

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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A flash in the pan?

Our headline this month is identical to a recent one in the prestigious journal *The Economist* referring to gold's most recent run-up — except that it was worded as a declarative and not as an interrogative.

Long ago, Robert Bleiberg, the former editor of *Barron's*, confided to us that his predictive performance varied inversely with the degree of confidence he expressed in the headlines of his editorials. Sentences ending with a question mark proved to be almost always right on the money. He was at a loss to explain this curious and counterintuitive phenomenon, except perhaps to put it down to the proposition that success in human endeavors must always be accompanied by some measure of humility. The omniscient editors of *The Economist* should take note.

The publication dismisses the argument that rising demand has led to higher prices on the basis of a necessarily vague and imprecise calculation that shows that gold imports into Asia and Middle East fell by about one quarter between the first and second half of 1995 (compliments of Andy Smith of UBS, a well known bear).

The Economist conveniently ignores the fact that demand never rises in a straight line, a factor already pointed out by the World Gold Council in its latest survey. More importantly that worthy journal fails to link the decrease in consumption to rising prices — the very core of the bearish argument — because the consumption slowdown had already occurred before the recent breakout of a 2½-year range.

The facts, as best as one can ascertain them, are that physical demand for gold has been on an upswing for many years and has exceeded production for at least 5 or 6 years. Because we dealt in previous issues at great length with supply and demand statistics, there is no need to dwell on this question, especially in view of the impressionistic nature of the numbers produced by the two most important monitoring organizations.

What needs to be addressed is the potential future monetary demand for gold. Under what circumstances could it come about?

Despite the gigantic strides in technology, the industrialized world is facing the prospect of a long and agonizing period of stagflation. Economic stagnation can be laid at the doorstep of the growth of the State. As pointed out by Vito Tanzi and Ludger Schuknecht in a recent IMF working paper

entitled "The Growth of Government and the Reform of the State in Industrial Countries," while the expansion of benefits to the public by government between 1870 and 1960 played a major role in boosting economic performance and social well being, the same cannot be said about the enormous growth of public spending after the '60s.

The authors lay out the progression of this fiscal encroachment as follows:

- 1) Between 1937 and 1960, industrial country public expenditure, as a share of GDP, increased on average to 27.9% in most industrial countries, including Austria, Canada, the Netherlands, Sweden, Switzerland, and the United States.
- 2) Between 1960 and 1980, these countries' expenditures jumped again, to 42.6%. In a number of cases — including Belgium, Ireland, Japan, Spain, Sweden, and Switzerland — spending nearly doubled. No industrial country kept public expenditure below 30% of GDP, with only Australia, Japan, Spain, Switzerland, and the United States able to stay near that level.

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Contributions by Albert D. Friedberg, Paul Volcker, Sholom Sanik and Peter O'Sullivan.

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

Even as the public became progressively disenchanted with the fiscal burden of the welfare state by the 1970s, expenditures continued to rise albeit at a slower pace. By 1994, average government outlays in the industrial world had reached 47.2% of GDP.

The authors point out that in years past, a constantly expanding revenue base made paying for the welfare state relatively painless, making it possible to sustain high spending rates without running deficits. By the 1980s, this was no longer true, and government debt began to mount. By 1994, while revenue had increased to more than 43% of GDP, expenditure had grown even faster.

Making a reasonable assumption that public sector productivity is nil or even negative, is there any wonder that economic growth in the industrialized world is grinding to a halt? One must contend not only with the fact that almost half of the industrialized world output is directly coming from the public sector but also that a further significant proportion of its output is indirectly affected, via regulations, directives, and controls. The welfare state has killed growth. The programmatic dismantling by the welfare state is nowhere in sight. Instead, the talk is of deficit reduction and fiscal consolidation. What is clear is that neither will solve the fundamental malaise of the Western industrial societies.

Interestingly, public *spending* and *finances* in the OECD is bound to deteriorate sharply in the first few decades of the next century. The OECD recently calculated that pension spending as a percentage of GDP, now in single figures in most countries, will rise to 14%-20% in Japan, Germany, France, and Italy and up to 8% in the US, Britain, and Canada.

The effect on the level of public debt (an issue that relates directly to inflation and interest rates and indirectly to economic growth via its impact on future taxes) will be dramatic: America's net debt is forecast to jump to 100% of GDP by the year 2030 from 40% now. In France, Germany, and Italy net debt is expected to more than double, while in Japan, where the population is aging more rapidly than anywhere else, net debt of just 13% of GDP now is forecast to rise to around 300% by the year 2030.

When tiny Uruguay, the former Switzerland of Latin America, found that the welfare state had overwhelmed its resources, it resorted to the printing press. The ensuing

inflation wiped out the debt, but it was never able to lift the economy into the path of growth and improved standard of living. Forty years and innumerable fiscal consolidations and IMF programs later, Uruguay still suffers from virulent inflation and economic stagnation.

As in Uruguay, democratic societies everywhere are calling on their monetary authorities "to do something." Stagnation is bound to lead to even more reflation. Little if anything, of course, will be gained in terms of economic growth. Sadder yet, the three major currency blocs are *de facto* committed to relatively fixed exchange rates (plus/minus 10%?), a situation that will allow the entire industrialized world to reflate together without having one member "penalized" by the exchange markets for showing monetary virtue (see the proposal following by Dr. Paul Volcker to link *de jure* the currencies of the three major nations).

Stagnation, and even more assuredly recession, will lead to the debauchment of currency. The fast-growing nations of the Pacific Rim, which have built up impressive reserves over the past decade, will at some point refuse to continue to accumulate IOUs from economic weaklings. Better, one might argue, the safety of gold, an asset that is nobody's liability.

Let no reader believe that our case for a monetary demand for gold will translate into immediate price gains. More mundane factors, such as the continuous growth in the fabrication demand, the possible disintegration of the former Soviet Union under Communist rule, the bull market in grains, and the coming stock market collapse, will be far more important to the market in the near term.

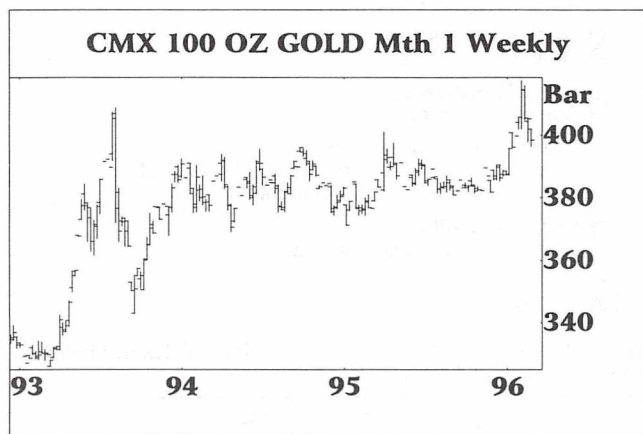
Not much further down the road, however, private investment demand will probably begin to anticipate the seemingly remote event of the repudiation of currency. Only sometime thereafter will the central banks of the Pacific Rim, which now hold only 5% of their total international reserves in gold, move to increase their bullion holdings.

Flash in the pan?

STRATEGY: Long-term holders of bullion should not disturb their positions under any circumstances. Long-term calls remain the preferred investment vehicle.

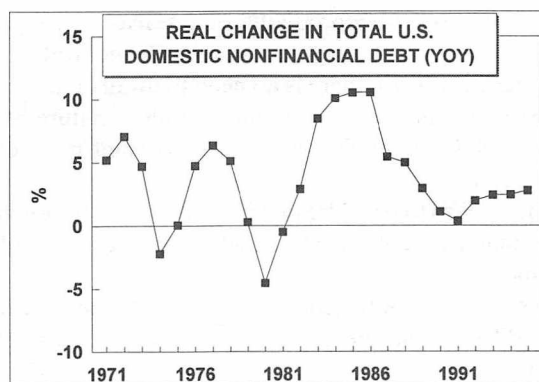
Traders, on the other hand, should pay particular attention to support around the \$395 area, basis April '96; should it break on close, liquidate long futures positions.

Chart 1



Source: Reuters

Chart 2



The 1990 recession, in contrast to the two earlier ones, did not experience debt liquidation. This is perhaps why the post-recession rebound has been so weak. Is the U.S. economy overburdened with debt? Is a severe bout of liquidation ahead?

ANALYSIS

Toward monetary stability

by Paul Volcker

A couple of years ago, as the International Monetary Fund and the World Bank approached their 50th anniversary, I convened a group of experts from around the world to re-examine the complex problems involving the international monetary system. Our group, the Bretton Woods Commission, reach a high degree of unanimity about the need for the major nations to attach higher priority to achieving exchange rate stability. But, nearly a generation after the breakdown of the Bretton Woods system, our longing for a more stable exchange rate system was not matched by specificity about how to get there.

We issued a rather vague call for "flexible exchange rate bands" to be instituted at some unspecified time. Yet even this muted recommendation was coolly received by government officials and market participants. This points to a disturbing dichotomy: On the one hand, there is strong sense of dissatisfaction with the international monetary system — or non-system, as many disparagingly call it. On the other hand, there is little disposition to do much about it.

* * * * *

My own view is that change is not only needed but possible — that the present passivity is not justified. There are useful approaches toward exchange rate reform that can be introduced now, even if, as a practical matter, change will need to be incremental and piecemeal.

The system of floating exchange rates simply isn't working well. During the past 20 years, currency prices have been prone to abrupt and erratic fluctuations — just look at the fluctuations during the past year in the dollar's value against the yen and the German mark. No doubt, too, many businesses have sought hedging protection against short- to medium-term currency risks. But hedging entails costs, sometimes substantial, and it really can't deal effectively with the more extreme swings extending over longer periods. Those swings, up and down, as large as 30% or 40% over the course of a year or two, have not been uncommon.

Quite obviously, international trade and investment have grown even in the face of that volatility. But surely the persistence of such fluctuations, with the consequence of enormous uncertainty in relative price levels among countries, is inconsistent with the kind of cool appraisals of relative cost and comparative advantage implied by the theoretical underpinning for open markets.

Europe seems to have recognized this. The countries of the European Union are dedicated to creating a true single market, and fearful that substantial volatility of exchange rates could be destructive of the union. Despite the differences among member states, a remarkable degree of stability was achieved in most European exchange rates during the 1980s and the first years of the 1990s.

This record of stability broke down in the face of pressures against British sterling and the Italian lira, and the

narrow margins of the European Monetary System needed to be substantially relaxed. Nevertheless, it remains true that for the core countries — Germany and France — intra-European exchange rates have remained remarkably steady even in the face of substantial and unsettling fluctuations against the dollar and the yen.

This experience suggests some lessons. Intervention alone, however large the supporting lines of credit, is not sufficient in itself to maintain exchange rate relationships. Sovereign nations are simply not prepared to lend or borrow indefinitely.

What is at issue now is whether we are ready to build constructively upon all this experience. I do not envisage a leap into a new Bretton Woods — a highly structured system involving scores of countries. Something much more modest is both more realistic and more desirable. What we need is an approach that will moderate and reverse exchange rate fluctuations among the key currencies before they become extreme, rather than being forced to respond defensively after substantial risk to the world economy is already evident. At least initially, the main steps should be taken by the Group of Seven (or even the G-3: the U.S., Japan, and Germany), working closely with the IMF. This approach would require:

First, the major countries, in consultation with the IMF, would need to reach a consensus on broadly appropriate equilibrium values for their currencies. The choices would necessarily imply a fairly wide range of values. They would have to be expressed as ranges, say of plus or minus 10% around a central point. Starting with even broader ranges, ala the present European Exchange Rate Arrangements, could be a transitional device.

Second, the participating countries would need to be prepared to jointly defend the indicated range with intervention, on a substantial scale if necessary. Such intervention would be required at or near the margins, but could be tactically desirable well within those limits.

Third, that intervention will be reliably effective only to the extent that, in the event of persistent pressure, the participating countries are prepared to modify their monetary policies in support of the exchange rate objective. Reasonably prompt adjustments could well forestall the need for stronger action in the face of strong speculative pressures.

To clarify choices, promote consensus, and help influence expectations, the IMF management should be involved in the discussions when the need for policy action arises. The IMF management should be prepared to propose an appropriate course of action.

* * * * *

Governments will not easily — not now anyway — conform to an international mechanism to fix exchange rates. The width of the range does, however, suggest that such changes could be made in a way that minimizes the possibil-

ity of easy "one way" bets by market operators. Specifically those changes should be made by amounts substantially less than the width of the range (and not necessarily only when the market rate is already at the margin). In that way, the market exchange rate need not move much when adjustments are made.

One source of hesitation about defending exchange rates, even with wide margins, is the common talk these days of the enormous resources available to market operators, and how those resources can overwhelm treasuries and central banks. That is, of course, true if exchange rates are defended without conviction — without a willingness to modify, if necessary, the more basic instruments of economic policy. But I see no evidence that markets are not responsive to monetary policy. A world in which strong and persistent inflationary forces have been turned back with little support from fiscal policy is hardly a world of central bank impotence.

A more serious problem with trying to stabilize exchange rates is the persistence of large government deficits in many Western countries. These have the effect of limiting the flexibility of the monetary authorities, which must be sensitive to their overriding responsibility as guardians of price stability. The solution is obvious: Bring budgets into balance. In particular, it would be important for the U.S., as a chronically low savings country, to aim not just for structural budgetary balance but for surplus.

* * * * *

This will not be an easy sell. Relatively wide and potentially movable exchange rate ranges are in a sense a compromise between the logical extremes of fixed and floating rates. The idea, for all its analytic appeal, does not lend itself to slogans or sound bites, nor to instinctive political or public support. The question will be asked, when defense of the range is required, if 10% is all right, what about 11% or 12% or more? Is it really worth spending money in the exchange rate markets, modifying monetary policy, and taking care to balance the budget just to save another percentage point or two?

The answer must be yes. What is at issue is not the last percent but whether governments will succeed in inducing the market itself to stabilize exchange rates. The success or failure in that effort is plainly dependent on the credibility of official intentions. But when that credibility is established, markets will work with governments, not against them, to maintain a sense of equilibrium.

My sense is that, at the end of the day, we will find success easier than feared by so many — that the market will more often than not respond constructively to a firm and intelligent lead by governments and exchange rate stability will reinforce prospects for growth. One thing is for sure: Without trying, we will never know.

Mr. Volcker, former chairman of the Federal Reserve, is chairman of James D. Wolfensohn. This is excerpted from the 50th anniversary Stamp lecture at the University of London.

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INTEREST RATE FUTURES

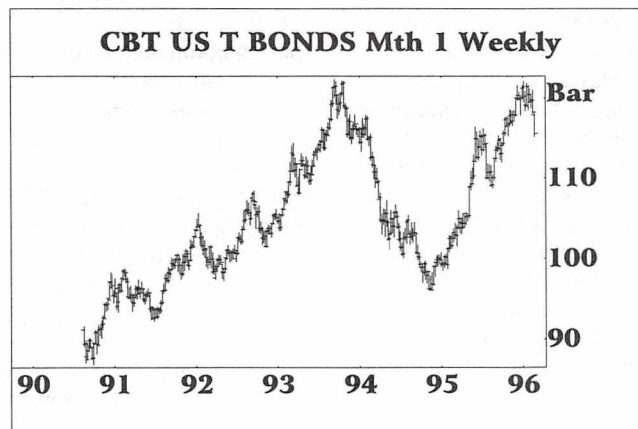
Long-term rates touch bottom

Pronounced economic weakness in North America and Western Europe augur well for further reductions in short-term interest rates. Long-term interest rates, however, have been sniffing increased bond supplies for the foreseeable future and inflation in the medium- to long-term. As a result, interest rates have stiffened along the yield curve, becoming more positive in all the major financial centers.

The downtrend in rates that began in the last quarter of 1994 has come to an end. Even if the monetary authorities lower rates next month, long-term Treasuries, Bunds, Gilts, and their cousins are unlikely to make new highs.

STRATEGY: Sell June '96 T-bonds at the market, and place initial stops at 118.00, good anytime.

Chart 3



Source: Reuters

CURRENCIES

Too boring for words

For the first time in months, the Bank of Japan has had to intervene in the foreign exchange market to keep the US dollar from falling below ¥104. This is a change for the BOJ, which heretofore had been conducting its foreign exchange policy via an interest rate policy.

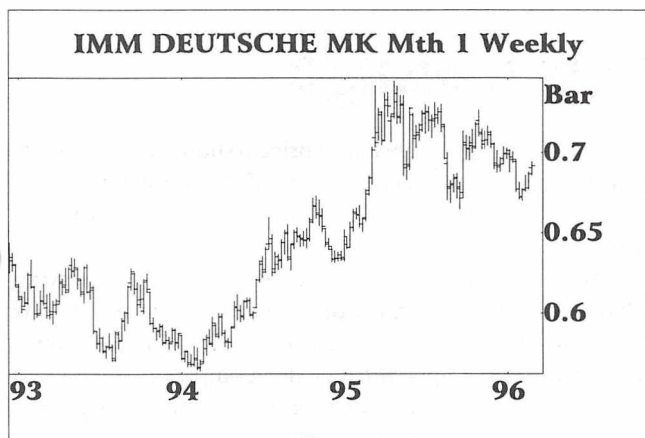
As yen borrowers began to suspect that short-term interest rates would rise with the slightly improved pace of the economy, foreign assets were liquidated and the proceeds changed into yen, extinguishing the original funding. This put pressure on the exchange rate and forced the BOJ to intervene.

Either way, the BOJ creates high-powered money and

continues its reflationary operation. Given the asymmetry of the situation — the BOJ can afford to sell yen and buy dollars almost ad infinitum — interest rates can be raised if prudence and/or politics so dictates and money supply targets can be satisfied via currency intervention. We therefore doubt that speculative yen funding operations will cease anytime soon.

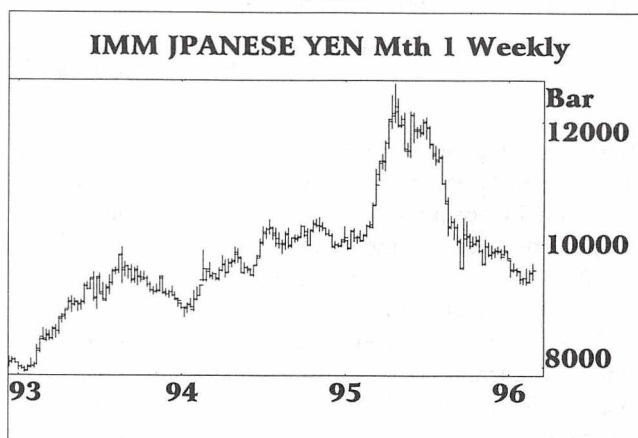
STRATEGY: *You can still borrow yen to buy something good. The question is what? Our preference is gold and New Zealand dollars, in that order.*

Chart 4



Source: Reuters

Chart 5



Source: Reuters

STOCK INDEX FUTURES

Patience is a virtue

"Are companies using restructuring costs to fudge the figures?" So asked a headline of a lengthy article in *The Wall Street Journal* of Jan. 30. This dirty little secret, already exposed by our good friend Jim Grant in his comments of *Grant's Interest Rate Observer* and reiterated below by our own Peter O'Sullivan is shattering the very basis of the bull market.

The brokerage industry's informal measurement system, which puts back into operating earnings any one-time charges to net income can be justified only in exceptionally infrequent cases.

The charges, however, are becoming more and more frequent. International Paper is a case in point: It took a restructuring charge of \$46 million, or 17¢ a share, in fourth quarter 1995. A few weeks later it announced that it would take a \$350 million charge for the first quarter 1996. The charge, which amounts to about \$1.35 a share, includes the

writeoff of certain assets, severance cost, and cancellation of leases. An International Papers spokesman said that charges for the fourth and first quarters were a part of the company's continuing strategy to reduce cost and increase operating efficiency. Are operating earnings being misstated? The frequency with which management makes use of this strategy is now threatening to destroy Wall Street's credibility.

The tempo of advance is becoming ever more speculative. Volume continues to rise, atypical of market tops, breadth has just begun to diverge, and reactions are sharp, dramatic but short-lived, all pointing to a final top still some weeks or even months ahead.

A profit slowdown has already set in: The net income of 692 large companies declined 18% from the earlier period, the first such quarterly year-on-year drop since the fourth quarter of 1991. Even on an operating basis, earnings of these

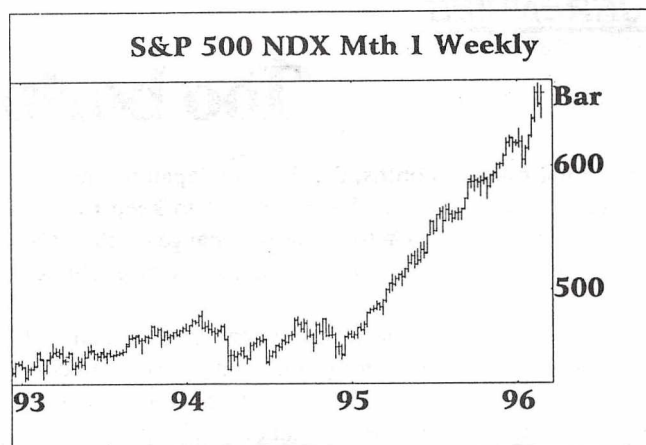
692 companies declined 7%. In the face of deteriorating fundamentals, the market can maintain its upper course only if monetary conditions remain extremely accommodative.

The recent break in the bond market presents little or no threat as long as it occurs within the context of a steepening, upward sloping yield curve. We expect this to be the case for as long as gold and other selected commodities don't rattle the monetary authorities.

The bubble must finally burst. Patience is a virtue.

STRATEGY: *Remain sidelined.*

Chart 6



Source: Reuters

FINANCIAL REPORTING

A note on earnings leakage

Reported earnings are open to much interpretation with the increased use of one-time charges. Firms estimate the future costs of significant items such as restructurings and plant closing and make a one-time charge to earnings, with the idea being that future expenses and earnings will reflect more accurately the ongoing operations of the company.

Consistent with this idea, analysts and investors tend to examine the earnings per share (EPS) calculated before extraordinary items. This is believed to be more applicable on a comparative basis. The result is that amounts touted as EPS do not entirely accrue to the shareholders.

In his article appropriately named "Earnings Leakage", Jay Diamond of *Grant's Interest Rate Observer* briefly discusses the distortions created when one-time charges find their way to the income statement.

The effects of earnings leakage are shown in Chart 7. Notice the gap between EPS before extraordinary items and change in retained earnings plus dividends¹ is getting larger. Also, there has been no appreciable growth in the amounts accruing to the shareholders, whereas EPS before these non-recurring items has shown significant growth over the period.

The simple price appreciation of the S&P 500 represents an annual compounded growth rate of approximately 10%. From the chart we see that there has been no growth in actual earnings accruing to shareholders since 1978. This would imply that investors are now paying a significant premium for the same earnings that they were receiving 17 years ago.

On a similar note, we see that the change in book value per share trends closely with dividends plus the change in retained earnings. This is what one would expect with deviations for the most part representing changes in dividends. As a result of increasing stock prices and the leakage effects on book value, price-to-book multiples have soared. The data

provided from 1978 to 1994 have price to book ratios increasing from 1.35 times to 3.42 times. As of this writing, the price to book ratio for the S&P 500 as quoted in *Barron's* was 3.96 times.

There are two arguments for explaining the growing leakage. The first maintains that the use of these writeoffs fosters an accurate representation of the facts, and their increase in size simply reflects the complexity of today's rapidly changing business environment. The second argument proposes that there is a conscious effort being made by firms to use these provisions to manipulate earnings. It creates a vehicle by which company's can throw a blanket over a very significant amount of future expense and in doing so inflate current and future earnings.

More specifically the problems with leakage involve (a) the possible inclusion of marginal expenses in the one time charge, i.e., expenses that would normally be classified as nonextraordinary, and (b) the continued use of these provisions period after period such that extraordinary items are becoming more ordinary in nature.

Compounding these problems is a new FASB ruling that requires firms to write down impaired assets in order promote more conservatism on their balance sheets. In doing so, however, the ruling has opened the door to more one-time charges and potentially inflated future earnings.

The new FASB rule applies a lower-of-cost-or-market rule to the entire asset base of the firm at a very low level. In other words, assets will be reviewed at a micro level (having a generous amount of latitude accorded in asset valuation), with the result being more writedowns of assets.

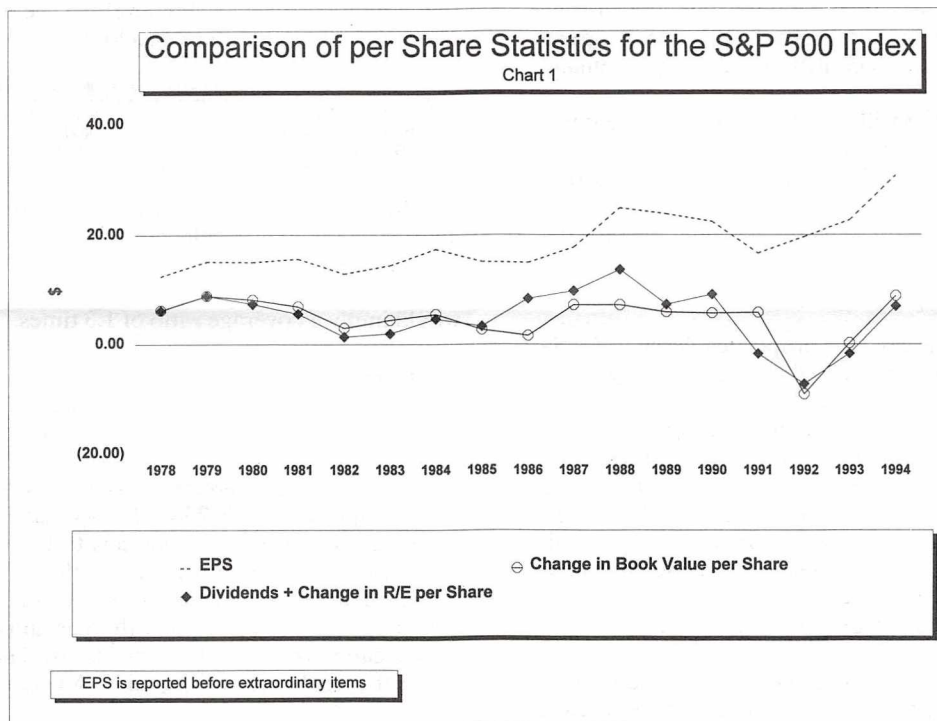
¹The change in retained earnings also includes share repurchases. At the time of writing we do not believe this item to be significant.

The presence of one-time charges is not necessarily a bad thing, however, it should raise a red flag for further investigation. In fact, they may even provide investors with a signal of better things to come. The problem arises when these provisions are used by firms to manipulate earnings. Investors and

analysts have been adjusting financial results for decades to eliminate the limitations inherent in GAAP. Earnings leakage will just have to go on the list underneath other adjustments such as inventory valuation and depreciation.

— Peter O'Sullivan

Chart 7



FRIEDBERG CAPITAL MARKETS

A secure convertible with New Zealand upside

Security: Subordinated convertible notes (non-callable)
Principal: \$1.00 per note (all amounts in NZ\$)
Maturity: April 1, 1999
Current Yield: 7.0%
Outstanding: \$223 million
Recent Price: \$1.25
Stock Price: \$1.38
Market Capitalization: \$153.9 million
Conversion: Company must convert to stock (1:1) on maturity unless noteholders exercise option to extend the maturity date to April 2004. The interest rate will be determined by the directors, based on existing market rates.

St. Lukes Group is owner/property manager of a portfolio of nine shopping centres primarily located in and around Auckland, New Zealand. These properties are either fully or partly owned and represent some of the finest retail properties in the region. The company is focusing on the management of its existing portfolio and asset growth through redevelopment and expansion of existing locations. The portfolio will benefit from strong demand for retail space, growth in rental rates on re-developed space and scheduled tax cuts on personal incomes.

Auckland retail sector

Retail sales growth has declined significantly from a year earlier, when growth rates approached 11% (year-over-year percentage change basis). High interest rates and saturated consumption of consumer durables are among the reasons for this decline. Retail sales were stagnant toward the end of the fourth quarter of 1995. This is expected to continue until scheduled tax cuts stimulate additional consumption. The RBNZ is expected to maintain tight monetary conditions to keep the lid on any inflationary pressures that may arise as a result of the tax cuts.

Conservative estimates have the tax cuts providing additional retail sales growth of at least 3% to 4% in both 1996 and 1997. These estimates are conservative in that they assume (i) 25% of the cuts will be go towards savings, (ii) there will be no multiplier effect, and (iii) consumers will not increase the amount of debt they carry with respect to retail consumption. his stimulus will provide additional upward pressure on rental rates.

New Zealand shopping centre space on a per capita basis¹ (.2 sq mtr per capita) is significantly below those of

¹Zoltan Moricz of Richard Ellis Professional Services, International Property Consultants

both Australia (.5 sq mtr per capita) and North America (.75 sq mtr per capita). As well, shopping centre sales in New Zealand as a percentage of total retail sales are low compared with other countries; however, the trend is increasing. As a result, the shopping centre share of retail sales should continue to rise as will rental rates.

New Zealand economic and demographic fundamentals and competitive retail rental rates combine to offer an attractive opportunity for foreign retailers to expand their operations. Significant interest will contribute additional demand for retail space.

Growth in rental rates will continue to entice developers to provide additional new space. In 1995, there was an estimated 8.5% increase in shopping centre space with a further 3% forecasted for 1996. The quality of St. Lukes portfolio should ensure rental growth and low vacancy despite the increase in retail space availability.

Portfolio

St. Lukes portfolio consists of nine properties, seven in Auckland, one in Hamilton, and one in Wellington. A heavy concentration of properties in the Auckland area allows St. Lukes to capitalize on the demographic and economic potential.

The portfolio currently has a vacancy rate of less than 2% on a value-weighted basis. Management notes there is no over-renting to speak of, and leases do include ratchet clauses, although the contribution of those clauses linked to retail sales is insignificant². St. Lukes Square and the Manakau Shopping Centre have waiting lists for retail space. Combined, these two properties represent approximately 48% of the portfolio value.

Almost half the available space is leased to anchor tenants while only 20% of the revenues come from these leases. Therefore, 80% of rental revenues are generated by the smaller specialty tenants. This represents a risk given that the company is highly leveraged to one sector of the economy. A deterioration in the economy and a loss of consumer confidence would cause rental growth to contract and raise tenant credit quality concerns. Ultimately, there would be pressure on revenues and cash flows given that the most susceptible tenants are those providing the greatest contribution in terms of rent per square metre.

The portfolio lease expiry profile has approximately 48% of the leases on a base rental basis expiring in 1997 and 1998. A great majority of the leases are for specialty tenants, and the high contribution space they occupy. It will be an opportune time to roll these leases over as the retail sector should be feeling the positive effects of the tax cuts at this time.

The redevelopment of the Henderson and Glenfield shopping centres is expected to add 7.5% to expected base rentals when the space comes on line in 1997. The refurbishments are designed to maximize contributions from the specialty tenants and capitalize on the role of the anchor tenant, which is to provide traffic for the specialty shops. As well, expansions of these sites seek to further lever the centers' prime locations. These enhancements will contribute to further rental growth and are a key success factor in St. Lukes strategy.

Financial Analysis³

Both revenues and earnings have grown in the last two years and are above levels forecasted in the prospectus due to high rental growth. Net profit margin in 1995 was 43%, which fell short of those recorded by Kiwi and Shortland Properties, which recorded 63% and 54% respectively.

St. Lukes has a conservative level of debt with leverage ratios averaging approximately 22% as shown in the table below. When compared with other property firms, the company has the lowest amount of financial leverage. As well, interest coverage is favorable at 6 times, second only to Kiwi Income Properties. Short-term liquidity is low but manageable given the nature of this business. The company maintains that a conservative gearing level will be a prime consideration when planning future developments.

	St Lukes	Kiwi Income	Shortland	Trans Tasman
Debt to Market Cap	21.71%	27.85%	27.49%	162.58%
Net Debt to Share Funds	23.72%	26.88%	25.27%	106.57%
EBITDA/Interest	5.98	13.17	4.81	1.91

In terms of asset coverage, the entire portfolio would have to be liquidated below 67% of its value in order for the convertible noteholders to suffer loss of principal beyond \$1.00. A liquidation at 80% of the current portfolio value would imply a coverage ratio of 1.3 times.

Valuation

The convertible notes should trade at a 12¢ to 13¢ discount to the ordinary shares, representing the discounted difference between the cash flows accruing to both. The ordinary shares currently trade at a premium to Net Tangible Asset (NTA) value of approximately 23%⁴. To calculate the expected yield on the convertible notes, one has to know the value of the ordinary shares at maturity. The value of the shares will be based on an estimate of NTA at that time. Three scenarios assuming different rental growth rates (annual) and expected future capitalization rates were used. The table below assumes the stock price will equal NTA when the notes mature⁵.

	Optimistic	Base	Pessimistic
Weighted Average Growth of Rents	6.44%	5.55%	4.41%
Net Tangible Assets at 1999	\$1.54	\$1.36	\$1.18
Yield to Maturity On Convertible	14.82%	10.79%	6.40%

Given the quality of St. Lukes properties, the imminent tax cuts and the positive economic and demographic fundamentals in Auckland, as discussed above, we feel the base case scenario is realistic.

It is interesting to note that although St. Lukes is trading at a premium to its stated NTA, the value of the stock would appear slightly undervalued in terms of the P/E ratio. The ability of the company's assets to generate superior returns as illustrated by the EPS/NTA ratio could explain why the stock is trading at a premium to NTA at this time; however, earnings still are relatively inexpensive in comparison. This could possibly provide some limited upside potential in terms of the future stock price.

	St Lukes	Kiwi Income	Shortland	Trans Tasman
Net Tangible Assets	1.12	1.09	0.89	1.02
Premium / (Discount)	13.39%	(1.83%)	(4.49%)	(32.35%)
EPS / NTA (1995)	10.26	7.06	6.40	5.98
EPS / NTA (1994)	9.61	6.69	6.4	n.a.
Price / EPS	11.04	13.90	14.91	11.31

²John Syme, Commercial Director at St. Lukes Group

³Financial ratios were sourced from Macintosh Barings quarterly review dated December, 1995.

⁴As of February 21, 1996

⁵Data (including expected cap rates) made available by Roger Bode of MacIntosh Baring

STRATEGY: The quality of St. Lukes' assets and strong economic fundamentals should minimize the downside risk of the convertible notes. We feel that it is reasonable to expect a 5% to 5.5% annual growth in rents, thus providing an approximate YTM of 9% to 11%. As well, there is the potential for the stock price to appreciate as the market reassesses the ability of

the portfolio to generate superior earnings. However, given the existing premium to the current NTA, large gains are not likely. We recommend these notes given the potentially attractive yield and the strong fundamentals of both New Zealand and the retail property sector.

— Peter O'Sullivan

State of Queensland gold bull note

This two-year structured note issued by the State of Queensland, Australia is well-suited for those investors wishing to participate in a leveraged speculation on a rise in the price of gold while preserving a minimum of 95% of invested capital. The redemption value of the note at maturity will be based on the price of the April '98 Comex gold contract on the close of March 2, 1998. The note itself is a simple derivative that combines a straight bond having a face value of US\$100, a redemption of US\$95, and 2 annual coupons at 2% of face value with 4 gold options having strike prices of \$460, \$480, \$500, and \$528 (all amounts in US\$).

The specification sheet (see Chart 12) shows the payoff for the note (as a percentage of face value) for different values of the gold contract noted above. It also presents the payoff from an unleveraged long position in gold. As the price of the gold contract approaches US\$530, the merits of this note become obvious.

Risk

The investor is subject to a limited amount of risk with this note given a *minimum* redemption amount of \$95. In other words, if all four options embedded in this note are out of the money at maturity, the noteholder's *maximum* exposure is 5% of invested capital if purchased at par.

Benefits

In past issues, we have presented our case for what we feel is the potential for a substantial rise in the price of gold, a rise that could test the all-time previous highs. We believe that these fundamentals will allow investors to earn attractive returns with little risk to invested capital. More specifically, the following represent the benefits of purchasing this note:

- As noted above, the buyer of this note will receive a *minimum* of 95% of par value for the note upon redemption.
- Since there are 4 gold options embedded in this note, the investor can benefit from the use of leverage. As the price of gold increase and surpasses the option strike prices of 460, 480, 500, 528, the value of the note will increase exponentially.
- The note will pay interest of 2% of face value annually over the 2-year term. Although the coupon is relatively small, its contribution will further limit the downside risk to invested capital and provide the investor with a *minimum* of 99% of par in nominal cash flows.

STRATEGY: These high credit quality notes guaranteed by the State of Queensland (AA) present a unique opportunity for a risk-conscious investor to participate in a leveraged play on gold with significant downside protection.

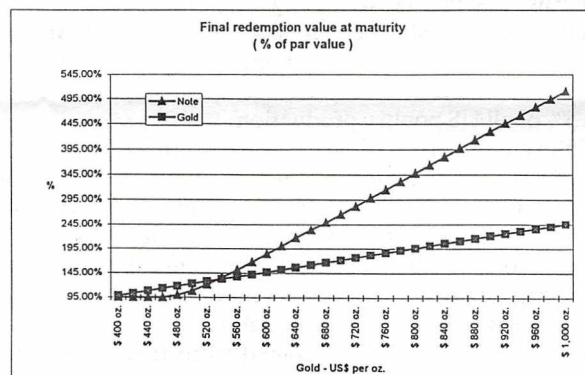
— Peter O'Sullivan

Not available for US investors until at least mid-April. Please call our New York office at toll free 1-800-474-2663.

Chart 12

GOLD LINKED BULL NOTE
Indicative Terms & Conditions
31-Jan-96

ISSUER:	Queensland Treasury Centre (State of Queensland, Australia)
RATING:	AA
INSTRUMENT:	Euro MTN
ISSUE SIZE:	\$25,000,000
ISSUE PRICE:	100% of Par
CURRENCY:	U.S. Dollars
SETTLEMENT:	4-Mar-96
MATURITY:	4-Mar-98
COUPON:	2%
COUPON FREQUENCY:	Each 04 March (Annual)
COUPON DAY COUNT:	Actual/Actual
GOLD-LINK :	There are 4 options - with strikes at 460,480 500,528 - embedded in the Note
MINIMUM REDEMPTION AT MATURITY:	95%
REDEMPTION VALUE AT MATURITY:	Based on the price of April 98 Comex Gold on the close of March 2th, 1998 (as per attached matrix)



SOFT COMMODITIES

Cocoa

Those of us still affected by the "fifth-year-of-deficit" syndrome continue to chase each breakout in this market, only to suffer another bout of disappointment.

Earlier this month reports from the Ivory Coast suggested that arrivals were being overstated by exporters by as much as 100,000 tonnes in order to get extra financing. Only days later there were claims that the crop will reach over a million tonnes, at least 30,000 tonnes higher than the highest estimate to date.

One has a choice of which version to believe. An Ivorian crop of over a million tonnes would bring this year's world production/consumption ratio almost into balance. We'll choose the estimates of conservative European trade houses, which agree almost unanimously that there will be a '95-'96 global deficit of around 80,000 tonnes.

Even with the 80,000 tonne deficit, we are still left with a carryover of 1.088 million tonnes, which represents a 41% stocks-to-consumption ratio. Previous bull markets in cocoa haven't started until the ratio has been in the 35% neighborhood. Thus we can appreciate why this market has trouble getting off the ground as buyers remain complacent.

In order for these production/consumption deficits to eat into stocks, stronger demand must appear. We have been looking to the emerging Asian and Eastern European countries for consumption growth of 4% per annum. In fact an official from Cadbury Schweppes confirms these suspicions by stating that consumption in China (remember, the country with 1.2 billion people) is growing at between 15% and 20% per year. The actual statistics are so sketchy that they don't even bear repeating. But we do know that culturally, eating chocolate is catching on in a big way in China.

There is nothing as refreshing, though, as discovering pockets of rising demand in Western countries. In Japan chocolate drinks are being touted as a nutritional and therapeutic alternative to tea. Although still minuscule by European standards, consumption is rising by 50% per annum. It's still a fad at this point, but if it becomes permanent, look for Japanese demand to explode.

Although the evidence suggests that demand is growing steadily, the market is forming a long-term base, which can be a lengthy and trying process.

STRATEGY: Liquidated long positions as of Feb. 22 flash update. Move to the sidelines.

Corn

As the Russians have been running out of money and credit-worthiness, they've also become poor customers of American agricultural products, save for one area: poultry. Russian imports account for 35% of all American poultry exports, or about 5% of all US poultry production.

Chickens eat a lot of corn. So when the Russians announced last week that they were not satisfied with the health standards at US processing plants and threatened to stop all imports as of March 16, the corn market took heed. In reality, the accusation was a thinly veiled protectionist ploy aimed at giving market share back to Russian-produced poultry, which is more expensive and of inferior quality.

So obvious and poorly planned were their intentions that a spokesman for the US industry said, "...there isn't a plant in the world that can meet the requirements that they have stated, especially their own." As the market opened on the morning the news hit the wires, some panic selling challenged the lofty prices. By week's end, the Russians, perhaps feeling a bit silly about engaging in a trade-war that they could only lose, softened their stance and said, "...we see no unsolvable problems." This nonsense served only to underline the strength of this market as corn futures ended the week at contract highs.

The bull's greatest fear should be rationing. When will the high prices create unprofitable ranches and force herd liquidation? In its February supply/demand report the USDA stated, "... animal numbers have not adjusted to the declines in expected corn availability and in general, producers are still maintaining profits." So for the moment, domestic demand patterns are holding.

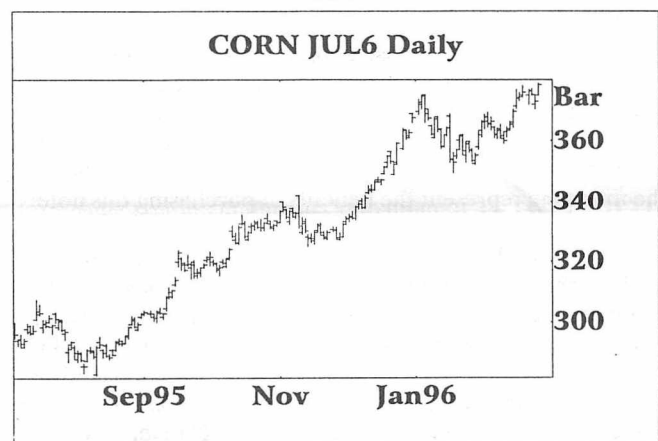
Any rationing that does occur on the domestic front will be absorbed handily by foreign demand. Consider the needs of the 1990s commodity bull's best friend: China. In the past 10 years the Chinese poultry population has quadrupled and the hog population has doubled. These animals have to eat and are eating well. The numbers prove it. The latest export commitments data show 28.2 million tonnes have been shipped from the US, an 18% jump over the same time last year. This past week's figure for total corn sold but not shipped jumped 57% from a week ago to 18.7 million tonnes.

The USDA has not changed its forecast for Argentinean maize production from 11 million tonnes to account for their dry growing season, but trustworthy North American analysts have pegged their crop as low as 9.3 million tonnes. This will not help rebuild stocks.

Speaking of stocks, the Feb. 9 USDA crop report lowered the '95-'96 ending stocks figure to 457 million bushels, which would leave us with a sickly 7% stocks-to-consumption carry-over ratio. Grain analyst Bill Gary, who has guided us through this bull market in grains flawlessly, contends that the ending stocks will be an even leaner 228 million bushels, which will leave us with a 3.5% stocks-to-consumption ratio, or 9.6 days of supply! Shocking!

STRATEGY: Remain long with new stops at 3.59, basis July '96, close only.

Chart 9



Source: Reuters

Soybeans

A superficial glance at the relationship between the prices of old crop and new crop soybean futures reveals a commodity drifting from an exciting bull market backwardation into a boring contango. Upon closer inspection, though, we find that the narrowing spread is being caused by the new crop rising and the old crop moving sideways, digesting these lofty new price levels.

The last time beans were this expensive for any length of

time was on the return trip from the peak of the rally of the drought of '88. The fact that the old crop is maintaining these heights is evidence that this is no drive-thru weather scare, but a ferocious demand-driven bull.

Spot prices have softened as export demand has slowed. Potential buyers figure the improving weather picture in South America will dry up the premium brought on by that situation. Prices, however, are not breaking. The buyers shall return. The emerging contango becomes both understandable and forgivable.

Hedgers of new crop beans have been able to lock in prices for their crops that they could only dream about most years. As hedge selling at this time of year is quite the seasonal norm, prices were kept at bay. However, as the hedging abates, November beans have taken on a life of their own. Planting intentions show that the high price of corn will rob the bean crop of many acres. In farmers' eyes, the dwindling stockpiles of corn seem to be in far more of an ambulatory state than that of beans.

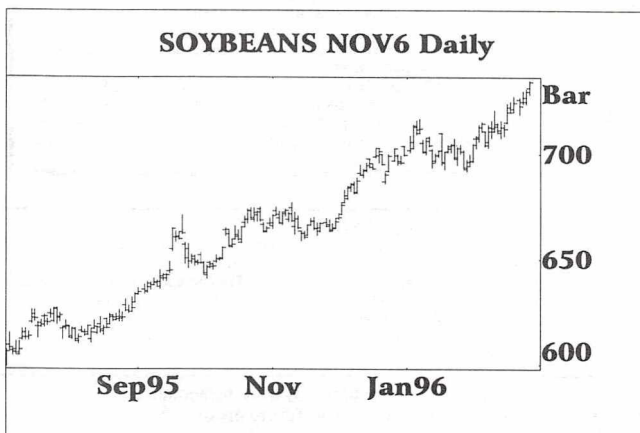
On Feb. 21, the USDA released projections for 1997 acreage for beans at 61 million, which was actually down from 62.6 million acres planted last year. The USDA pegs the crop at 2.22 billion bushels, up only 3% from last year, hardly the kind of numbers one would expect for a commodity that is in such dire need of stock replenishing. Ending stocks will finish the year at 169 million bushels, the lowest carryout since '77-'78. The stocks-to-consumption ratio will be 7.3%, the lowest since '76-'77.

In fact the stocks-to-consumption ratio has been in decline for years. With the combination of expanding global demand and limp production growth, it is easy to see why November beans look so strong, because it becomes painfully clear how perfect the weather will have to be to achieve the necessary yields.

The USDA figures also assume a recovery in yield/acre from last year's 34.9 bushels per acre. The average yield for the last 5 years has been 36.1 bushels per acre. The yields would have to reach 36.5 bushels per acre to achieve a 2.22 billion bushel crop. In this model '96-'97 ending stocks would be only 77 million bushels, with a scandalous 3.3% stocks-to-consumption ratio!

STRATEGY: Remain long November '96 soybeans, with stops at 6.89, close only.

Chart 10



Source: Reuters

Wheat

Like soybeans (see our discussion above), the narrowing spread between old crop and new crop wheat futures viewed independent of an explanation seems to foretell an end to the profound tightness that drove this market through the roof.

But that's hardly the case. First of all, to put it into perspective, although the spread has fallen from a high of 90¢, it is still at around 50¢. A cautionary note should be sounded here, though, in that there is almost always a backwardation between March and July wheat at this time of year. That's because there is some supply tightness between the two annual harvests, so in itself there is nothing new about this structure.

Next, even though US exports are running at 23.8 million tonnes, 10% ahead of exports this time last year, the pace has become sluggish, as buyers become accustomed to \$5+ wheat, accounting for a spot price that for now is happy to trade in a high-level consolidation area. This, however, has not deterred the price of the new crop from responding to what is slowly emerging as a disappointing winter wheat crop. This explains why July has been gaining on March.

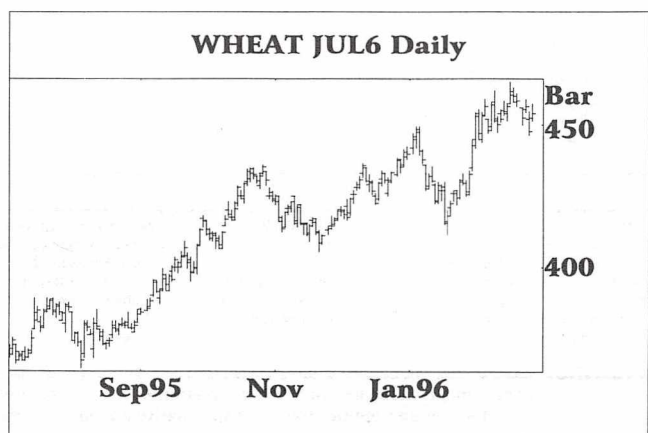
Although world production of wheat is expected to climb to 534 million tonnes for the '95-'96 season from 522 million tonnes last year, there will be no improvement in the ending stocks picture. Even though the USDA forecasts a very modest increase of less than 1% in consumption versus a 2.5% increase in production, world ending stocks will be 96.7 million tonnes, for a 17% stocks-to-consumption ratio. This compares to last year's 20% ratio.

While Russians suffer through the lowest grain harvest in 30 years, they can no longer be counted on as a buyer of any significant volume, mainly because Western farmers would like to be paid for their wares. When we speak of current stockpiles not being able to afford any accidents in this market, an unexpected wheat purchase by the Russians would constitute just such an accident.

STRATEGY: Remain long July '96 wheat with stops at 4.40, close only.

— Sholom Sanik

Chart 11



Source: Reuters

Chart 15 — Foreign Currency Bonds

DATE: February 23, 1996 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
DEUTSCHE MARK DENOMINATED BONDS					
Bank of Nova Scotia 5 5/8% 7/5/96 RRSP eligible	99.50	100.35	3.62		May-07
World Bank 5 7/8% 4/02/97 RRSP eligible	102.00	-	-		Feb-04
World Bank 7 1/4% 13/10/99 RRSP eligible	106.95	107.80	4.84		Oct-13
World Bank 9% 13/11/00 RRSP eligible	115.90	-	-		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	103.40	104.25	4.00		Apr-15
Argentina 8% 5/10/98	102.75	-	-		Oct-05
Bk. Foreign Eco. Affairs 7% 29/3/96	98.90	99.75	9.33		Mar-29
Kgdm. of Spain (6 Mo. LIBOR-1/16) 29/6/02 (semi)	99.69	99.99	-	3.6875	Jun-28
CZECH REPUBLIC KORUNA BONDS					
General Electric 10.5% 23/10/98	101.40	102.25	9.45		Oct-23
Nordic Inves. Bk 10.625% 10/11/00	101.75	102.60	9.88		Nov-10
ITALIAN LIRA DENOMINATED BONDS					
Nordic Inves. Bk 12 3/8% 19/04/96	99.40	100.25	9.57		Apr-19
SWISS FRANC DENOMINATED BONDS					
General Electric 4 3/4% 2/7/98	103.65	-	-		Jul-02
General Electric 4 1/2% 17/12/99	105.15	106.00	2.80		Dec-17
DANISH KRONE DENOMINATED BONDS					
Kgdm. of Denmark 9% 15/11/96	102.50	103.35	4.09		Nov-15
ECU DENOMINATED BONDS					
United Kingdom 9 1/8% 21/02/01	111.15	112.00	6.25		Feb-21
BRITISH POUND DENOMINATED BONDS					
Kgdm. of Sweden 8 3/4% 29/5/96	100.00	-	-		May-29
FRENCH FRANC DENOMINATED BONDS					
Credit Lyonnais 9 1/2% 23/12/96	103.00	103.85	4.55		Dec-23
JAPANESE YEN DENOMINATED BONDS					
World Bank 5 3/4% 7/8/96 RRSP	101.40	102.25	0.62		Aug-07
CANADIAN DOLLAR DENOMINATED BONDS					
Exportfinsans 7 3/4% 5/11/97	102.35	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/1/97 RRSP eligible	103.20	104.45	3.73		Jan-07
Ontario Province 10 5/8% 15/7/98 RRSP eligible	108.85	-	-		Jul-15
SOUTH AFRICAN RAND DENOMINATED BONDS					
ESCOM 11% 1/6/08 (semi)	81.15	82.00	14.12		Jun-01
AUSTRALIAN DOLLAR DENOMINATED BONDS					
Commonwealth Bk. of Australia 9 3/4% 15/5/96	100.00	100.85	5.32		May-15
NEW ZEALAND DOLLAR DENOMINATED BONDS					
World Bank 12.5% 25/7/97 (semi) RRSP eligible	105.75	106.60	7.47		Jul-25
New Zealand Govt 10% 15/7/97 (semi)	101.60	102.45	8.08		Jul-15
New Zealand Govt 8% 15/7/98 (semi)	99.20	100.05	7.97		Jul-15
Fletcher Challenge 10.75% 15/12/97 (semi)	102.30	103.15	8.80		Jun-15
Fletcher Challenge 10.15% 30/11/98 (semi)	102.05	-	-		May-30
Tranz Rail Ltd. 10% 15/10/99 (semi)	102.30	103.15	8.96		Apr-15
DB Group 7% 30/9/96 (semi) matures @ 85	85.50	86.35	5.74		Jun-30
Trans Tasman 9% 27/6/99 (semi)	94.90	-	-		Jun-27
ARGENTINEAN PESO DENOMINATED BONDS					
Bocon Pre 1: 1/4/2001	PAR VALUE 133.0269	94.65	96.40	15.56	May-01-97
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS					
Burnup & Sims 12% 15/11/00 CV@16.79 p/ah (semi)	97.25	98.75	12.35		May-15
Alant Corp. 5 1/4% 29/4/02 CV@16.31 p/ah	55.25	58.75	17.12		Apr-29
Coeur D'Alene 6% 10/6/02 CV@26.00 p/ah	103.25	-	-		Jun-10
Glycomed 7 1/2% 1/1/03 CV@14.06 (semi)	77.25	78.75	12.16		Jul-01
U.S. DOLLAR DENOMINATED FIXED RATE BONDS					
Queensland Tres. (Gold Bull) 2% 4/2/98	98	100	-		Mar-04
World Bank 7 1/8% 27/9/99 (semi) RRSP eligible	104.85	105.70	5.35		Mar-27
Farm Credit Corp 7 3/4% 10/06/96 RRSP eligible	100.40	-	-		Jun-10
T.W.A. 12% 3/11/98 (semi)	96.40	97.25	-		N/A
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES					
Kgdm. of Denmark 25/3/97 (Gold call, 3Y put) (semi)	91.65	-	-	8.0855	Mar-25
United Kgdm. 30/9/96 3 mo LIBID-1/8 (qty) callable @100	99.87	100.17	-	5.4375	Mar-29
Bocon 1/4/01 (30 day LIBOR) starts paying May 1/97	102.70	103.55	12.45		May-01-97
Argentina: Series L-FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	74.65	76.15	11.97	6.8125	Mar-29

GOLD (in ounces, at market prices, can also be held in your bond account) client eligibility determined at point of sale.

Chart 14

Recommended current portfolio allocations

- | | |
|---------------------------------|-----|
| 1. Queensland Tres. (gold bull) | 15% |
| 2. St. Luke cv | 10% |
| 3. Czech korune | 10% |
| 4. Argentina Bocon Pre 1 | 25% |
| 5. NZ Government (8%) '98 | 20% |
| 6. Fletcher NZ\$ | 20% |

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HOTLINE UPDATE

Tuesday, January 23, 1996:

Good afternoon for Tuesday, January 23. We have one new recommendation: Buy July corn at the market, placing stops at 349, close only.

Friday, January 26, 1996:

Good afternoon for Friday, January 26. The following is a recap of this week's recommendations: On Tuesday, January 23 we recommended to buy July corn at the market, then trading at 359.75, placing stops at 349, close only.

Friday, February 2, 1996:

Good afternoon for Friday, February 2. There are no changes or new recommendations.

Monday, February 5, 1996:

Good morning for Monday, February 5, 10:10 am. This is a flash update. Sell March S&P at the market, currently trading at 636.00, placing initial stops at 640.00, good anytime.

Tuesday, February 6, 1996:

Good afternoon for Tuesday, February 6. We have 3 new recommendations: 1) Liquidate long March soybean positions and purchase November soybeans at the market, placing stops at 689, close only; 2) Raise stops on July wheat to 440, close only from 410; 3) Raise stops on long May coffee to 112.00, close only from 92.00.

Friday, February 9, 1996:

Good afternoon for Friday, February 9. There are no changes or new recommendations. The following is a recap of this week's recommendations.

On Monday, February 5, via flash update, we recommended to sell March S&P at the market, then trading at 636.00, placing initial stops at 640.00, good anytime.

On Tuesday, we had 3 new recommendations. We advised to liquidate long March soybean positions and purchase November soybeans at the market, placing stops at 689, close only. On Wednesday, March soybean opened at 229.20 and November soybeans opened at 711. We advised to raise stops on July wheat to 440, close only from 410 and to raise stops on May coffee to 112.00, close only from 92.00.

Tuesday, February 13, 1996:

Good afternoon for Tuesday, February 13. We have one recommendation for tomorrow's opening. Sell May copper at the market, placing stops at 116.00, good anytime.

Friday, February 16, 1996:

Good afternoon for Friday, February 16, 12:40 pm. This is a flash update. Buy May silver at the market, presently trading at 574.00, placing initial stops at 565.00, good anytime.

Friday, February 16, 1996:

Good afternoon for Friday, February 16. There are no changes or new recommendations. The following is a recap of this week's recommendations.

On Tuesday, February 13, we recommended to sell May copper, at the market, placing stops at 116.00, good anytime. On Wednesday, February 14, May copper opened at 112.70.

This morning, via flash update, we advised to buy May silver at the market, then trading at 574.00, placing initial stops at 565.00, good anytime.

Tuesday, February 20, 1996:

Good afternoon for Tuesday, February 20. There are no changes or new recommendations.

Wednesday, February 21, 1996:

Good afternoon for Wednesday, February 21, 5:30 pm. This is a flash update. Raise stops on long May coffee to 116.50, good anytime from 112.00 and raise stops on long July corn to 359, close only from 349.

Thursday, February 22, 1996:

Good afternoon for Thursday, February 22, 1:15 pm. This is a flash update. Sell May cocoa at the market, presently trading at 12.93, cancelling all previous stops.

Thursday, February 22, 1996:

Good afternoon for Thursday, February 22, 5:35 pm. This is a flash update. Raise stops on long May cotton to 81.50, good anytime, from 81.00, close only.

Friday, February 23, 1996:

Good afternoon for Friday, February 23. This is a complete market summary since our last market letter dated January 21 of all liquidations of open positions and new recommendations that remain outstanding.

On Tuesday, January 23, we recommended to buy July corn at the market, then trading at 359.75, placing stops at 349, close only.

On Tuesday, February 6, we advised to liquidate long March soybean positions and purchase November soybeans at the market, placing stops at 689, close only. On Wednesday, November soybeans opened at 711. We also advised to raise stops on July wheat to 440, close only from 410, and to raise stops on long May coffee to 112.00, close only from 92.00.

On Tuesday, February 13, we recommended to sell May copper at the market, then trading at 112.70, placing stops at 116.00, good anytime.

On Wednesday, February 21, via flash update, we advised to raise stops on long May coffee to 116.50, good anytime, from 112.00, and to raise stops on long July corn to 359, close only, from 349.

On Thursday, February 22, via flash update, we advised to sell May cocoa at the market, then trading at 12.93, and to raise stops on long May cotton to 81.50, good anytime, from 81.00, close only.

All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate. Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

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