

25 YEARS

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

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In spectacularly good order

Fiscal surpluses as far as the eye can see. Tax cuts already in place as of July 1, and more to come in each of the next two years. A highly flexible and deregulated labor market that has encouraged rapid employment growth in recent years and one of the lowest unemployment rates in the developed world. Economic growth, which the Reserve Bank judges to be sustainable over the medium term, in the order of 3% to 3.5% (but which this writer believes can be a lot closer to 5% to 6.0%), appreciably faster than the sustainable growth now thought feasible in, say, the United States, the UK, or Germany.

And yet according to the latest polls, more than 50% of the electorate — only 4 months away from an election — disagrees with the ruling National Party. New Zealand First's meteoric rise in these polls, having achieved the support of 29% of the voting population, has sent shivers up the spine of local and foreign investors. In an MMP type election, NZF could become the king maker or, worse yet, form the next government in a coalition with Labor.

The charismatic, demagogic, and quick tempered Maori leader of New Zealand First has managed to coalesce, thus far, a wide audience of dissatisfied citizens: those relatively disadvantaged by the natural selection process of a free economy. He has done that by playing on the fears and expectations of each group. He is neither right of center nor left of center, merely opportunistic, gaining his support primarily from the ranks of those who in the past registered their discontent with the new liberal economic order by voting with the more traditional left of center parties.

At the same time, inflationary pressures continue to breach the upper part of the 0%-2% target band, forcing the Reserve Bank to adopt a tight monetary policy, characterized by an appreciating exchange rate and a steeply inverted yield curve (see the following article for an easy-to-understand, pleasure-to-read lecture on economics and policy delivered by the present governor of the Reserve Bank). The conjunction of a strong anti-inflation stance and political jitters have caused interest rates to skyrocket and the stock market to drop in recent weeks. Is this the reward for being in spectacularly good order?

We can't help but think that the good and coherent economic policies followed by New Zealand in the last decade have built a powerful foundation, one that will withstand the onslaughts of demagoguery and opportunism. Apart from the tangible benefits of greater economic efficiency and rising standards of living, we believe that the great majority of Kiwis understand and appreciate their newly-gained freedom and are not willing to return to the socialist policies of the past.

This is the main reason why the ideological left of center parties have lost so much support: Nearly everyone understands that socialism cannot produce wealth. The special interest groups supporting NZF know that too, but believe that they can extract some special benefit from the present regime without altering the overall formula. Free market policies are good for everyone else, they say, but *they* need some protection.

NZF will need to perform a difficult balancing act, because it will need to convince each of these special interest groups that the regime is not at stake once the box of privileges is opened. For example, will those people who cannot afford housing because Asians have out-bid them (and who therefore advocate restrictive immigration policies) back the slightly easier monetary policy advocated by misguided exporters if they realized that this may cause more inflation and a further drop in their purchasing power?

As we approach the October 12 election date, we believe that NZF will stumble as the inconsistencies and inherent contradictions of their policies are demonstrated. Moreover, the individual members of the different factions of parliament

In this issue

- 3** **New Zealand**
Why New Zealand works
- 6** **T-Bonds**
Financial markets again
- 6** **S&P 500**
A new advance in the making
- 7** **Currencies**
This trade's a no-brainer
- 7** **Gold**
Long-term bullish, short-term cautious
- 8** **Soft Commodities**
Cocoa, soybeans
- 9** **Friedberg Capital Markets**
Onex Corp., Trans Tasman Properties
- 12** **Hotline Update**

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

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will also split their votes and allegiances on different issues, given the extraordinary consensus that has developed over the advantages of most reforms (carried out, incidentally by both Labor and National party governments), making it almost certain that the ruling National party will be able to govern, even if it did not command a majority in the next parliament.

With regards to inflation and monetary policy, the Reserve Bank believes it can nudge the inflation rate down to the middle of the band, around 1% per annum by guiding the trade-weighted dollar upwards (via attractive interest rates) by approximately 1.7% per annum, to offset international inflation, now estimated at around 2.7%.

The Reserve Bank will tighten or ease monetary conditions so as to bring about a movement in the Kiwi dollar (measured on a trade-weighted basis) that will compensate or offset the international rate of inflation and keep domestic inflation within the desired 0-2% band. Clearly, the Reserve Bank does not have a fixed and specific rate of exchange in mind; policy responses will depend on relative inflation performance and the current rate of domestic inflation. Should the exchange rate overshoot on the upside, the Reserve Bank will ease monetary conditions so as to preclude a downside breach of the band. Conversely, should the exchange rate, measured on a trade-weighted basis, overshoot on the downside, the Reserve Bank is likely to tighten monetary conditions so as to preclude inflation from accelerating. This is

precisely what the Reserve Bank means when it says that it does not target the exchange rate.

Nor does it target the real rate of exchange, which is a product of domestic inflation and the nominal rate of exchange. The real rate of exchange could appreciate, as it has in the recent period, or it could depreciate as it did in the early '90s. The only important variable, as far as the RB is concerned, is the domestic rate of inflation. If the pass-through effect has been well established, the mechanism should deliver relatively stable prices without affecting the necessary — and unavoidable — fluctuations in the real rate of exchange.

The implications of our analysis are extremely bullish for the Kiwi dollar and New Zealand's financial assets. The political risk, in our opinion, is minimal. New Zealand has entered a virtuous economic cycle that will be validated by its citizens in less than four months' time. Growing foreign confidence will drive financial markets much higher, and the exchange rate will far exceed the forecast 1.7% per annum TWI appreciation.

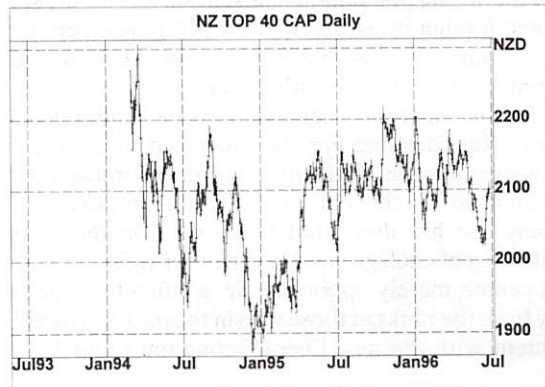
At that point, the Reserve Bank will force interest rates lower in an attempt to counter the deflationary pressures arising from the rising exchange rate, unleashing a renewed boom in the non-tradeable sector of the economy. Commercial real estate will become a major beneficiary.

Draw courage and take advantage of the opportunity. Boom times are ahead for New Zealand.

Chart 1



Chart 2



NEW ZEALAND**Why New Zealand works**

Excerpts of a speech given by the Governor of the Reserve Bank of New Zealand, Dr. Don Brash, to the Auckland Regional Chamber of Commerce on April 4, 1996.

...It will probably surprise nobody in this room that I remain totally convinced of two propositions.

First, I am totally convinced that, while monetary policy *can* influence a country's inflation rate, it can *not* be used directly to engineer a sustainable increase in economic growth, or a sustainable increase in employment, or a sustainable improvement in export competitiveness. I think that this is now the virtually unanimous view of economists around the world, and it is borne out by the experience of all countries over the last several decades. I have seen no evidence that being more tolerant of inflation will yield sustainable improvements in economic performance.

Of course, looser monetary policy can *for a while* give a boost to economic growth and to employment, but the gains don't last, while the inflation hangover does. The sustained result is not more growth or more employment but instead the insidious damage of higher inflation, and sooner or later the social and economic costs of getting inflation down again.

Secondly, given the first proposition (that monetary policy can not be used directly to engineer sustainable better growth, employment or balance of payment outcomes), the most sensible inflation rate for monetary policy to target is *no* inflation, since any other rate of inflation involves both social and economic costs.

This social cost arises from the arbitrary redistribution of income and wealth which inflation almost always entails...

...Low inflation helps economic performance but does not *guarantee* growth.

But though average price stability is clearly the best contribution which monetary policy can make to the long-term performance of the economy, price stability does not *guarantee* rapid economic growth. Price stability does not *guarantee* low employment. Price stability does not guarantee the competitiveness of exporters, or equilibrium in the balance of payments.

Ultimately, economic growth depends not on monetary factors but on real factors — on how fast the labour force is growing, on how skilled the labour force is, on how much capital that labour force has to work with, on the technology embodied in the capital, on the efficiency of the price system in signalling where capital can be most productively invested, on the nature of regulations and restrictions which inhibit the effective working of the price system, and a host of other *real* factors. Prices which are, on average, stable assist the pricing system to work effectively, and thereby help to ensure that investment takes place in the most economically sensible places. Prices which are on average, stable tend to encourage

saving, and thereby help to finance additional investment. But stable prices won't of themselves make public sector enterprises more efficient; or improve the quality of the education system; or move resources out of highly protected sectors into those which can be competitive in international market; or improve the marketing of commodity exports; or even give us East-Asian-type savings rates...

...If we want to build on that achievement in the years ahead, we must constantly be seeking areas where productivity can be further improved...

...If we want faster growth in spending than that, we can in the short term borrow to supplement our income but, as we learned in the seventies and early eighties, that is ultimately futile. In the long term, higher incomes per head, and the higher spending that that can bring, can only come from finding ways to accelerate productivity growth.

And how do we do that? Certainly not by debasing the currency through tolerating inflation. The very rapid growth of the countries of East Asia is in part simply the result of their being able to pick up 'off the shelf' modern technologies, which have taken decades to develop elsewhere. In other words, there is a substantial element of 'catch-up' in the fast growth of East Asia. But the wealth which has occasioned so much envy on the part of some New Zealanders has also been achieved in a particular cultural environment — a cultural environment which places enormous emphasis on family self-reliance, which abjures reliance on the state, which as a consequence generates a savings rate roughly double the New Zealand rate, which pursues education and training with a passion, which regards material affluence as a highly desirable goal. New Zealanders have, implicitly at least, chosen, a slower growth path, by placing little emphasis on saving, by placing a more modern value on education and training, by valuing other goals more highly than affluence.

I recall seeing a television programme some two or three years ago about Asian students in our schools. The programme included comments from two New Zealand children that they resented the fact that the Asian children worked much harder than they did. I don't think New Zealand children should be forced to work as hard as Asian children do, but I think it is important for New Zealand children to realize that they live in a world where those who work harder will end up with higher incomes and more wealth than those who choose to work less hard. If we are only prepared to pay for beer, we won't be drinking a lot of champagne. And that is entirely appropriate...

...Low inflation helps economic performance but does not *guarantee* low unemployment...

...For while unemployment is not a function of the rate of inflation, it is a function of other policies: of how generous the

unemployment benefit is (who can doubt that if, for example, the unemployment benefit were doubled, the unemployment rate would rise?); of the level of the minimum wage (who can doubt that a major increase in the minimum wage would discourage the employment for relatively unskilled workers?); of the level of training enjoyed by, and therefore the productivity of, potential employees (who can doubt that if today's unemployed workers were skilled in, for example, computer software, many of them would be employed?); of the difficulties created by the Employment Court in dismissing workers (who can doubt that the more difficult it becomes to dismiss workers, the more reluctant employers will be to take a chance on hiring new staff?).

As Mr. Ted. Evans, Secretary of the Australian Treasury, once observed, unemployment is to a significant extent a policy choice. Not a choice about the inflation rate, but a policy choice nonetheless. The East Asian countries with the lowest levels of unemployment (Singapore comes to mind) place enormous emphasis on education and training, have no legislated minimum wages, and have no unemployment benefit. Is it any wonder that they have almost no unemployment?...

...Low inflation helps economic performance but does not guarantee balance of payments surpluses.

And what about the balance of payments deficit? Our *Economic Projections* suggest that, for the year to March 1996, the current account deficit will have been 4.3 percent of GDP, while in the year to March 1998 the deficit could be 5.2 percent. At this level, the deficit is significantly smaller, as a percentage of GDP, than it was in the mid-eighties or the mid-seventies. (Indeed, in the mid-seventies the deficit at one point reached 13 percent of GDP.) But it is a deficit which is both higher than the deficit in recent years and higher than the deficit which most commentators had been forecasting.

The first question which arises is: Does the projected deficit matter? I once heard the eminent US economist Milton Friedman say that the world would be a very much happier place if governments did not calculate balance of payments data. He noted that the State of California did not know whether it was in surplus or in deficit on its 'balance of payments' with the rest of the world, but that if it did know, and if it were in deficit, the Government of the state would feel absolutely obliged to 'do something about it.' Friedman suggested it was much better not to know.

By international standards, moreover, the deficit is not enormous. Singapore, now running a balance of payments surplus of some 18 percent of GDP, ran deficits of more than 10 percent of GDP for some years. Thailand and Malaysia are currently running deficits which exceed 7 percent of GDP. By comparison with some other countries, our deficit is probably somewhat over-stated, including as it does a large volume of profits accruing to, but not remitted to, foreign shareholders. (Indeed, in the latest year it is estimated that roughly half the current account deficit was financed by profits which accrued to foreign shareholders, but which

foreign shareholders chose to reinvest in New Zealand. In some countries, profits accruing to foreign owners, but not remitted, are not included in the current account deficit.)

Perhaps the strongest reason for not being too concerned is that, unlike the deficit through most of New Zealand's recent history, the current and projected deficits are the direct result of private sector choice. A current account balance of payment deficit means, by definition, that New Zealanders are choosing to spend more in total, on consumption and investment, than they earn in total. But we know that the government is currently 'earning' more than it is spending (in other words, the public accounts are in surplus). So the current account deficit must mean that the private sector is choosing to spend more than it earns. It is not immediately obvious that policy-makers should try to override that private sector choice.

What role is monetary policy playing in all this? Is tight monetary policy partly to blame for the balance of payments deficit, as some have suggested, by pushing up the exchange rate, thus slowing the growth of exports and encouraging the growth of imports?

There is little doubt that much of the burden of monetary policy restraint over the last two years has been borne by the export sector and by those competing with imports. But why is this? Essentially it reflects the fact that consumer spending has been surprisingly unresponsive to rises in inflation-adjusted interest rates to quite high levels. (Put another way, saving behaviour has been quite unresponsive to rises in inflation-adjusted interest rates.) As a result, a disproportionate share of restraint has had to be borne by the external sector.

Monetary policy does not deliberately hammer the export sector of course: if consumer spending were a lot more sensitive to interest rates than it appears to be, the external sector would not have been hit as hard as it has been.

But easing monetary policy would not solve the balance of payments problem or, for long, the problems of the external sector.

Easing policy would, in the short term, have two conflicting effects on the balance of payments if we assume, as it probably reasonable, that the easing would lead to a reduction in both the exchange rate and interest rates. The lower exchange rate would presumably encourage exports and discourage imports, thus reducing the deficit. But despite the fact that recent increases in interest rates have slowed spending to only a modest extent, there seems little doubt that reducing interest rates would stimulate total domestic spending, reducing the goods *available* for export and encouraging the demand for imports, thus increasing the deficit. Little wonder that in many countries it is taken as axiomatic that *tighter* monetary policy is the correct response to a troublesome balance of payments deficit.

Easing policy would help the external sector in the short term because it would lead to a lower exchange rate. But as we established conclusively over the last 25 years, the higher inflation which would inevitably follow from that easing would, within a year or two, put exporters and those competing with

imports right back to square one with higher inflation offsetting any benefits from the lower exchange rate.

At the end of the day, the balance of payments deficit is an issue about the balance between investment and savings. Recent economic reforms have greatly increased the opportunities for profitable investment in New Zealand. Almost everybody welcomes that increased investment, providing as it does the opportunity for New Zealand to improve productivity and increase total output.

But who is financing this increased investment activity? The government, by running fiscal surpluses, has been helping, as I have already noted. But the New Zealand private sector has not been making up the difference, despite higher inflation-adjusted interest rates. As a result, we have been drawing on the savings of others — running current account balance of payments deficits as the counterpart of the capital inflow. We have a stark choice: accept lower investment activity and lower growth; improve our national savings performance; or continue drawing on the savings of others and accept our continued dependence on foreign investors.

At the moment, we are opting for relatively high levels of investment financed by the savings of foreigners — in other words, we have a current account deficit. The root cause of that is certainly not monetary policy, but rather the reluctance of New Zealanders to save enough to finance available investment opportunities.

Will that continue? In other words, will the New Zealand private sector choose to continue spending more than it earns, and will foreigners continue being willing to finance that spending? In the *Economic Projections*, we indicated that we saw no compelling reason why that process should stop over the period covered by the projections (to March 1998). Private sector balance sheets are clearly incurring more debt, but it is not immediately obvious that this process will ease over the forecast period. Similarly, there is no obvious reason why foreign capital inflow should cease: New Zealand is rightly recognized as having economic fundamentals which are among the best in the OECD, and we are the only country in the OECD which is currently running a genuine budget surplus. There is a growing awareness that a large part of what is officially described as overseas debt is in substance equity investment and not debt) roughly half of the private sector's total foreign debt is represented by debt owed by companies in New Zealand to their overseas affiliates)...

... The Reserve Bank has no exchange rate 'target.'

But as we noted in the *Projections*, it is important to note that this situation could change. The willingness of the New Zealand private sector to spend more than it earns, and the willingness of foreign companies and institutions to finance that spending, could both be affected by a loss of confidence in New Zealand's prospects, or improved prospects elsewhere. Increased concern about the balance of payments, for example, could trigger a reluctance to invest in New Zealand on the part of foreigners. Increased concern about political risk could similarly make foreigners reluctant to invest in New Zealand — and indeed could make New Zealanders reluctant to invest also. This loss of confidence would almost certainly be reflected in a lower exchange rate, and reduced demand for the importation of investment goods. The bal-

ance of payments deficit would probably reduce quite quickly.

The exchange rate could also fall if, perhaps again because of a loss of confidence, the recently-strong increase in property market prices were to come to an end, or even go into reverse. With inflation in housing-related components of the CPI accounting for approximately half of all underlying inflation in recent quarters, it is not hard to see how a *fall* in property prices would quickly reduce underlying inflation to near the bottom of our target range, and potentially even below the bottom. It would not take financial markets long to realise that, in those circumstances, a fall in the exchange rate would be quite consistent with continuing average price stability.

And this is my final point, and I make it because it never ceases to surprise me how many people, some of whom should certainly know better, still believe that in some way we have an exchange rate 'target.' The Reserve Bank has been charged by Parliament with operating monetary policy to maintain 'stability in the general level of prices,' which successive Governments have defined as best characterised by 12-monthly increases in the Consumer Price Index of between 0 and 2 percent, adjusting for the direct effects of interest rates and certain shocks beyond the direct reach of New Zealand monetary policy. We are committed to doing this. This will mean that, from time to time, the New Zealand dollar will appreciate strongly in response to a tightening of monetary policy. It will also tend to mean that, over the long term, the New Zealand dollar will have a tendency to appreciate gradually, reflecting our inflation rate being rather lower than that in our trading partners.

But this does *not* guarantee that the New Zealand dollar will appreciate at all times, and that the New Zealand dollar is therefore a one-way bet for foreign investors. To begin with, even if the trade-weighted measure of the New Zealand dollar appreciates, it does not follow that the New Zealand dollar will appreciate against any individual currency in the 'basket,' a point not overlooked by US-based investors for some months in 1995 when the New Zealand dollar appreciated against the total basket but depreciated somewhat against the US dollar. Furthermore, a sharp reduction in inflationary pressures in the economy, such as occurred for example in 1991, or such as might occur in the future in confidence in ever-increasing property prices were to evaporate, would mean that the overall inflation rate could be kept within the target range despite a fall in the exchange rate, as I have already noted.

The Reserve Bank's so-called 'comfort zone' for the trade-weighted measure of the exchange rate is our own best estimate of the range within which the exchange rate can move and still have the inflation rate between 0 and 2 percent in 12 to 18 months' time, *in the light of all the other factors bearing on the inflation outlook at that time.* The 'comfort zone' changes as the other factors bearing on the inflation outlook change.

We are committed to maintaining average price changes within the 0 to 2 percent range. We are convinced that by doing that we make our best contribution to the performance of the economy. That is likely, over time, to mean that the New Zealand dollar has a tendency to appreciate gradually. But we do not have an exchange rate target, and there will certainly be occasions when the exchange rate will fall.

T-BONDS

Financial markets again

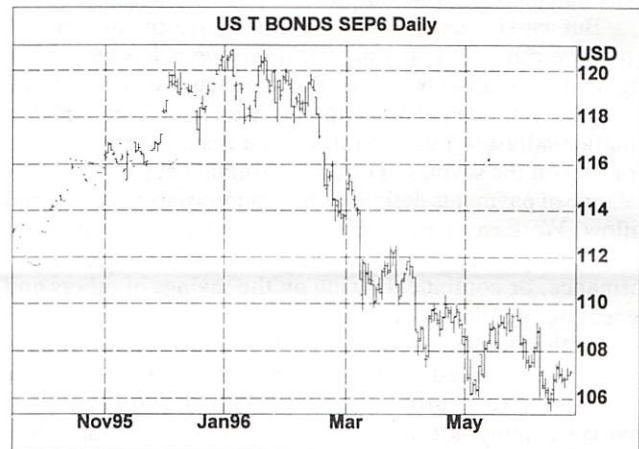
Somewhat favorable economic statistics have convinced market participants that the Fed is about to make a small upward adjustment in rates. The central bank's Federal Open Market Committee holds its next policy meeting on July 2-3.

Aside from indications that the economy is slightly stronger than earlier expected, there are few signs of inflationary pressures. If anything, commodity prices are softening (witness the collapse in copper prices and the violent corrections in spot wheat and corn), some freight rates are off as much as 50% from their early '95 highs, and credit card delinquencies almost hit 15-year highs. In addition money and credit aggregates remain very weak. Can one imagine a more benign environment for financial assets?

Our reading is that sentiment has once again become too one-sided, this time on the bearish side. As a result, we first advised covering short positions and subsequently advised initiating long positions (see Hotline Update for June 7).

STRATEGY: *Clients are long as per the flash update of Friday June 21, at 107.08, basis September. Stops should be placed at 105.00, close only.*

Chart 4



S&P 500

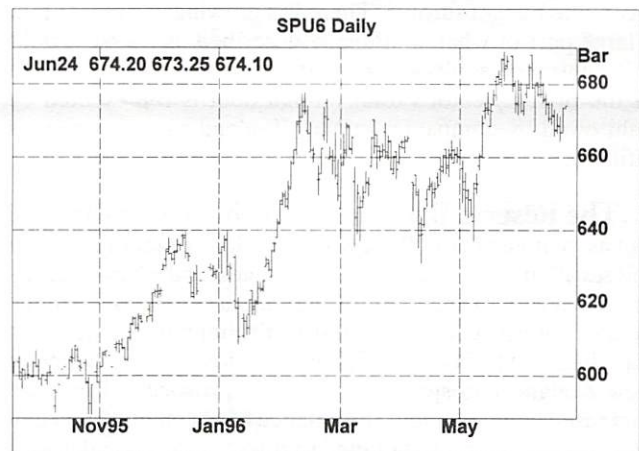
A new advance in the making?

Here, as in the bond market, sentiment has taken a decided turn to the bearish side. Breadth has been poor, and the high-tech sector on NASDAQ has taken a severe beating. And yet, the overall market has not given ground, while the blue-chip sector remains firm. This type of rotation augurs well for continued gains, although the savaging of the more speculative sector of the market may be telling us that the bull's days are numbered.

In sum, the market is, yes, way overpriced, but it is also oversold, and sentiment is still too negative. A new and important advance is in the making.

STRATEGY: *Despite being stopped out, we cling to the long side. Traders are advised to go long once again as per Hotline Update of June 21, placing stops at 664.00, good anytime, basis September '96.*

Chart 5



CURRENCIES

This trade's a no-brainer

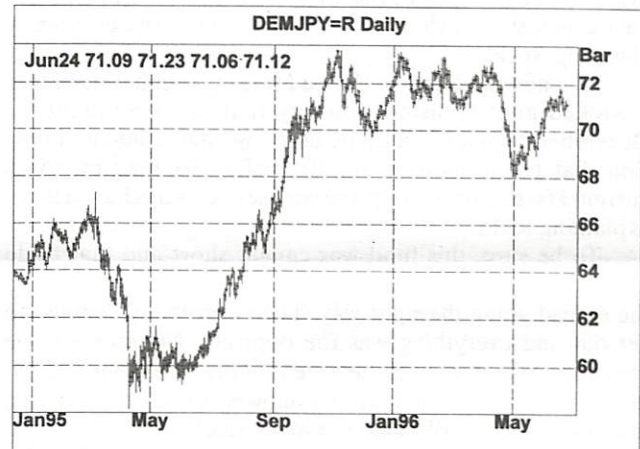
On any of a number of crosses, the DM has begun to show some resilience. This may be due to the fact that the Bundesbank has been losing its freedom to ease on account of a faster-than-expected growth in M3 and somewhat better numbers on economic activity. In fact, the economy may have hit bottom in the second quarter.

While it would appear that the Bank of Japan, too, is about to end its pump-priming operation on the basis of strong economic statistics, the evidence in our opinion is far less convincing. That is because the bump may have been caused almost entirely by the huge fiscal package put together late last year. With the end of that stimulus, the continuing shrinkage in the export surplus, and the prospective increase in the sales tax to 5% from 3%, the recovery is likely to stall. Not to mention the fact that the banking system desperately needs a low interest rate policy.

Conclusion: The long DM/short yen trade seems like a no brainer.

STRATEGY: *The long DM/short yen cross, first recommended last month, should be protected with stops at 70, basis New York close.*

Chart 6

**GOLD**

Long-term bullish, short-term cautious

Having penetrated the uptrend shown on the nearest contract charts, the market must gather momentum on the downside if in fact we are dealing with more than just a corrective phase. The level of the open interest is giving very few clues as to a potential bottoming. An analysis of its composition, however, shows that funds have become aggressive sellers by selling 26,000 contracts in the last fortnight.

The lack of downside progress in the face of this onslaught, however, *may* be telling us that there is keen commercial interest at these levels; if so, we may not be too far from a bottom.

It is also of interest to note that leasing rates are once again picking up, a sure indication that the forward sellers continue to be active. This can only be positive in the long run.

Although we remain extremely bullish long term, we do not discount a further fall in prices near term.

STRATEGY: *Traders are nervously short, trying to take advantage of the momentum. Stops have been tightened to 390.50, good anytime, basis August '96. Long-term investors remain long call options on deferred contracts.*

Chart 7



SOFT COMMODITIES**Cocoa**

On each of the 250 or so business days of the year, writers for the wire services have a daunting challenge: They must explain why the market did what it did. More often than not there is no explanation; the writers must still come up with palatable insights to help their readers cope with a constantly changing world.

So when the London Cocoa Market launches itself into a wicked and persistent journey that takes September/December from a £20 a tonne carrying charge into an inversion that got to as high as £104 before backing off to its current £60 a tonne spread, the wire service wags have a lot of explaining to do.

To be sure, this fund was caught short and that trade house was caught long and the clever mysterious investor had the spread going the right way. Then everybody decided to get out and everything was the opposite. Nonetheless, we choose to take a more distant view and ignore the whodunit factor. Any spread that can be allowed to stray so far in a market that allegedly has carryover stocks of 40% of consumption is not simply the victim of a group of traders with hormones that have run amok. At some point arbitrageurs would step in, rein in the spread, and make it accountable to the true supply/demand fundamentals. We believe this anomaly — cocoa has been in a carrying charge market for years — is something that could only occur in a market that is on the verge of tightness.

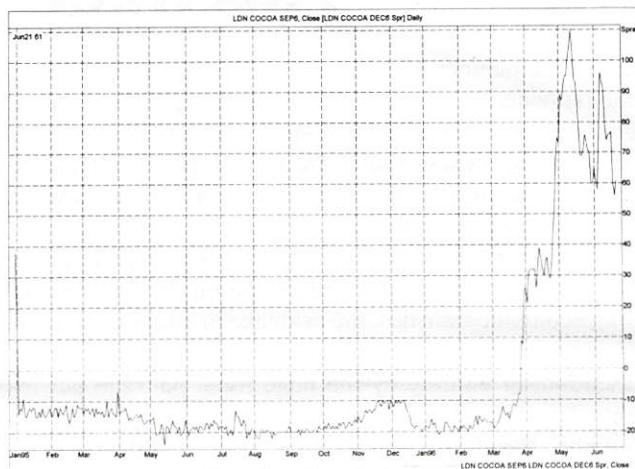
Why London, not New York? The deliverable grade of cocoa is of a higher quality in London, as the maximum bean count per 100 grams is 120. In New York one can deliver beans of 160 beans per 100 grams. Bigger beans have more cocoa fat and ultimately yield more cocoa butter. The simple conclusion is that there is a shortage of quality cocoa in the world. That's where it starts.

The most significant piece of supply-side fundamental news came on June 7 when independent forecaster Primary Commodity Research estimated the 1996-97 Ivory Coast main crop at 800,000 tonnes compared with a 1995-96 main crop of 970,000 tonnes, giving credibility to the theory that this year's 1.07 million tonne crop was indeed a flash in the pan and a final hurrah for the aging Ivorian trees. Earlier talk of a balanced production/consumption picture for the coming year can now fade in favor of a deficit that some say could be as high as 300,000 tonnes. Although it is a bit early for matching production and consumption numbers for the coming campaign, one thing is for certain: At the far end of the deficit range (300,000 tonnes), stocks would fall below the critical 30% of consumption ratio.

A clearer picture will develop of the 1996-97 crop as European trade houses are slated to release their new estimates in the coming weeks. For now, we are happy with a declining open interest which from that angle at least shows that recent strength is genuine — showing commercial activity — and not a product of commission house speculation.

STRATEGY: Remain long December '96, with stops at 1345, good anytime.

Chart 8

**Soybeans**

As the drama-packed 1995-96 corn and soybean seasons wind down, the former exits with a whimper, the latter with vigor. While historically high prices have slowed a previously insatiable corn export market to the point where two of the last four weeks saw negative outstanding sales figures (cancellations exceed new orders), soybean exports have continued at a steady pace. Where potential corn buyers are patiently waiting for new crop prices that are over a dollar per bushel cheaper, soybean importers are not complacent and are seen buying to meet their future needs. Why?

Although this is a discussion of the soy complex, its relationship with corn has become inherent. In a repeat of last year's performance, farmers could not plant the number of corn acres anticipated by the USDA because of excessive moisture. As this became apparent, it seemed that the soybean crop, which can be planted later, would be a great beneficiary, as farmers would replace acres slated for corn with beans.

Early in the planting season the USDA pegged US soybean acreage at 62.5 million acres, about the same as last year, and hardly the stuff of stock replenishing nature. In the June 12 planting intentions report, the acres garnered from corn allowed the USDA to raise soybean acreage to 64 million acres. Using the USDA's bushel yield per acre of 36.7, which incidentally is a downward revision from last month's 37 bushels per acre, the additional acreage that would be reasonably assumed to be harvested (1.4 million acres) would add 51.38 million bushels to the crop, and make ending stocks an improved but still very low 210 million bushels, or 9.13% of consumption.

There is a problem, however. The wet weather has overstayed its welcome and is wreaking havoc with planting progress. On June 16 the USDA reported that in the 19 states that produced 94% of the 1995 soybean crop, 72% of the crop had been planted compared to 73% last year and a 5-year average of 84%. Hardy a crop as soybeans may be, it is clear that the later they are planted, the worse the yield. So the

excitement over the extra one and a half million acres seems to be at least somewhat overstated.

Even without the further yield loss that has been suffered in the week since the USDA seeding progress report, we feel that the 210 million bushel 1996-97 carryover is optimistic. The USDA runs very conservative export predictions. Two independent analysts whose work we've studied expect US exports of beans to grow significantly next season, to as high as 850 million bushels compared with the USDA's figure of 805 million bushels. In line with these bulging export numbers, one analyst says that ending stocks next year will drop to 145 million bushels, or 6.2% of consumption, which if correct would indeed be a shocking state of affairs.

US exports of soybean oil to previously major customers in China and North Africa have been nothing short of disappointing. Importing countries seem to be well supplied for the moment. Nonetheless, private analysts are far more optimistic about the future than the USDA and expect export demand to spring to life come autumn as supplies of minor oilseeds start to dry up. Prices could benefit from this and the aforementioned uncertainty about the US soybean crop.

At the moment, though, some notes from abroad make

soybean meal the possible favorite horse to play in this race:

- Since the mad cow disease debacle, there has been talk that the use of bonemeal feed could be banned by the European Union. In 1995-96 EU animals consumed 1.8 million tonnes of bonemeal feed. The likely replacement: soybean meal.
- As with corn last year, China is expected to become a net importer of soymeal equivalents (beans and meal measured in meal terms) to the tune of 1.4 million tonnes, a dramatic reversal from the from their 1995-96 status as an exporter of 1.4 million tonnes of the same.
- Brazilian exports of soybean meal to South Korea will increase from 420,000 tonnes to 740,000 tonnes.

All in all, the evidence that the populations of the emerging countries are eating better and need more feedgrains to feed growing animal populations is in place. In light of the bull market environment the grains find themselves in, soy complex prices are cheap and hold much opportunity.

STRATEGY: Buy November '96 soybean and October '96 soymeal at the market. Place stops at 7.25 and 226.00 respectively, good anytime.

— Sholom Sanik

FRIEDBERG CAPITAL MARKETS

Onex Corporation

Security: Common stock (Symbol: OCX)

Exchange: Toronto Stock Exchange

Market capitalization: C\$580.68M

52-week high/low: C\$16.50/C\$10.75

Recent price: \$14.10

It has been about two years since our last review of leveraged buyout specialist Onex Corporation. Since then, operating highlights include the \$700 million takeover of Caterair International, adding 2 times the revenue base to the existing in-flight catering business, Sky Chefs. Also, ProSource Distribution acquired the National Accounts Division of the Martin-Brower Co., making it the leading systems distributor to fast food and casual dining restaurant chains.

New ventures included the purchase of Vencap Equities Alberta Ltd, investment in newly formed Phoenix Pictures, formation of Ripplewood Holdings, and the acquisition of Imperial Parking. Onex investments continued to benefit from further productivity gains as well as business growth and organizational restructuring.

The performance of the company's stock price over the past year, however, has not met with our previous expectations. Chart 9 summarizes our previous, as well as our current, valuation of Onex. We had previously estimated a stock value of approximately C\$22, which would represent a 57% increase in the current price. In trying to reconcile this difference, it became clear that valuation techniques used can be subjective and the uncertain nature of these businesses makes it difficult to identify the proper methodology to use.

Onex's airline catering and food distribution businesses represent approximately 87% of total revenues and presumably could represent a large portion of a corporate valuation as was the case in our previous analysis. It is important to note that these businesses are highly leveraged and are in the midst of major operational and organizational change. There-

fore, these characteristics should be accounted for when establishing the basis for valuation.

Another important characteristic is Onex's ability to essentially borrow without recourse where the target company's balance sheet is subject to the increase in leverage. Again, this is very significant in terms of valuation alternatives. Given the above, we have incorporated a major methodological change in our valuation. For both Sky Chefs and ProSource, we will use an option pricing model to arrive at the value of the equity.

The company essentially purchases a call option on the enterprise value (market value of debt *plus* market value of equity *less* cash) of the firm where the strike price would be the market value of debt. Chart 10 illustrates graphically the option payoff for an investment in Sky Chefs. If the entire value of the firm is not greater than the value of the debt, then the option expires out of the money and with no further liability. To value an option, there are a number of variables that first need to be estimated:

Current market price (the enterprise value of the firm)

Strike price (the market value of long term debt)

Volatility

Time to expiration

Interest rate (risk free rate)

The enterprise value (EV) of the firm can be estimated by establishing a desired return on invested capital and translating it into some multiple of earnings before interest and taxes (EBIT). Since the EV of the firm represents invested capital, EBIT/EV is the return on invested capital. Therefore, if an investor requires a 20% return, then the enterprise value must be 5 *times* EBIT, which is a known. In the case of both Sky Chefs and ProSource, we have used a required return of 20%.

The time to expiration for an option is generally set in stone; however, in this case it is uncertain as to when this option will actually expire. The company has said that value

realization for these two companies will not occur for two to three years. Thus, it would be reasonable to assume that Onex would be able to capitalize on the value created after the two or three years and in effect exercise the option. We have used three years for time to expiration for both Sky Chefs and ProSource.

Perhaps the most subjective variable would be volatility. One may argue that the historical volatility of the stock market is the appropriate measure; however, this neither captures the leveraged nature of these types of situations nor represents an undiversified volatility that by definition would be greater than that of a pool of investments. Using the volatility of similar companies (i.e., same business) may be more accurate but still may not incorporate the movement affects of highly leveraged restructuring situations. For our purposes, we have selected the historical volatility of Onex (24%) and have made an upward adjustment of 50% to allow for the diversification of Onex's portfolio. Therefore, we have incorporated a volatility of 36% in our model for both Sky Chefs and ProSource. The other variables such as the strike price and interest rate are readily available.

Using a Black-Scholes model and the estimates above, we calculated the value of an option on both Sky Chefs and ProSource. This value represents what an investor should be willing to pay for these companies at this time. This methodology offers one possible explanation for the discrepancy between our previous expectations and the current stock price. Our original valuation of Sky Chefs indicated a market value of \$288M, whereas with the addition of Caterair the current value is estimated at only \$27M. This represents a difference of approximately \$6 per share.

Using an option pricing model is probabilistic in nature. In other words, if the probability of the option ever being in the money is small, then the value of the option will be correspondingly low. Notwithstanding this, discrete outcomes

are still possible and can provide large returns to investors.

For example, before the addition of Caterair, Sky Chef's EBITDA margins had approached the 13% to 14% range through productivity gains realized by cycle-time reductions. Based on our estimates, approximately C\$6 to C\$7 per share could be added to Onex's stock price if Caterair realized these levels of productivity and efficiency.

What our option model tells us, however, is that the probability of realizing these gains is relatively small. In a highly leveraged environment, initial low EBIT margins, potentially higher interest rates, as well as a the possibility of a less favorable industry climate, are among some of the negatives that could account for this small probability.

For the other businesses, more traditional methods of valuation were used such as book values, market equity values for publicly traded companies and in one case earnings multiples characteristic of similar firms. Details of value determinants are included in Chart 9.

Our analysis indicates that Onex currently trades at a 19% to 22% discount to its estimated value. The discount can be attributed to both parent company operations and recent investor sentiment toward the lack of transparency in executive compensation. To provide a boost to the stock, Onex has recently made an issuer bid for up to 10% of the public float of subordinated voting shares. Since the announcement, the stock price has risen 85¢ to \$14.10. Perhaps, a more transparent executive compensation scheme clearly tied to shareholder value should be a consideration as well.

STRATEGY: After revising our estimates downward, we show Onex trading at a more typical discount to net asset value. We feel that the stock is fairly valued at this time and offers little over and above what is required to compensate investors for risk.

— Peter O'Sullivan

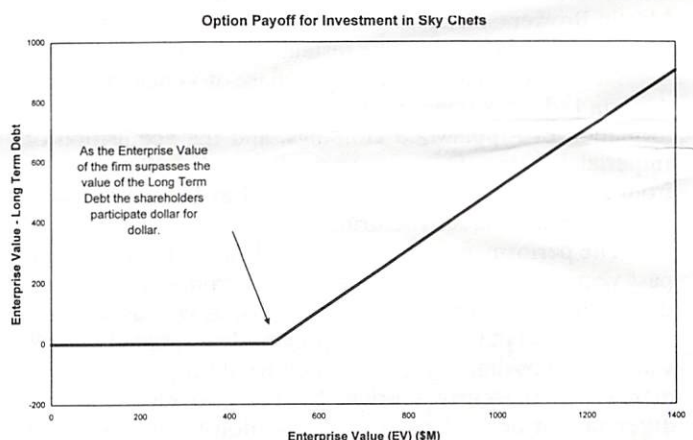
Chart 9

Holdings	Low Estimate	High Estimate	Low Estimate	High Estimate
	in 1994 (C\$M)	in 1994 (C\$M)	in 1996 (C\$M)	in 1996 (C\$M)
Automotive Industries	109	109	0	0
Johnstown America	9	9	0	0
Scotsman Industries (b)	29	29	33	33
Sky Chefs (*)	288	288	8	27
Prosource (*)	58	92	0	4
Purolator (c)	8	8	9	9
Edwards and Ripplewood (d)	0	0	11	11
Dura Mechanical (i)	18	19	36	36
Tower Automotive (a)	49	56	102	102
Alliance (e)	0	0	18	18
Vencap (f)	0	0	37	37
Phoenix Pictures (g)	0	0	17	17
Dayton Superior	5	15	0	0
Cash and Equivalents (h)	350	350	443	443
Total Estimated Net Asset Value	923	975	714	737
Estimated per Share Value	22.51	23.78	17.41	17.98
Current Price	14.00	14.00	14.10	14.10
Estimated Discount	37.81%	41.13%	19.03%	21.56%

(a) Tower Automotive equity value readily available on NASDAQ with ticker TWER.
 (b) Scotsman equity value readily available on the NYSE with ticker SCT.
 (c) Estimated Value based on previous sale of 58% to Canada Post for \$37M.
 (d) Value carried on Balance Sheet (December 1995)
 (e) Includes both the \$16.5M face value of convertible debt plus an approximate option value of \$4M.
 (f) Realization of \$19M on purchase (ie. estimated value less cost) plus initial cash investment of \$25M.
 (g) Value carried on Balance Sheet (December 1995)
 (h) Cash at December 1995 was \$366M plus \$77M Investment in Marketable Securities
 (i) Enterprise Value to EBIT multiple estimated using similar public companies.

(*) Market Value of Equity determined by Black Scholes option model (Low - 20% volatility, High - 36% volatility)

Chart 10



FRIEDBERG CAPITAL MARKETS

New Zealand commercial real estate: Trans Tasman Properties

Over the last three months, commercial real estate companies have been anything but overachievers. In fact, the New Zealand stock market in general has been hit hard by rising interest rates caused by political uncertainty, tight monetary conditions, and higher US interest rates. Property companies are particularly sensitive to interest rates and as a result have suffered substantial declines in their stock prices.

For example, the company that has incurred the largest percentage drop in price has been Trans Tasman Properties (TTP). Near the end on March 1996, its price was NZ\$84¢ compared with NZ\$66¢ at the June 21, 1996, closing, representing a 21% decline. We believe that the fundamentals of this sector suggest a turnaround in the fortunes of these companies.

The commercial property sector in New Zealand consists of central business district commercial space (CBD), retail space, and industrial space. The latter two have managed to keep pace with growth in terms of supply creation and have relatively lower vacancy rates than CBD. The oversupply of CBD space in the late 1980s was the combined result of positive future expectations and the collapse of the NZ equity market. Currently, this overcapacity is being eliminated, as illustrated by the rapid decline in CBD office vacancy rates. As vacancy rates decline, companies with exposure to this sector will benefit.

The outlook for both the general level of interest rates and the growth in New Zealand are other supportive fundamentals. We believe interest rates will begin to decline in the second half of 1996 for the following reasons: inflationary pressures, especially within the residential real estate market, will be such that the reserve bank will move to loosen monetary policy; and the political risk premium will decline as investors realize that the likelihood of an electoral outcome that would significantly impact existing policy is remote. Therefore, lower property capitalization rates (as a function of interest rates) will result in higher stock valuations.

The outlook for growth in New Zealand, albeit lower than past experience, is positive. We expect GDP growth rates of between 3% and 4% for the next 3 years. Continued growth will serve to eliminate the remainder of the CBD overhang and put upward pressure on rental rates.

The company that stands to gain the most from this scenario would be Trans Tasman Properties (TTP). As discussed above, it has suffered the greatest decline in stock price. It is also the company with the greatest amount of leverage, with a debt to equity of approximately 112% and interest coverage of 1.8 times. We anticipate, however, that the leverage will have the same impact on the upside as it did on the downside in terms of stock price volatility. TTP also has the largest exposure to the CBD market, which is where the greatest opportunity lies. Finally, TTP is currently trading at a significant and likely overdone discount of 33% to net tangible asset value (NTAV).

There are two negatives associated with TTP. The first involves the amount of debt the company carries. As discussed above, the company suffered the greatest percentage stock price decline owing to high debt levels. Although this volatility can have a negative impact, we believe that the upside potential clearly outweighs the risk of any further declines in the stock price.

Secondly, TTP's portfolio has a significant amount of over-renting, which relates primarily to the pre-merger Seabil portfolio. This is no secret, however, and is likely to be included in the current stock price. To the extent that the CBD sector outperforms, the level of over-renting will be eliminated more quickly than expected with further benefits accruing to TTP.

The upside potential can be realized through either a pure stock play or through the 9% convertible capital notes. You will recall that the notes are convertible at maturity. If the noteholder elects to receive stock, each note is exchangeable for one share. If the noteholder elects to receive cash, each note is exchangeable for face value (NZ\$1.00). However, the company may override this election and convert the notes to common stock with a market value of \$1.00. These notes currently have an asset coverage of 1.26 times, which incorporates a conservative 20% discount to current property market values.

Industry analysts had previously estimated the potential NTAV of TTP at approximately NZ\$1.30 by maturity in 1999. Since that time, industry fundamentals remain unchanged and positive, particularly in the Auckland and Wellington CBD sectors. Therefore, depending on the discount to NTAV at maturity (which will surely be less than the current discount given reduced debt levels), additional upside potential could be realized as exhibited in Chart 12.

STRATEGY: *We see the fundamentals as supportive for higher security prices in the commercial real estate sector, particularly in CBD office rentals. TTP is poised to benefit from these developments and to rebound from a severe battering of its stock price primarily due to higher interest rates. We recommend an increased exposure to TTP. For those investors looking for downside protection, the 9% convertible notes are currently yielding approximately 14% with further potential upside. On the basis of our analysis, the expected YTM would be as high as 22.20%, which assumes no discount to NTAV by 1999.*

— Peter O'Sullivan

Chart 12

Stock Price	100.00	105.00	110.00	115.00	120.00	125.00	130.00
YTM	14.02%	15.50%	16.93%	18.31%	19.65%	20.94%	22.20%

Chart 14 — Foreign Currency Bonds

DATE: June 21, 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					
World Bank 5 7/8% 4/02/97 RRRSP eligible	100.85	101.70	2.95		Feb-04
World Bank 7 1/4% 13/10/99 RRRSP eligible	106.50	-	-		Oct-13
World Bank 9% 13/11/00 RRRSP eligible	114.05	-	-		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	102.45	103.30	4.18		Apr-15
Argentina 8% 5/10/98	102.55	-	-		Oct-05
Kgdm. of Spain (6 Mo. LIBOR-1/16) 29/6/02 (semi)	99.70	-	-	3.6875	Jun-28
CZECH REPUBLIC KORUNA BONDS					
General Electric Cap. Corp. 10.5% 23/10/98	99.65	-	-		Oct-23
Nordic Invest. Bk. 10 6/25% 10/11/00	99.50	100.35	10.48		Nov-10
Intl. Fin. Corp. 10% 30/4/98	99.65	100.50	9.65		Apr-30
SWISS FRANC DENOMINATED BONDS					
General Electric Cap. Corp. 4 3/4% 2/7/98	102.00	-	-		Jul-02
General Electric Cap. Corp. 4 1/2% 17/12/99	103.25	-	-		Dec 17 1996
DANISH KRONE DENOMINATED BONDS					
Kgdm. of Denmark 9% 15/11/96	101.20	102.05	3.47		Nov-15
ECU DENOMINATED BONDS					
United Kingdom 9 1/8% 21/02/01	110.80	111.65	6.15		Feb-21
BRITISH POUND DENOMINATED BONDS					
European Inv. Bk. 7% 22/12/98	100.65	101.50	6.31		Dec-22
JAPANESE YEN DENOMINATED BONDS					
World Bank 5 3/4% 7/8/96 RRRSP	100.15	101.00	-		Aug-07
CANADIAN DOLLAR DENOMINATED BONDS					
Exaportfrans 7 3/4% 5/11/97	101.55	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/1/97 RRRSP eligible	101.35	102.60	3.95		Jan-07
Ontario Province 10 5/8% 15/7/98 RRRSP eligible	107.10	108.35	6.16		Jul-15
SOUTH AFRICAN RAND DENOMINATED BONDS					
ESCOM 11% 16/08 (semi)	75.80	76.65	15.32		Dec-01
AUSTRALIAN DOLLAR DENOMINATED BONDS					
Toronto Dominion Bk. Aust. 7 25% 26/2/99 RRRSP eligible	97.35	98.20	8.00		Feb-26
NEW ZEALAND DOLLAR DENOMINATED BONDS					
World Bank 12 5/8% 25/7/97 (semi) RRRSP eligible	103.40	104.25	8.30		Jul-25
World Bank 8 25% 30/4/99 RRRSP eligible	99.40	100.25	8.13		Apr-30
New Zealand Govt 10% 15/7/97 (semi)	100.10	-	-		Jul-15
New Zealand Govt 8% 15/7/98 (semi)	97.75	98.60	8.76		Jul-15
Fletcher Challenge 10 75% 15/12/97 (semi)	99.80	100.65	10.26		Dec-15
Fletcher Challenge 10 15% 30/11/98 (semi)	98.80	99.65	10.31		Nov-30
Trans Rail Ltd. 10% 15/10/99 (semi)	98.45	99.30	10.24		Oct-15
Trans Tasman 5% 27/6/99 (semi)	87.40	88.25	14.39		Jun-27
St. Luke 8.7% 1/4/99 (semi) CV @ 1.00 p/ah	114.00	115.00	12.59		Oct-01
ARGENTINE PESO DENOMINATED BONDS					
Boccon Pre 1: 1/4/2001	103.35	105.10	13.92		May-01-97
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS					
Atari Corp. 5 1/4% 29/4/02 CV@16.31 p/ah	68.25	-	-		Apr-29
Coeur D'Alene 6% 10/5/02 CV@26.00 p/ah	94.50	96.00	6.84		Jun-10
U.S. DOLLAR DENOMINATED FIXED RATE BONDS					
Queensland Tres. (Gold Bull) 2% 4/2/98	92.70	94.70	-		Mar-04
World Bank 7 1/8% 27/9/99 (semi) RRRSP eligible	101.55	102.40	6.29		Sep-27
T.W.A. 12% 3/11/98 (semi)	102.50	103.35	-		N/A
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES					
Kgdm. of Denmark 25/3/97 (Gold call, JY put, semi)	91.75	-	-	7.534	Sep-25
United Kgdm. 30/9/96 3 mo LIBID-1/8 (qty), callable @100	99.87	100.17	-	5.2500	Jun-28
Canada Govt 10/2/99 3 mo LIBOR - 1/4 (qty), callable @ 100 RRRSP eligible	99.61	99.91	-	5.25	Aug-13
Boccon 144/1 (30 day LIBOR) starts paying May 1, 97	111.70	112.55	10.75		May-01-97
Argentina: Series L FRB 31/3/05, 6 mo LIBOR+13/16 (semi)	75.25	76.75	12.38	6.249375	Sep-30
Venezuela: DCB: 18/12/07, 6 mo LIBOR+7/8 (semi)	69.65	70.50	14.71	6.625	Dec-20

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

HOTLINE UPDATE

Tuesday, May 28, 1996:
 Good afternoon for Tuesday, May 28. There are no changes or new recommendations.

Friday, May 31, 1996:
 Good afternoon for Friday, May 31. We have one new recommendation: Lower stops on short T-bonds to 110.16, basis September, close only.

Flash Update, Tuesday, June 4, 1996:
 Good morning for Tuesday, June 4, 10:50 am. This is a flash update. Liquidate long corn positions at the market. July is presently trading at 4.58.

Flash Update, Wednesday, June 5, 1996:
 Good morning for Wednesday, June 5, 9:45 am. This is a flash update. Cover short September T-bond positions at the market, presently trading at 107.18, cancelling the stop at 112.26, close only.

Flash Update, Friday, June 7, 1996:
 Good morning for Friday, June 7, 9:00 am. This is a flash update. We have two new recommendations:
 ● Buy September bonds at 107.05 stop. This order cancels at 11:00 am New York time today. If filled, place sell stops at 106.01, good anytime. And, due to an unusually volatile expected opening on the S&P, we are changing the 664.00 stop, good anytime to 664.00, good anytime, after 12:00 noon, New York time today only. Subsequent to today, it will revert to 664.00 stop, good anytime.

Friday, June 7, 1996:
 Good afternoon for Friday, June 7. There are no changes or new recommendations. The following is a recap of this week's recommendations.
 ● On Tuesday, June 4, via flash update, we advised to liquidate long corn positions at the market, then trading at 4.58.
 ● On Wednesday, June 5, via flash update, we advised to cover short September T-bond positions at the market, then trading at 107.18, cancelling the stop at 110.16, close only.
 ● This morning, via flash update, we advised to buy September bonds at 107.05 stop, for Friday only. This order was to be cancelled at 11:00 am New York time today. Our bond recommendation was not triggered, but keep in contact Monday morning for a possible recommendation. In addition, due to an unusually volatile expected opening on the S&P, we changed, via the same flash update, the 664.00 stop, good anytime, to 664.00, good anytime after 12:00 noon, New York time for today only. A tick analysis shows that at 1:54 pm New York time, the S&P did touch a low of 663.80, triggering our revised stop. For those who were stopped out, we recommend to reinstate the long S&P position at the market, placing a new stop at 664.00, good anytime.

Flash Update, Tuesday, June 11, 1996:
 Good morning for Tuesday, June 11, 10:30 am. This is a flash update. **FOR TRADERS ONLY:** Sell August gold at the market, presently trading at 386.80, placing stops at 391.00, good anytime.

Tuesday, June 11, 1996:
 Good afternoon for Tuesday, June 11. We have one new recommendation: Those of you long July cocoa should now roll forward to December, placing stops at 13.45, good anytime.
 We repeat the flash update of this morning **FOR TRADERS ONLY** to sell August gold at the market, then trading at 386.80, placing stops at 391.00, good anytime.

Friday, June 14, 1996:
 Good afternoon for Friday, June 14. There are no change or new recommendations. The following is recap of this week's recommendations:
 ● On Tuesday, June 11, we recommended that those who were long July cocoa should roll forward to December, placing stops at 13.45, good anytime. Also, **FOR TRADERS ONLY** to sell August gold at the market, then trading at 386.80, placing stops at 391.00, good anytime.

Tuesday, June 18, 1996:
 Good afternoon for Tuesday, June 18. There are no changes or new recommendations.

Flash Update, Friday, June 21, 1996:
 Good morning for Friday, June 21, 9:25 am. This is a flash update. Buy September T-bonds at the market, presently trading at 107.08.

Friday, June 21, 1996:
 Good afternoon for Friday, June 21. We have one new recommendation: Buy September S&P at the market, placing stops at 664.00, good anytime. And we repeat our flash update of this morning to buy September T-bonds at the market, then trading at 107.08.
 This is a complete summary since our last market letter dated May 27, of all liquidations of open positions and new recommendations that remain outstanding.
 ● On Tuesday, June 4, via flash update, we advised to liquidate long July corn positions at the market, then trading at 4.58.
 ● On Wednesday, June 5, via flash update, we advised to cover short September T-bonds at the market, then trading at 107.18, cancelling the stop at 110.16, close only.
 ● On Friday, June 7, via flash update, we advised that due to an unusually volatile expected opening on the S&P, we changed the 664.00 stop, good anytime, to 664.00, good anytime after 12:00 noon. Subsequently, after Friday, June 7, it was to revert back to 664.00 stop, good anytime. A tick analysis shows that at 1:54pm New York time, the S&P did touch a low of 663.80, triggering our revised stop. For those who were stopped out, we recommend to reinstate the long S&P position at the market, placing a new stop at 664.00, good anytime. The position was subsequently stopped out on June 14.
 ● On Tuesday, June 11, via flash update, we advised **FOR TRADERS ONLY** sell August gold at the market, then trading at 386.80, placing stops at 391.00, good anytime. On Tuesday, June 11, we recommended that those who were long July cocoa should then roll forward to December, placing stops at 13.45, good anytime.

Chart 13

Recommended current portfolio allocations

- 1. Queensland 15%
- 2. Trans Tasman 9% (NZ\$) 10%
- 3. Venezuela DCB 5%
- 4. St. Luke CV (NZ\$) 10%
- 5. Czech koruna 15%
- 6. 8% New Zealand Govt. (NZ\$) 20%
- 7. Pre I 25%

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