991 to \$70 billion by mid-1994, representing less than 25% of GDP.

Over the past five years, Argentina has been the fastest growing of the big Latin American economies; between 1989 and 1994 its GDP grew by an annual 5.9%, while its GDP by capita rose by an average annual of 4.5%. Since 1989, Argentina's exports rose by 67.6%.

In November 1994, despite what appeared to be a slightly overvalued peso (40% in the opinion of some pundits, ignoring the fact that the new peso was set at an extremely low value at the inception of convertibility), exports rose 37% year on year, while imports rose by only 8%. Almost free of tariff protection, Argentina has undergone a massive industrial restructuring.

YPF, the giant oil company, once state-owned and now privatized, produces more oil and gas today with only 10% of its original workforce.

And then there is the famous currency board, a product of Argentina's Convertibility Law. Under convertibility, the exchange rate is fixed at the level at which the central bank's monetary liability equals its foreign assets. In effect, the monetary base, which at this time is made up 100% by currency circulation, is fully backed by international reserves.

Examine Chart 1. Note how cash, gold, and other (a) of \$14.3 billion exceeds monetary base (h). The jump in dollar deposits at the central bank (i) in January is a consequence of the fact that the central bank converted at par all commercial

bank reserves held formerly in pesos. It anticipated its potential conversion and decreed that henceforth all reserve requirements would be held in dollars.

Argentina currently enjoys a bi-monetary system: Dollar deposits at Feb. 3 constituted 56% of total deposits and approximately 42% of deposits plus currency. It is thought, however, that in addition, as much as US\$15 billion in currency is held by Argentinean residents. If correct, Argentineans hold as much as 55% of the money supply in US dollars.

The dollarization process has been gaining strength in recent years; as recently as May 1991, US dollars represented only 29% of total deposits. Provided that confidence in the solvency in the banking system remains generally intact, dollarization can proceed without any impact on financial markets and/or the economy.

We introduce this proviso for the following reason: Widespread lack of confidence in the banking system could lead to cash withdrawals (US dollars or pesos, but most probably the former), and capital outflows, leading to a severe contraction in money supply. *This is true of any fractional reserve monetary regime.* It was true in the US in the 1907 panic (which led to the suspension of specie withdrawals for a number of months); it was true in the 1930-33 depression, which saw money supply contract by more than one third.

Interestingly, the money supply/monetary base multiplier in Argentina is somewhere in the order of 2½ to 1, much lower than the 5.5 (for M2) and 6.5 (for M3) US multiplier. It's also interesting to observe that in view of the recent discussion surrounding a new monetary regime for Mexico, Mexico would require total foreign exchange reserves of US\$55 billion at the current exchange rate in order to equal Argentina's reserve position when measured as a fraction of M4.

The importance of this low multiplier is self evident: The contraction is far less dramatic in speed and magnitude than would be the case in a monetary system with a high deposit/monetary base multiplier. This buys time for the government to take corrective action and regain confidence for the banking system. (More on this later.)

Concluding our monetary review: Should everyone in Argentina decide to convert their pesos into dollars, and only a small fraction demand cash (or payments abroad), the contraction in the money supply could be held to modest proportions and the deflationary consequences could have salutary effects for the restoration of price and cost competitiveness.

The hitch in the deflationary scenario lies with the inflexibility of wages. Because of the large share of labor cost represented by taxes, wages are thought to be rather sticky

downwards. The automatic deflationary adjustment could thus have severe repercussions on the labor market, where unemployment could rapidly rise to more than 20%. These labor taxes cannot be easily eliminated, as they would throw out the window hopes for a fiscal balance in 1995. Instead, they should be lowered significantly against perhaps an increase in consumption taxes and a cut in expenditures, preferably the latter.

The above discussion leads us to the budget balance. The convertibility system with its attendant prohibition of financing budget deficits with central bank credit requires strict fiscal discipline, although not necessarily budget surpluses. Because all previous episodes of inflation and hyperinflation in Argentina were caused by a monetization of the fiscal deficit, it is extremely important, psychologically and otherwise, for the government to balance the budget.

In recent months projections have begun to appear for a deficit of anywhere up to US\$3.5 billion (1.1% of GDP), mainly for two reasons:

- Economic slowdown (and by now outright recession) is causing tax revenues to come in below budget. In this coming recession, the government will be deprived of the prerogative of running an anti-cyclical budget deficit. It will thus have to rely heavily on the external sector for an export-lead recovery.
- Recent court rulings have forced the government to reestablish indexation on state pensions. This has cost the government far more than it had anticipated. According to recent estimates, the State Pension loses the equivalent of an estimated US\$300 million per month.

Here the news is less gloomy. Influenced by the ongoing crisis, the Lower House of the Argentinean Congress approved late on Wednesday, Feb. 22 a bill that would help cut the cost of state pensions. Passage of the so called Super Law, drafted by the Economy Minister and which had earlier been rejected by the President's own majority, will be sent to the Senate next month where its prospects are considered good.

Having carried out an enormous number of significant reforms in just five short years, Argentina is on the verge of breaking the vicious cycle of stagnation and (hyper) inflation of the past 50 years. The prospects for this turnaround attracted massive capital flows in the 1990-94 period, which reached almost 6% of GDP in 1992.

The natural counterpart to these capital inflows was the current account deficit, which in 1994 reached 3.7% of GDP. Although relatively large, these numbers are considerably smaller than Mexico's 8% of GDP. Moreover, intuitively and anecdotally, one senses and observes that the "hot money" component was far lower than Mexico's.

As well, Argentina's foreign debt did not increase during this period, as we have seen, and the government did not incur any Tesobono-like short-term debt.

Finally, while Mexico had to finance up to 70% of its current account deficit with a US\$20 billion drop in reserves, Argentina's reserves fell only US\$0.8 billion during 1994. The full year trade deficit for 1994 finished at US\$5.9 billion, higher than 1993's US\$3.7 billion but well short of what trends early this year might have suggested.

Recent trends point to a trade deficit of only US\$2 billion for 1995 (0.6% of GDP). Coupled with announced foreign direct investments of around US\$3 billion and some commercial credit, Argentina could easily withstand private "hot money" outflows of US\$1 billion to \$3 billion without any effect on money supply.

The proximity of the May election and the uncertainty surrounding its outcome (though Menem still leads the polls by a wide margin) are pointing to a maximum outflow pressure in this first half of the year. Under the moderately optimistic but realistic scenario outlined above, including the budgetary changes, Argentina would suffer an outright recession in 1995 (as against private forecasts of 3.5% to 4%, and official forecasts of 4.5% growth), some deflation and a sharp rise in unemployment. A strong recovery would set in in 1996.

A serious run on banks, on the other hand would almost certainly necessitate some type of exchange controls, which could still give the government time to perform dramatic fiscal surgery. The exchange controls would include a prohibition on cash withdrawals (as put in effect by the Association of Clearing Banks in the US in 1907) and bank remittances abroad.

During this time, the Convertibility Law would have to remain in place, and the government would have to avoid the temptation to reflate through the use of unbacked currency (as Chile did *unsuccessfully* following the 1982 devaluation).

Following the use of the fiscal scalpel — hopefully with a view to generating a primary budget surplus of, say, US\$5 billion (12% of the budget and 1.6% of GDP) — the government could lift exchange controls, and the parity will remain, provided it did not inflate in the interim.

How should investors react? Holders of US dollar-denominated debt — the so-called Brady bonds — should have little to fear. Argentina's total public debt as a percentage of GDP is relatively small (less than 25%). It compares favorably with the OECD average net debt-to-GDP ratio of 40%, and far below Canada's (federal and provincial) 120%, Belgium's 120%, Ireland's 100%, Italy's 99%, Greece's 87%, and Portugal's 69%.

There is absolutely no reason to believe, as finances stand today, that Argentina would be unable to payoff or at least roll over at maturity. Nor is it very likely, given total government revenues ex-privatizations of US\$43 billion, that it will skip interest payments. *Whatever risk exists is more than compensated by yields to maturity of 20% per annum, 1,400 basis points above LIBOR.*

The peso-denominated debt, particularly the BIC V, is a little more problematic but certainly not problematic enough to have to show yields to maturity in excess of 33%, a full 1,300 basis points above the dollar debt.

We cannot divine the government's intentions or measure its determination to defend parity at all cost. The crowning achievement of the Menem Administration was the reduction of inflation to low single digits from the hyperinflation of 1989. Hyperinflation helped to oust the Alfonsín Administration before the end of its six-year term and gained for Menem enormous popular support. (Six years later he still commands the approbation of more than 40% of the elector-

ate, 10 percentage points above his nearest adversary).

This achievement is due almost entirely to the Convertibility Law, the law that fixed the peso parity to the dollar on one-to-one-basis. In his place we would stand the ground and risk the consequences. History tells us that capital outflows and a weakened banking system cause depressions. Trying to fight them with devaluations and/or monetary reflations merely produces inflationary depressions.

Menem may still be able to say, "Après moi, muddle through."

**STRATEGY:** For risk-conscious investors, Argentina's dollar debt is the bargain of the '90s. And for those with a steel-lined stomach and a willingness to assume that sometimes popular governments act rationally, we recommend an exposure to the peso denominated BIC V, not to exceed 20% of your liquid portfolio.

Chart 1

**International reserves**

<i>eop \$ bil, nsa</i>	Nov	Dec	Jan	Feb 7
System total (e)	18.6	19.4	19.1	18.0
Central bank (c)	16.2	17.6	17.3	16.1
Cash, gold, and other (a)	14.3	15.7	15.6	14.3
Bonds (b)	1.9	1.9	1.6	1.8
Deposits out of BCRA (d)	2.4	1.8	1.8	1.9
Monetary liabilities (j)	15.0	16.3	15.9	15.4
Monetary base (h)	14.8	16.1	16.6	12.7
Currency in circulation (f)	11.3	13.3	12.6	12.7
Peso deposits at BCRA (g)	3.5	2.8	0.0	0.0
Dollar Deposits at BCRA (i)	0.2	0.2	3.3	2.8
Excess reserves (c-j)	1.4	1.3	1.3	0.7

Morgan Guaranty Trust Company  
Economic Research

**INTEREST RATES**

**Can the bulls be right?**

Liquidity continues to dribble out of the US economy. The Fed's niggardliness in the provision of commercial bank reserves (down 4.4% on an annual basis since mid-September) is causing banks to continue to liquidate investments in order to accommodate surging loan demand (see Charts 1 and 2).

In the meantime the pace of total bank credit at 5.9% annualized, January 1995 over six months earlier, remains subdued and is unlikely to finance much higher inflation. Coupled with this is the sharp deceleration in the growth of M1, which has fallen in January to a 1.1% year-on-year rate of growth.

On the inflation front, the evidence is mixed: the PPI of intermediate goods for January shows a 6% year-on-year rise compared with the PPI for finished goods of 1.6%. The last time the gap was this high (1988) the PPI followed and

accelerated significantly. Similarly the Purchasing Managers Price Index has moved well above 80%, a precursor in recent history to a rise in the GDP deflator.

On the other hand, the CRB index has remained flat for the better part of the last nine months, and the JOC index, more weighted with base metals, has fallen significantly from its January highs.

Finally, unit labor cost, down 2% year-on-year, indicates that manufacturers are in a good position to absorb some increases in material costs.

As far as T-bonds are concerned, we are tending to pay more attention to the bullish deflationary vibes, although we are somewhat concerned with the high level of bullish sentiment.

**STRATEGY:** Stand aside for now.

Chart 2

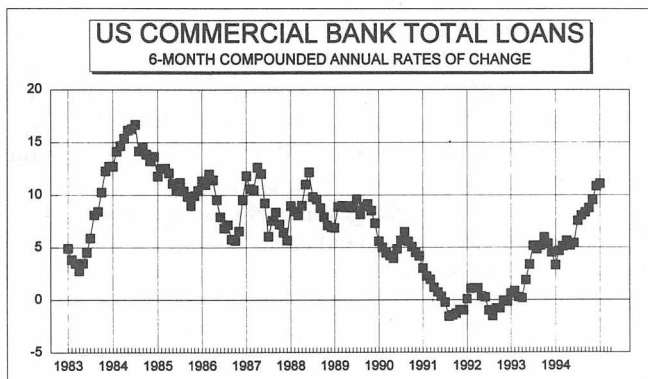
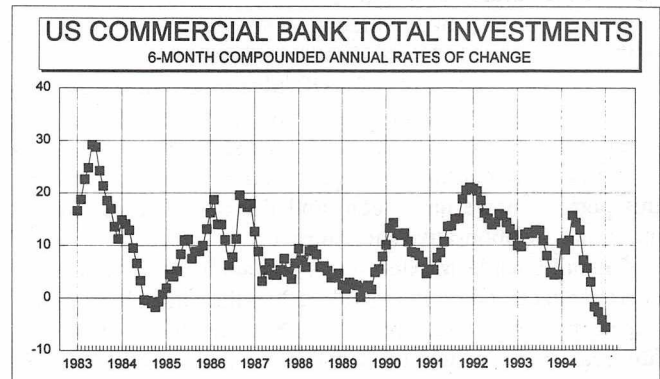


Chart 3



**CURRENCIES**

# The bullish dollar, the troubled yen

The fundamental background continues to favor a bullish long term stance for the US dollar. Falling bank liquidity and reduced inflationary expectations (see our discussion under "Interest Rates") are certainly constructive. Bearish factors, particularly the Mexican situation, lack real substance (are the bears really worried that the Fed's hands will be tied if Mexico defaults?) and are likely to be resolved very shortly. Even if the bailout package collapses, now a rather unlikely possibility, the bearish impact will be sharp but short lived.

The Japanese deflation continues despite falling short-term rates. The overvalued yen has placed an asphyxiating corset on the economy. Banks' asset quality remains poor, and

bank loans continue to fall on a year-over-year basis. The stock market, lifted last year to new recovery highs by foreign buyers, has been falling of its own weight absent new buying. More recently, it has broken the very significant August 1992/November 1993 uptrend (see Chart 4). A freefall is imminent, which will force the bank of Japan to ease further. Short-term interest rates of under 1%, reminiscent of those prevailing during the US Great Depression will further weaken the yen.

**STRATEGY:** Remain short yen versus long DM. Our next objective is 70, with risk around 63.90.

US dollar: Stand aside.

Chart 4 – NIKKEI 225

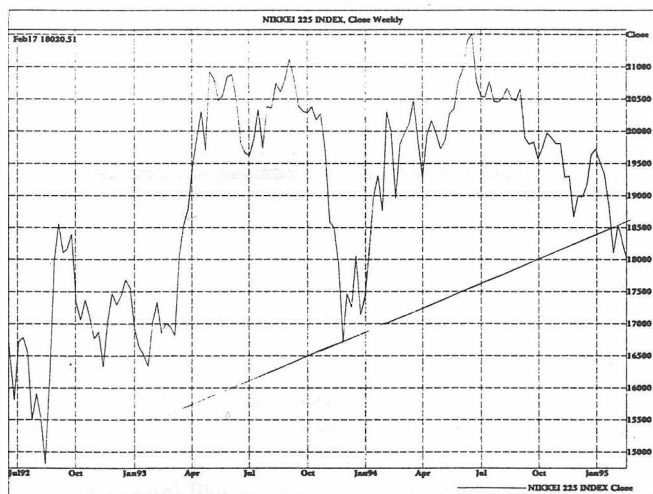
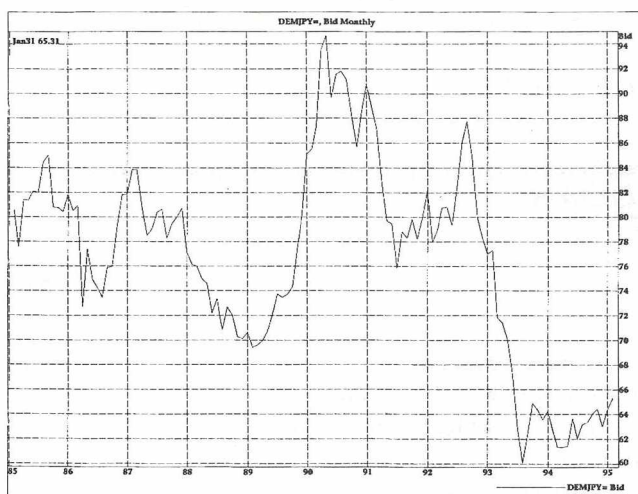


Chart 4A – DM/JY



**PRECIOUS METALS**

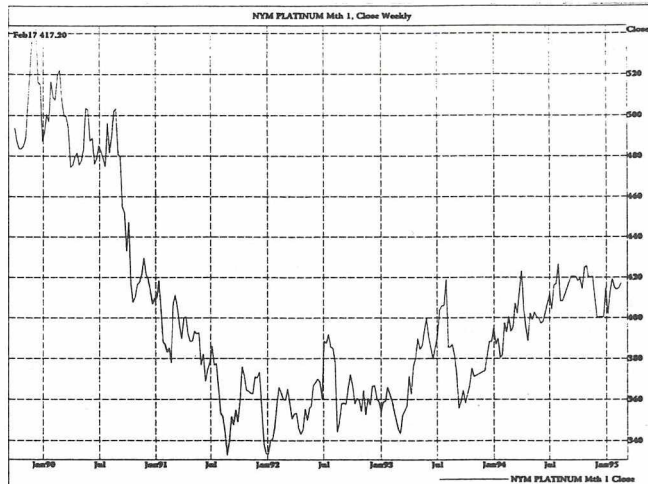
# Base building?

Sentiment is becoming more negative, with bullish consensus figures for gold the lowest in many months. None of the three precious metals, however, shows extreme historical readings, which points to further base building ahead.

The fundamental background appears to have become less conducive to a bull move in this cycle. Liquidity is dribbling out, the US economy is likely to slow down in the months ahead, and the big boom market in base metals appears to be over.

**STRATEGY:** Stopped out of gold, for the nth time. We still remain long silver and platinum with stops at 4.60 and 399.00, respectively, basis nearest contract, close only.

Chart 5 – PLATINUM



**COPPER****Return trip**

A collapsing backwardation, plentiful scrap supplies, and anecdotal evidence that institutional players responsible for the bull move have started to unwind their positions offer the opportunity to cash in on a logical return trip.

**STRATEGY:** *Clients are short March copper at 138.20 as per Flash Update on Jan. 30. Tighten buy stops to 136.00, close only.*

**STOCK INDEX FUTURES****Safe haven**

Because of its narrowness, an unconvincing breakout into new highs. Is the US stock market a safe haven from the collapsing equity markets in the third world?

**STRATEGY:** *Stand aside.*

**SUGAR****Still sweet**

The world, it seems, has an insatiable sweet tooth. Demand for sugar continues to be strong. Each pullback caused by bearish news of higher output forecasts stimulates the big buyers to come hungrily into the market.

Just a few days ago, for instance, the Russians announced that they would be in the market for up to 1.5 million tons. No surprise there, really, because of their disastrous crop. They could have let the grocery store shelves remain empty of sugar, but that might have brought on another revolution.

Still, the bears are with us. On Feb. 7, sugar statistician F.O. Licht raised its world sugar production estimate for 1994-95 to 113.491 million tons, bringing the production/consumption deficit down to 445,000 tons (previously forecast as high as 1.3 million tons). As a consequence, carryover stocks would hover at just around the widely watched danger level of 30% of consumption. Encouraging early results of the Brazilian and Indian campaigns are cited as the grounds for these improved output numbers.

The Licht report states that "...the distant months are trading at a discount to those nearby, a clear indication that the market is well aware of the fact that the party could be over next year, barring any climatic disasters."

Well, that sounds logical, but readers of *this* market letter will recognize the scenario Licht describe as "backwardation." Licht's simplistic conclusion sounds a bearish tone. We prefer to interpret the situation in a different way.

We summarized the effects of backwardation in our

December 1987 issue: "As the degree of backwardation increases over time...more inventories are moved in time closer to their end use. In consequence, inventories are reduced, and with lower inventories, prices across the entire array of contracts — even the most deferred — will increase....This process of prices spiralling upwards does not continue forever, because the higher price levels signal consumers to reduce demand and induce primary suppliers to increase production....All this can take a considerable amount of time, particularly when long-run demand and supply are rather insensitive to price."

Right now, it doesn't look like the backwardation will end anytime soon.

We stated off the top that demand continues to be strong. And as far as production is concerned, bountiful crops in Brazil, India, Australia, *et al* are by now well known to the market, and the numbers must be maintained. The market wouldn't take kindly to disappointments from any of these growers.

Although Australia is expected to have a record crop this year, no new acreage is expected for 1995-96. Then there's the China factor. With its ever-shrinking crops and growing demand, China now relies heavily on Australia for imports. And we're not talking a minuscule market here.

And in the US, the winds of change are rustling the sugar cane. Senator Richard Lugar (R-Indiana), Chairman of the Senate Agriculture Committee, has proposed drastic changes to US farm policies. These policies have kept sugar prices

artificially high at about 22.5¢/lb. If he's successful, US prices and world prices would converge, lowering the former and raising the latter. At the same time, consumption in the US would rise and production would be diverted to more profitable crops.

**STRATEGY:** *We reinstated long positions, as per Hotline Update of Jan. 20. Remain firmly long, with stops at 13.35, basis May 1995, close only.*

– Sholom Sanik

## **FREIDBERG CAPITAL MARKETS**

### **Glycomed merged with Ligand**

**Issuer:** Glycomed Inc.

**Security:** 7.5% Convertible Subordinated Debentures

**Maturity:** Jan. 1, 2003

**Recent price:** \$62.75

**Yield to maturity:** 16%

**Recent stock price:** \$3.25 per share

Glycomed Inc. announced on Feb. 7 that it will merge with Ligand Pharmaceuticals Inc. (NASDAQ: LGND) through a stock swap. Glycomed shareholders will receive approximately 6.78 million shares of newly issued Ligand stock at a ratio of 0.5301 share of Ligand per share of Glycomed. The merger valued Glycomed at approximately \$47.5 million versus its market capitalization of \$40 million before the merger announcement. Glycomed shareholders will own approximately 25% of the combined company post-merger. Glycomed will retain its name and operate as a subsidiary of Ligand.

Ligand Pharmaceuticals is a San Diego-based biotechnology company engaged in the discovery and development of drugs that regulate hormone-activated intracellular receptors (IRs). Activated IRs control gene expression to maintain physiologic balance. Drugs that block or mimic hormone action are useful in treating a large number of diseases including cancer and gynecological disorders.

Ligand currently has five major development programs: retinoids, sex steroids, cardiovascular, inflammation, and STATs (Transducers and Activators of Transcription). There are two cancer drugs in the retinoids program that are in phase I/II clinical trials. The technological leadership in the IR field has won Ligand collaboration agreements with major pharmaceutical companies.

Ligand has an ongoing collaboration agreement with Glaxo Inc. and Allergan Inc. starting from 1992. It signed two new agreements in 1994 with Chiron Corp. and American Home Products, respectively. On Feb. 6, 1995, Ligand signed a collaborative agreement with Smithkline Beecham to discover drugs to control blood cell formation through Ligand's proprietary technology related to STATs. This agreement will provide Ligand with \$21.5 million in total funding, with a \$5 million upfront equity investment.

We see the merger as a strategy to create a biotechnology company with a stronger cash position and more diversified product portfolio rather than a way to achieve technological synergies. The combined company had close to \$110 million

in cash at the end of December 1994 (including the cash payment from Smithkline Beecham), which should be able to support four years of cash burn (estimated at \$26 million per year for the two companies combined). If Glycomed's Galardin receives FDA approval in 1995, it can reduce its net cash burn from 1996 and on.

The proforma total debt to market capitalization ratio of the combined company is 0.5. It is significantly lower than Glycomed's ratio of 1.4 owing to the low debt level of Ligand. After the merger, the convertible bonds of Glycomed will be convertible into Ligand's stock at \$26.52 per share.

**STRATEGY:** *Glycomed's convertible bonds jumped 12% in price following the merger announcement. We believe the combined company represents lower financial and business risk than Glycomed alone. Ligand's strong collaborations with major pharmaceutical companies may help Glycomed locate a partner for its Galardin quickly. Moreover, even the combined company, with a market capitalization of only \$160 million, is susceptible to a takeover by or merger with a major pharmaceutical company. Therefore, Glycomed's convertible bonds continue to be a strong hold for risk-conscious accounts.*

### **Seabil (NZ) Ltd.**

(All currency figures are in NZ\$)

**Security:** 9% convertible capital note

**Maturity date:** June 27, 1999

**Outstanding amount:** \$91.5 million

**Redemption:** cash or common stock of Seabil (minimum one share per note, more than one share if stock trades below \$1)

**Recent price:** 92¢ per dollar

**Yield to maturity:** 12%

**Recent stock price:** 77¢ per share

#### **Seabil and its property portfolio**

Seabil (NZ) Ltd. is a subsidiary of a joint venture between Brierley Investments Ltd. (30%) and SEA Holdings Ltd. (70%), which is a Hong Kong-based listed property investment company. Seabil was formed in 1993 as a property investment company, which then bought a portfolio of properties worth \$288 million from Brierley Investments (approximately 60% of Brierley Investments' domestic property holdings at that time). Later it sold 26 properties of this portfolio that did not fit the profile of a public company.

Seabil went public on the New Zealand Stock Exchange in June 1994 and raised \$120 million. Seabil used the capital

raised, together with bank financing, to acquire four properties from Challenge Properties for \$166.6 million.

The objective of Seabil is to invest in high-quality commercial property in New Zealand and actively manage its portfolio. Its trust deed prevents it from engaging in any activities except property operations. Therefore, property development is prohibited.

Charts 9 and 10 show the geographic and categorical breakdown of Seabil's current property portfolio. It is heavily weighted in office buildings in the CBD of Auckland and Wellington.

Commercial property has been classified traditionally into different quality classes, A being the highest (international), B and C being top to middle, and D and E being low to poor. There are no class A properties in Seabil's portfolio. However, over 80% of its portfolio falls into classes B and C.

The vacancy rate in commercial property still stands at a high level in New Zealand. For example, according to JLW Research, the estimated 1994 vacancy rate of class B buildings is 14% in Auckland and 9.6% in Wellington; for class C buildings, it is 20.5% and 12.8% in Auckland and Wellington, respectively.

With the current strong economic growth, these vacancy rates are expected to come down considerably over the next five years. Since no new construction of class B or C buildings is currently in progress in these two cities, the only supply growth will come from aging of class A and renovation of classes D/E buildings. In short, the future supply/demand picture for classes B and C properties is quite favorable.

The major weakness of Seabil is the high overrenting rate of its portfolio. For the entire portfolio, the current rents exceed market rents by 49%. Overrenting is particularly serious in its Wellington commercial holdings, which was estimated at over 100%. However, the average lease term of these buildings is beyond year 2000, so that the potential revenue impact from lease expiries should be small.

While the high overrenting rate will certainly limit the future capital growth potential of Seabil, its high-quality properties and tenants should translate into strong downside support. The portfolio is currently 98% leased, and the average lease expiry time is year 2000.

### Tasman Investment

Seabil announced in December 1994 that it would participate in the recapitalization of Tasman Properties Ltd., another New Zealand listed property investment company that holds properties in both Australia and New Zealand. Seabil will own 35% to 40% of a new company called Trans Tasman Properties (the other shareholder is SEA Holdings Ltd.), which will in turn own between 35% and 49% of Tasman Properties post-recapitalization. The result of a 3.2 for one rights issue will determine the exact percentage ownership of Trans Tasman. Seabil's indirect ownership in Tasman should be approximately 14%.

While Tasman expected to raise a total of \$120 million through this recapitalization plan, the maximum contribution of Seabil is \$23 million by way of an unsecured loan to Trans Tasman. The transaction has been approved by Seabil's shareholders.

Tasman Properties has experienced dismal financial results in the last few years. Its extremely high level of leverage has forced the company to liquidate its property holdings at

depressed prices when the property market was in a cyclical downturn. Currently it has a property portfolio valued at \$570 million. The geographic distribution by value of its portfolio is as follows:

Sydney, Australia	39.4%
Brisbane, Australia	11.8%
Wellington, New Zealand	13.5%
Total	100%

Tasman has restructured its operations and drastically cut expenses to support its recapitalization plan. It may be at the point of turning around, as it produced a \$5.2 million operating profit for the six months ended September 1994, before a \$4.3 million property revaluation gain and some one-time charges. This represented an 82% growth from the same period in 1993 and a 134% increase from the 12 months ended March 31, 1994.

We estimated Tasman's net tangible assets (NTA) to be approximately 3¢ per share post-recapitalization. Seabil's entry cost ranges from 2.47¢ to 2.62¢ per share, representing a discount of 13% to 18% to net tangible asset value. Tasman's proforma debt to equity ratio will decline from 6 to 2.3, and its interest coverage should improve from 1.2x to 1.4x. Its net debt will decline to \$371 million from \$491 million.

We believe the investment in Tasman has increased the risk profile of Seabil, as the former is still highly leveraged post-recapitalization, and Seabil's investment is in the form of only a minority shareholder in a holding company (Trans Tasman). However, the high leverage of Tasman (Seabil's \$23 million investment indirectly controls \$80 million properties) and lower-than-NTA entry price do provide substantial capital appreciation potential for Seabil, which will slightly offset the lack of capital growth in Seabil's current property portfolio.

### Financial analysis

The proforma capital structure of Seabil is as follows:

Long-term debt	\$202.6 million (39.9%)
Convertible notes	91.5 million (18.0%)
Mandatory convertible notes	137.4 million (27.1%)
Common shares	76.1 million (15.0%)
Total	\$507.6 million (100%)

Seabil's investment in Tasman will raise its debt-to-equity ratio to 1.41 from 1.34. If the convertible notes are treated as equity, the ratio will rise to 0.69 from 0.62. We treat the mandatory convertible notes as equity, because they have to be converted into Seabil's shares on a one-to-one basis on the maturity date (these notes are held by SEA Holdings Ltd.). The proportion of long-term debt will be 40% of total capital. We still view Seabil's leverage level as healthy after its investment in Tasman. The net tangible assets per share will increase slightly to \$1 from 98¢. Furthermore, the tangible asset coverage of the convertible notes is approximately 1.6x.

Taking into account interest expenses on all debt and capital notes, we estimated that Seabil's interest coverage would decline from 1.2x to 1.12x following its investment in Tasman. Our projected net earnings for fiscal 1995 is 6¢ per share. At the current price of 77¢, the stock is trading at a prospective p/e of 12.8x and a 24% discount to net tangible assets.

Despite the large discount to net tangible assets, we expect that Seabil's share price will continue to be under pressure for

several reasons. First, the market is still skeptical about SEA and Seabil's ability to turn Tasman around. Second, investors are concerned about Seabil's indirect ownership status in this investment. Third, Seabil's plan to raise the required \$23 million by borrowing will reduce its forecast 1995 earnings by over 30% (since no dividend income can be expected from Tasman in the next two years). Fourth, the market will discount the potential dilution from the two convertible note issues.

Consequently, the best way to obtain exposure to Seabil is through its convertible capital notes.

### Terms of the convertible notes

We believe the conversion terms of the capital notes provide substantial protection against capital loss for investors. The following is a summary of the conversion terms:

- A. 40 days before maturity, noteholders choose whether to receive cash or convert into shares at a one-to-one ratio at maturity.
- B. 20 days before maturity, Seabil may override noteholders' choice for cash redemption and issue shares instead. If the shares trade at less than \$1, Seabil will issue more than one share per note to compensate for the shortfall. The volume-weighted average price of the 15 trading days prior to the 40 days before maturity will be used to determine the conversion ratio.
- C. If 50% or more noteholders (measured by outstanding amount) consider the market price of the stock not a fair value, they can either:
  - i) demand cash redemption, or
  - ii) use the valuation of an independent appraiser.

The projected cash flow of Seabil indicates that it will not have sufficient cash in 1999 to redeem the entire capital note issue in cash unless it disposes of some properties. Owing to the modest capital growth potential of its portfolio over the next five years, it is unlikely that Seabil will reduce its property holdings to raise \$91.5 million to meet the redemption requirement. Therefore, we believe a mix of cash redemption and share conversion will be the most likely scenario. However, the conversion terms mentioned above provide quite a strong downside support for the redemption value.

### Seabil vs. Kiwi Property Trust

We believe Seabil's convertible notes and the shares of Kiwi Income Property Trust (recommended in our last issue) provide different risk/return profile. We consider the convertible notes an excellent instrument for fixed-income investors who are yield-oriented and unwilling to take equity risks. On the other hand, for investors who are willing to take equity risks, the shares of Kiwi Trust should provide an annual return of 18% to 20% (9.7% dividend yield plus 8% to 10% annual capital appreciation) because of its portfolio's strong capital growth potential.

**STRATEGY:** *The 9% convertible capital notes of Seabil currently provide a yield to maturity of 12%, which is 321 basis points over comparable government bond yield. This is a*

*significant yield pickup, and we consider the downside risk relatively low. The yield can go up to 14% if its shares trade at a 10% premium over its NTA at maturity. In addition, the notes have a four-year maturity, which may benefit from a potential interest rate decline at the medium to long end in New Zealand. These notes are a strong buy for fixed-income accounts.*

Chart 9

Geographic Distribution of Seabil's Portfolio

Location	Value (\$ million)	%	Rentable Area (000 m <sup>2</sup> )	%	% Overrented*
Auckland	239.0	49.8	129.5	58.4	24.7
Wellington	230.9	48.1	79.6	35.9	94.9
Other	10.0	2.1	12.7	5.7	0
Total	479.9	100	221.8	100	49.2

\* Estimates by Hendry Hay McIntosh.

Chart 10

Types of Properties Held by Seabil

Property Type	Value (\$ million)	%	Rentable Area (000 m <sup>2</sup> )	%	% Overrented*
Commercial	427.8	89.1	170.7	77.0	57.7
Industrial	14.2	3.0	31.1	14.0	0
Retail	36.7	7.6	20.0	9.0	9.6
Other	1.2	0.4	N/A	0	0
Total	479.9	100	221.8	100	49.2

\* Estimates by Hendry Hay McIntosh.

## Progress in TWA's restructuring

**Issuer:** Trans World Airlines, Inc.

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

**Recent price:** \$62

**Yield to maturity:** 27%

Negotiations between TWA and the 10% noteholders' unofficial committee have been long and difficult. The negotiations broke down in December 1994 when TWA decided to go ahead with its "final" offer to the 10% noteholders without reaching an agreement with the unofficial committee. TWA filed an amended S4 document with the Securities and Exchange Commission and started soliciting the consent of various creditors. It also reduced the threshold of plan acceptance for the 10% notes to 50.01% from 85%.

The principal terms of that offer were to convert the existing \$225 million 10% notes into \$170 million new 10% notes due 2003 and \$55 million zero-coupon convertible notes, which are mandatorily convertible into common shares of TWA in April 1995 at a minimum of 80% of their projected post-reorganization equity value. TWA would not pay the interest that has accrued from August 1994 to February 1995.

Friedberg Mercantile Group, as a member of the unofficial committee, believed this package would provide a recovery rate of between only 60¢ and 70¢ per dollar to the 10% noteholders, which is far below the potential recovery by

liquidating the collateral. Therefore, the unofficial committee vigorously objected to the proposal and proceeded to communicate its view to the 10% noteholders in various ways.

As the solicitation started, TWA recognized that without an agreement with the unofficial committee, which together holds approximately 37% of the 10% notes, and with more noteholders outside the committee expressing their dissatisfaction with the offer, it would be close to impossible to obtain a majority consent from the 10% noteholders, even after lowering the threshold to 50.01%. Therefore, TWA resumed negotiations with the unofficial committee.

TWA made some significant concessions in this round of negotiations to satisfy the demands of the unofficial committee with respect to the restructuring formula. Finally, after lengthy discussions and negotiations, the unofficial committee and TWA reached an agreement on the principal terms of the offer. We believe the revised terms provide the 10% noteholders with a significantly higher recovery rate than does the previous offer, and a better risk/reward ratio than a liquidation scenario.

Under the new terms, the existing \$225 million 10% senior secured notes will be exchanged for:

A) \$170 million 12% new notes due November 1998 (approximately 75¢ of new note per dollar of existing note). The interest will be cash paid; the first interest payment date is Aug. 1, 1995. Interest will start accruing on Feb. 1, 1995. The coupon rate will be reset in November 1995 to provide a present value of approximately \$155 million (91¢ per dollar, or 15.8% yield to maturity). However, the coupon rate cannot be higher than 12% or lower than 10%.

The new 12% notes will be secured by the same collateral that secures the current 10% notes, except for the four Boeing 767 aircraft that C. Itoch and Orix have a first lien on. The unofficial committee has agreed to release these four aircraft as collateral, because as a second lien, they have zero equity value.

B) \$55 million 12% equity notes that are mandatorily convertible into common shares of TWA in May 1995. Initially 2.3 million shares and some equity rights will be issued. Since the intention is to maintain the value of the equity notes at \$45 million, TWA has agreed to issue additional shares and equity rights if the initial package is worth less than \$45 million. However, TWA will not issue more than 6.9 million shares and 5.5 million equity rights to the 10% noteholders. Furthermore, if the 6.9 million shares and 5.5 million equity rights still cannot bring the value up to \$45 million, TWA will issue warrants (not more than 3.3 million) and/or cash to top it up.

Two pricing periods, one in August 1995 and one in November 1995, will be used to determine whether any top-up issues are required. Since there are ceilings on the number of shares, equity rights and warrants TWA will issue, we believe that the \$45 million value can be maintained as long as TWA's stock trades at or above \$5 per share post-restructuring versus the \$10-\$12 range projected by Salomon Brothers, TWA's financial adviser. These figures are based on the assumption that the terms offered to other creditor groups are the same as those disclosed on the latest S4 document available to date.

C) Two contingent deferred coupon payments, one on Feb. 1, 1996 and one on Aug. 1, 1996. These two payments together represent the Feb. 1, 1995 interest payment of

approximately \$11.27 million on the existing 10% notes, which TWA missed, plus accrued interest thereon. However, the unofficial committee has agreed that the full amount is payable only if the new 12% notes are worth less than 88¢ per dollar (approximately 17% yield to maturity), based on a pricing period in November 1995. The full amount will be forgiven if the 12% notes trade at 94¢ per dollar or better (approximately 14.5% yield to maturity). If the 12% notes trade between 88¢ and 94¢ per dollar during the pricing period, TWA will have to pay a pro-rata share of the full amount.

The rationale for such a structure is that Salomon Brothers/TWA valued the 12% notes at 94¢ per dollar, but the unofficial committee believes the downside is 88¢. Therefore, the committee has persuaded TWA to provide downside protection (down to 88¢ per dollar) in exchange for any windfall gains if TWA/Salomon Brothers' valuation is correct.

D) Unless it is in default, TWA has the right to pay interest on the new 12% notes and redeem any portion of the principal by issuing stock at a 10% discount to its market value. The pricing period is 20 consecutive trading days after the redemption notice date, so that the recovery rate should not be hurt by any sudden weakness in the stock price due to expected dilution. Nonetheless, no redemption or interest payment by stock is allowed if the stock trades below \$3 per share.

We projected the recovery rate based on the above package to be in the neighborhood of 90¢ per dollar (\$155 million for the 12% notes + \$45 million for the stock = \$200 million = 89% of face value). Our estimate is that the recovery rate can be realized over a 12-month period post-restructuring.

We found the offer acceptable because we believe TWA's business plan has a reasonable chance of success, but the still-high debt level post restructuring will make it very vulnerable to unexpected adverse events. Hence, we have negotiated a formula that will give the noteholders substantial downside protection while keeping the opportunity to benefit from some of the upside, if it materializes.

The terms mentioned above show only the essential components of the agreement. Many of the details have to be fine-tuned and subject to final documentation. Furthermore, the restructuring negotiation is a dynamic process in which the deals TWA will cut with other creditor groups may have an impact on the value of the above agreement.

For example, up to this moment, TWA still has not announced any agreements with the 8% noteholders' unofficial committee and Carl Ichan (on the \$190 million asset-based financing facility). Therefore, the agreement that TWA has reached with the 10% noteholders' unofficial committee is in principle only. We leave open the possibility of renegotiating the whole or part of it if there are any other agreements that will significantly affect the ultimate value of our package. Stay tuned.

**STRATEGY:** *In the interim, the price of TWA's 10% senior secured notes has recovered by close to 20% from the low. However, the current trading price is still far below the potential value of the agreed-upon restructuring package as well as the liquidation value. They continue to be a strong hold!*

— Edison Lee, CFA

**Chart 11 – FOREIGN CURRENCY BONDS**

**DATE: February 17, 1995**      *We offer the following Bonds subject to change without prior notice: Minimum US \$5000 (CDN \$7000)*

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 eligible	98.70	99.55	6.00		May-07
World Bank 5 7/8% 4/02/97 RRSP eligible	101.40	102.25	4.63		Feb-04
World Bank 9% 13/11/00 RRSP eligible	112.10	112.95	6.23		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	97.70	98.55	6.64		Apr-15
Argentina 8% 5/10/98	94.00	-	-		Oct-05
Bk. Foreign Eco. Affairs 7% 29/3/96	91.40	92.25	15.21		Mar-29
Kgdm. of Spain (Floating) 29/6/02 (semi)	98.98	99.28	-	5.4375	Jun-29
<b>FINNISH MARKKA DENOMINATED BONDS</b>					
Rep. of Finland 11% 15/6/95	100.60	101.45	5.77		Jun-15
<b>ITALIAN LIRA DENOMINATED BONDS</b>					
Nordic Inves. Bk 12 3/8% 19/04/96	100.90	101.75	10.60		Apr-19
<b>SWISS FRANC DENOMINATED BONDS</b>					
General Electric 4 3/4% 2/7/98	98.3	99.15	5.02		Jul-02
<b>DANISH KRONE DENOMINATED BONDS</b>					
Kgdm. of Denmark 9% 15/11/96	101.70	102.55	7.34		Nov-15
<b>ECU DENOMINATED BONDS</b>					
United Kingdom 9 1/8% 21/02/01	103.40	104.25	8.20		Feb-21
<b>BRITISH POUND DENOMINATED BONDS</b>					
Kgdm. of Sweden 8 3/4% 29/5/96	100.05	-	-		May-29
<b>FRENCH FRANC DENOMINATED BONDS</b>					
Credit Lyonnaise 9 1/2% 23/12/96	102.80	103.65	7.26		Dec-23
<b>JAPANESE YEN DENOMINATED BONDS</b>					
World Bank 5 3/4% 7/8/96 RRSP	103.75	104.60	2.46		Aug-07
<b>CANADIAN DOLLAR DENOMINATED BONDS</b>					
Ontario Hydro 10 7/8% 8/01/96 (semi) RRSP eligible	100.75	102.00	8.39		Jul-08
Eksportfinans 7 3/4% 5/11/97	95.80	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/1/97 RRSP eligible	98.75	99.75	9.25		Jan-07
<b>SOUTH AFRICAN RAND DENOMINATED BONDS</b>					
ESCOM 12% 1/5/96 (semi)	96.15	97	14.88		May-01
<b>AUSTRALIAN DOLLAR DENOMINATED BONDS</b>					
Commonwealth Bk. of Australia 9 3/4% 15/5/96	99.00	-	-		May-15
<b>NEW ZEALAND DOLLAR DENOMINATED BONDS</b>					
New Zealand Gov't 10% 15/7/97 (semi)	100.95	-	-		Jul-15
New Zealand Gov't 8% 15/7/98 (semi)	97.00	97.85	8.74		Jul-15
Fletcher Challenge 10.75% 15/12/97 (semi)	99.25	-	-		Jun-15
Fletcher Challenge 10.15% 30/11/98 (semi)	98.50	99.35	10.35		May-30
Corporate Investment Ltd. 13 1/2% 19/6/95 (semi)	82.15	84.65	47.40		Jun-19
Tranz Rail Ltd. 10% 15/10/99 (semi)	97.55	98.40	10.44		Apr-15
DB Group 7% 30/6/96 (semi) matures @ 85	86.90	-	-		Jun-30
Seabill Ltd. 9% 27/6/99 (semi)	89.35	90.20	12.77		Jun-27
<b>ARGENTINEAN PESO DENOMINATED BONDS</b>					
BIC V Fixed/Floating 1/5/2001 Callable in full on every interest date	50.35	51.85	33.34		4 <sup>th</sup> day of mth.
<b>U.S. DOLLAR DENOMINATED FIXED CONV. BONDS</b>					
Burnup & Sims 12% 15/11/00 CV@16.79 p/sh (semi)	96.25	97.75	12.55		May-15
Atari Corp. 5 1/4% 29/4/02 CV@16.31 p/sh	49.25	50.75	17.99		Apr-29
Coeur D'Alene 6% 10/6/02 CV@ 26.00 p/sh	74.25	75.75	11.00		Jun-10
Glycomed 7 1/2% 1/1/03 CV@14.06 (semi)	61.25	62.75	15.99		Jun-01
California Microwave 5 1/4% 15/12/03 CV@28.44 p/sh (semi)	118.25	119.75	2.71		Jun-15
<b>U.S. DOLLAR DENOMINATED FIXED RATE BONDS</b>					
World Bank 7 1/8% 27/9/99 (semi) RRSP eligible	98.78	99.63	7.22		Mar-27
Farm Credit Corp 7 3/4% 10/06/96 RRSP eligible	100.70	101.55	6.42		Jun-10
T.W.A. 10% 3/11/98 (semi)	60.25	61.5	27.63		
<b>U.S. DOLLAR DENOMINATED FLOATING RATE NOTES</b>					
Kgdm. of Denmark 25/3/97 (Gold call, JY put),(semi)	88	89	-	5.84	Mar-25
United Kgdm. 30/9/96 3 mo.LIBID-1/8 (qtlly), callable @100	99.89	100.19	-	6.25	Mar-30
Bocon 1/4/01 (30 day LIBOR) starts accruing May 1,1997	57.90	58.75	28.37		May-01-97
Argentina: Series L:FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	51.625	53.625	20.08	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.

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

RECOMMENDED CURRENT PORTFOLIO ALLOCATIONS		
1. NEW ZEALAND (8%) '98 GOV'T	15% 5. CIL NZ\$	5%
2. SEABILL LTD NZ\$	10% 6. FRB/BIC V	20%
3. TRANZ RAIL NZ\$	10% 7. U.K. FRN	20%
4. NEW ZEALAND (8%) '98 GOV'T	20%	

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**HOTLINE UPDATE**

**Friday, January 20, 1995:**

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

On Thursday, Dec. 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, Jan. 3, via flash update, we advised the sale of March Treasury bonds at the market, then trading at .9827. Stops were placed at 100.24, good anytime.

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

**Flash Update, Monday, January 23, 1995, 9:25 am:**

Good morning for Monday, Jan. 23, 9:25 am. This is a flash update. Place stop on short March Canadian dollar at 7040, good anytime.

**Tuesday, January 24, 1995:**

Good afternoon for Tuesday, Jan. 24. We have two new recommendations. Raise stops on March crude oil to 1800, close only. We repeat the flash update of 9:25 am Jan. 23, to raise stops on March Canadian dollar to 7040, good anytime. The market letter is in the mail.

**Friday, January 27, 1995:**

Good afternoon for Friday, Jan. 27. There are no changes or recommendations. The following is a recap of this week's recommendations. On Monday, Jan. 23, via flash update, 9:25am, we advised to place stops on short March Canadian dollars at 7040, good anytime. On Tuesday, Jan. 24, we advised to raise stops on March crude oil to 1800, close only.

**Flash Update, Monday, January 30, 1995, 5:00 pm:**

Good afternoon for Monday, January 30, 5:00 pm. This is a flash update. We have two new recommendations. Sell March copper at the market, risking 143.00, good anytime. Those of you long Swiss francs outright, or long Swiss/short Japanese yen, should switch your long Swiss positions to long deutschemarks.

**Tuesday, January 31, 1995:**

Good afternoon for Tuesday, Jan. 31, 5:00 pm. We have one new recommendation. Liquidate outright long deutschemark positions, which were the result of the switch from long Swiss to long deutschemarks, as per Monday's flash, *at the market*. Retain long deutschemark/short Japanese yen spread positions. We repeat Monday's flash update. We had two recommendations: 1) To sell March copper at the market, risking 143.00, good anytime. March copper opened on Tuesday at 138.20; 2) We advised those of you long Swiss francs outright or long Swiss/short Japanese yen to switch your long Swiss positions to long deutschemarks.

**Friday, February 3, 1995:**

We have one new recommendation: Place initial stop on short Japanese yen at 102.55, close only.

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

On Monday, Jan. 23, via flash update, we recommended to sell March copper at the market, risking 143.00, good anytime. March copper opened on Tuesday at 138.20, and we advised those long Swiss francs outright or long Swiss/short Japanese yen to switch your long Swiss positions to long deutschemarks.

On Tuesday, we recommended to liquidate outright long deutschemark positions, which were the result of the switch, from long Swiss to long deutschemarks as per Monday's flash, *at the market*.

Today via flash update at 2:00 pm, we recommended the sale of March Japanese yen, at the market, then trading at 100.53, this recommendation having no affect on the long deutschemark/short yen spread trade.

**Tuesday, February 7, 1995:**

Good afternoon for Tuesday, Feb. 7. There are no new changes or recommendations. Have a good trading day.

**Flash Update, Thursday, February 9, 1995, 11:00 am:**

Good morning for Thursday, Feb. 9, 11:00am. This is a flash update. Buy May sugar, at the market, presently trading at 13.83; place stops at 13.35, good anytime.

**Friday, February 10, 1995:**

Good afternoon for Friday, Feb. 10, 1995. There are no changes or new recommendations.

The following is a recap of this week's recommendations: On Thursday, via flash, we advised to buy sugar at the market, then trading at 13.83; place stops at 13.35, good anytime.

**Tuesday, February 14, 1995:**

Good afternoon for Tuesday, Feb. 14. We have no new changes or recommendations. Have a great trading day!!

**Friday, February 17, 1995:**

Good afternoon for Friday, Feb. 17, 1995. This is a complete summary since our last market letter dated Jan. 22, 1995 of all liquidations of open positions and new recommendations that remain outstanding.

We were stopped out of the short March Canadian dollar positions at 7040 on Jan. 24, as per our flash update of Jan. 23.

We were stopped out of our long March crude oil positions at 1795 on Jan. 27, as per our flash update of Jan. 24.

We sold short March copper at 138.20 as per our flash update on Jan. 30.

We liquidated our long Swiss franc positions at 78.79 as per our flash update of Jan. 30. We have replaced the long Swiss franc positions of the Swiss franc/Japanese yen cross trade with deutschemarks as per our flash update of Jan. 30. We remain long deutschemark/short Japanese yen as per our Jan. 30 update.

We reentered the long side of sugar by buying May contacts at 13.83 as per our flash update of Feb. 9. Have a good weekend.

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**Subscription Enquiries for**  
Friedberg's Commodity & Currency Comments  
P.O. Box 866, Suite 250  
BCE Place, 181 Bay Street  
Toronto, Ontario, Canada  
M5J 2T3  
(416) 364-1171

**Trading and Managed Accounts**  
All enquiries concerning trading accounts should be directed to:  
**In Canada**  
Friedberg Mercantile Group  
P.O. Box 866, Suite 250,  
BCE Place, 181 Bay Street  
Toronto, Ontario M5J 2T3  
(416) 364-2700  
**In U.S.**  
Friedberg Mercantile Group Inc.  
67 Wall St., Suite 1901  
New York, N.Y. 10005  
(212) 943-5300

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