

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



Volume 18, No. 10 December 7, 1997

Safe for Capitalism?

In an impressive display of international cooperation and political resoluteness, multilateral agencies and the world's major central banks fashioned the third and, so far, the biggest bailout package in the continuing Asian crisis.

To tell the truth, their timing was impeccable. A wounded but stoic South Korea was allowed to bleed until it could no longer stand on its feet. Rebuffed in its attempt to obtain direct, bilateral help, the desperate Korean government found no escape but to submit to the IMF.

A war of nerves ensued, the Koreans prematurely announcing an agreement, and the IMF stalling, waiting for their complete capitulation on terms. In the end, the draconian conditions attached to the US\$57 billion loan represented and sought nothing less than a complete transformation of the Korean economy (see Chart 1).

The objective — to deregulate and liberalize the world's sixth largest economy — was more than meritorious. Taking a leaf from President Woodrow Wilson's famous address to Congress in April 1917 that the world must be made safe for democracy, the czars of world finance intended to make the whole of Asia — and South Korea in particular — safe for capitalism. Good intentions aside, we wonder if that was the best alternative.

While not exactly a Treaty of Versailles, one can't help but fear that in the eyes of this hard-working and nationalistic nation, the US Secretary of Treasury and his cohorts practiced a rough-and-tumble form of economic imperialism. We have yet to see if Western conditionality will work in Asia.

Was there a better alternative? We believe that, indeed, there was: Allow Korea — and Thailand and Indonesia — to find their own way. This would have meant the renegotiation and rescheduling of the international debt, or default in the extreme. If the reckless creditors were not reasonable, they would risk losing it all. Chances are that losses would have been shared between local debtors, governments, and international creditors. Instead, the IMF deal bailed out most of the creditors, shifting the entire onus of the adjustment on to the debtors — or at least that is the way the humiliated debtors will come to see it. (We too see it that way, although we appreciate something that the Koreans, the Indonesians, and the Thais don't: the quid pro quo obtained).

In prying open their economies and markets, the IMF opened the way for foreign investors, banks among them, to scoop up distressed assets, enterprises, and financial institutions — or at least that is the way the debtors will see it (we too see it that way, although we understand — and they won't — that foreign capital is, on balance, positive for a country). In short, it

would have been better for the debtors to find their own way out.

Perhaps, in a fit of self-enlightenment, they would have found the correct answers. Perhaps, not. Life would have gone on, and we would not have risked the potential outbreak of nationalism. There is, however, another reason why the non-interventionist alternative was preferable. It is called moral hazard.

Coming just three years after the Mexican debacle, the saviors should have known that their 1995 bailout effort was the efficient and formal cause (in the Aristotelian sense) of the 1997 Asian crisis.

Having lost the fear of losing through default, international investors and lenders, primarily the latter, piled on emerging markets. In their view, they collected free money in the form of excess returns. Even as spreads narrowed and equity multiples soared, the game was worth playing simply because the players could not lose. International banks, financial institutions, and investors can now act safe in the knowledge that the IMF & Co. will provide a safety net to

In this issue

3 The Far East
Reflections on Asia's debt deflation

5 Stock Indexes
Was that it?

5 Gold
Who sell first, sells best?

6 Japan
House of cards

7 Crude Oil
Bearish but not short

7 Foreign Affairs
Saddam Hussein's day off

8 Copper
The growling bear

9 Soy Complex
Take five

10 Sugar
Stay long in complacent market

12 Hotline Update

Contributions by Albert D. Friedberg, Dr. Steve H. Hanke, Mark Helprin, and Sholom Sanik.

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

protect them from some, or even most, of their losses.

The risks are increased by such moral hazard — reason enough to allow one or all of the stressed debtors to default. The Southeast Asian bailout is certain, as night follows day, to cause another, and probably bigger, financial crisis in the near future — surely less than three years away.

Finally, there is the question of responsibility for the financial mess in which almost one third of the world's GDP finds itself and, which, as it spreads, threatens to engulf the entire globe in an economic debacle. Ultimate responsibility lies not with the "failed" policies of the Asian countries or of Brazil or Russia, but with the bankrupting policies of the US Federal Reserve, which for the past 15 years has created excessive quantities of money and credit. Regretfully, this

monetary inflation did not inflate domestic prices. Instead, it was exported to the rest of the globe and inflated assets from Manila to Kuala Lumpur, from Shanghai to Seoul, from Moscow to São Paulo. And it continues to be created under the specious argument that consumer prices are still moderating, that Asia is in a deflation (*that* bubble is burst, but new ones are expanding), that the price of gold indicates that the Fed, if anything, is too tight (see our counter-argument on this point in our discussion on gold).

Until the Fed owns up to the real problem — the discretionary management of its own balance sheet — financial booms and busts of ever greater amplitude will be with us for a long time. We may have made the world safe for capitalism, for now. But not for long.

CHART 1 — Long on Objectives, Short on Deadlines

Republic of Korea: Summary of economic program

MACROECONOMIC TARGETS

- Maintain real GDP growth of about 3.0% in 1998, followed by recovery toward potential in 1999. GDP grew 6.0% in 1997
- Narrow the current account deficit to below 1% of GDP in 1998 and 1999
- Contain inflation at or below 5.0% in 1998. Inflation was 4.3% in 1997

MONETARY AND FOREIGN EXCHANGE RATE POLICY

- Tighten monetary policy immediately to restore calm to markets
- Increase money market rates temporarily to rise to a level that stabilizes the markets
- Limit money growth in 1998 to a rate consistent with maintain inflation at 5% or less
- Allow the exchange rate to float with intervention limited to smoothing operations

FISCAL POLICY

- Maintain tight fiscal policy in 1998 to fund the costs of restructuring the financial sector
- Maintain at least a balanced budget by taking measures amounting to 1.5% of GDP to offset the impact of lower growth and costs of restructuring financial sector.
- Budget balance to be achieved by revenue and expenditure measures to be determined shortly. Measures may include widening corporate, income and value-added taxes and realigning expenditure policies

RESTRUCTURING FINANCIAL SECTOR

- Government passage of revised Bank of Korea Act, providing for central bank independence with price stability its main mandate
- Government passage of bill consolidating the supervision of banks, securities firms, insurance companies and financial services companies
- Government passage of bill requiring corporate financial statements be prepared on consolidated basis and be certified by external auditors
- Establish an exit strategy for troubled financial institutions including closures and mergers and acquisitions by domestic and foreign institutions
- Clear principles on sharing of losses among equity holders and creditors will be established
- Accelerate the disposal of nonperforming loans
- Phase out present blanket guarantee to be replaced by a limited deposit insurance scheme
- Establish a timetable for all banks to meet or exceed Basle standards and upgrade prudential standards to meet Basle core principles
- Any support to financial institutions will be given on strict conditions
- All support to financial institutions, other than central bank liquidity credits, will be provided according to pre-established rules and recorded transparently
- Strengthen accounting standards and disclosure rules to meet the international standards and audit financial statements of large financial institutions by internationally recognised firms
- Increase manpower in the unit supervising merchants banks for effective supervision and proper handling of troubled banks
- Accelerate schedule for allowing foreign entry into domestic financial sector, including allowing foreigners to establish bank subsidiaries and brokerage houses by mid-1998
- Monitor borrowing and lending activities of overseas branches of Korean banks to ensure they are sound. Non-viable branches to be closed
- Review Bank of Korea's international reserves management with intention of bringing it closer to international practice
- Deposits of overseas branches of domestic banks will not be increased further, but gradually withdrawn as circumstances allow
- Encourage financial institutions to improve their risk assessment and pricing procedure and the strengthen loan recovery, action in this areas will be reviewed as part of prudential supervision

TRADE LIBERALIZATION

- Elimination of trade-related subsidies, under WTO commitments, under a timetable to be set at the first IMF review
- Elimination of restrictive import licensing
- Elimination of import diversification program restricting Japanese imports
- Streamline import certification procedures and improve transparency

CAPITAL ACCOUNT LIBERALIZATION

- Liberalization of foreign investment in the Korean equity market by increasing ceiling on aggregate ownership to 50% by end-1997 and 55% by end-1998
- Allow foreign bank subsidiaries, seeking to purchase equity in domestic banks in excess of current 4.0% limit, to do so by mid-1998, provided acquisition contributes to efficiency and soundness of banking sector
- Allow foreigners to purchase, without restriction, domestic money market instruments.
- Allow foreign investment, without restriction, in the domestic corporate bond market
- Further reduce restrictions on foreign direct investment through simplification of procedures.
- Eliminate restrictions on foreign borrowings by corporations

CORPORATE GOVERNANCE AND STRUCTURE

- Improve transparency of corporate balance sheets through independent external audits, fuller disclosure and provision of consolidated statements for business conglomerates
- No government intervention in bank management and lending decisions
- Any remaining "directed lending" to be further reduced further in 1998
- No government subsidies or tax privileges to bail out individual corporations
- Maintain the "real name" system in financial transactions, although with some possible revisions
- Take measures to reduce the high debt-to-equity ratio of corporations and develop capital markets to reduce share of bank financing by corporations
- Take measures to change the system of mutual payment guarantees within conglomerates to reduce the risk it involves

LABOR MARKET REFORM

- Strengthen capacity of new Employment Insurance System to help redeploy labour in parallel with further steps to improve labor market flexibility

DISCLOSURE OF INFORMATION

- Regularly publish data on foreign exchange reserves, including the composition of reserves and net forward position with a two-week delay initially
- Publish data twice yearly on financial institutions, including nonperforming loans, capital adequacy, ownership structure and affiliations

THE FAR EAST**Reflections on Asia's debt deflation***By Steve H. Hanke*

Asia is in the grip of a self-made debt deflation. Over-investment and over-leveraging financed by a credit boom have created bubbles that are just starting to burst as distressed financial institutions and businesses go to the wall. As the liquidation and consolidation process builds up a head of steam, asset prices in the region will continue falling until they reach market-clearing levels. The "Austrian" theory of the trade cycle, emanating from over-investment fed by excess credit, is alive and well in Asia.

There is no doubt about it: Deflation will engulf Asia. The region's deflation will have a negative knock-on effect in the markets for US equities, and will continue to motivate the re-pricing of risk in emerging markets, pushing asset prices down and causing vulnerable currencies to be devalued.

How did Asia get itself into such a pickle? To answer this question, we must understand the nature of hedge, speculative, and Ponzi financing. A business hedge-finances if its anticipated cash receipts exceed contractual payment commitments on its debt in each payment period. Businesses that hedge-finance are not directly susceptible to adversity from changes in financial markets. The only way that these businesses can become troubled is if their cash receipts fall short of expectations. Consequently, about the only way hedge financiers can get into big trouble is if they borrow in a foreign currency and their revenues are generated in currencies that have been devalued against the currency that their debt is denominated in. Alas, devaluations have swept through Asia, so even the prudent Asian hedge financiers have been caught with huge currency mismatches and are in big trouble.

Speculative financing occurs when anticipated total cash receipts exceed total commitments, but anticipated cash flows in some periods (typically near-term periods) fail to cover both interest plus principal commitments. Speculative financing involves the short-term financing of long-term positions and requires maturing debt to be rolled over. Businesses that are engaged in this type of finance — for example, commercial banks — are speculating that they will be able to roll over short-term debt obligations on favorable terms. Consequently, because of maturity mismatches, speculative financiers are vulnerable to increases in short-term interest rates on the liabilities they have incurred to finance their long-term assets. And this is just what has happened in Asia. Add to this the fact that many of Asia's speculative financiers have borrowed in foreign currencies and you can see why the burden of rolling over their short-term liabilities has become prohibitive.

To appreciate the magnitude of the rollover problems created by speculative financing, consider what faces the Korean banks. Their foreign sector debt stood at \$89 billion at the end of June, and \$78 billion of that total is less than 1-year in maturity, with \$37 billion maturing before the end of 1997. It's no wonder the IMF's Korean bailout package will set a world record, topping the tab of \$50.8 billion for the Mexican bailout of 1995. Alas, about the only thing Korea's \$57 billion bailout package will do is supply some short-term relief for

Korean banks facing immediate liquidity and rollover problems.

Ponzi financing — which, thanks to the cozy relationships between many Asian debtors and their political pals — characterized many Asian businesses even before the current crisis. It occurs when anticipated cash receipts aren't great enough to cover interest commitments. Consequently, Ponzi financiers must take on additional debt just to make their interest payments — interest must be capitalized into their liability structures.

The currency devaluations and the interest rate increases — the re-pricing of risk — in Asia, have pushed financial institutions and businesses away from the hedge financing toward the Ponzi financing end of the spectrum. Consequently, Asia has moved from being overindebted to being super-overindebted. This will trigger a debt deflation and a downward spiral in asset prices.

* * * * *

The classic debt deflation will take the following course:

- Debt liquidation will lead to distress selling.
- A contraction in demand deposits as loans are paid off will occur.
- This will slow down the velocity of money circulation.
- This will cause a fall in the general level of prices.
- This will lead to a further fall in the net worths of businesses, which will precipitate more bankruptcies.
- A fall in profits, often resulting in losses, will also occur.
- This will lead to a reduction in output, in trade, and employment.
- These losses, bankruptcies, and unemployment will generate pessimism and a loss in confidence.
- These waves of pessimism will result in more hoarding and further reductions in the velocity of money circulation.
- The debt deflation process will eventually run its course, but only after asset prices have hit bargain basement levels.

Japan, which has moved at a snail's pace to allow the air to come out of the "bubble economy," is already in the throes of this debt deflation process. GDP has contracted by 1.4% in the 6 months to September. Asset prices are falling like stones, and new construction and housing starts are down on a year-over-year basis by 31.7% and 22.2%, respectively. And even though the Bank of Japan's discount rate has been 0.5% for months, broad money is increasing only at about a 3% rate, while the monetary base is increasing at about 7%, a relationship that signals deflation. And the divergence between broad money measures and the monetary base promises to widen in the coming months, as depositors step up their withdrawals from financial sector weaklings and fail to redeposit into stronger institutions, preferring "mattress money."

* * * * *

Asia will witness a massive shakeout and reorganization of financial institutions and businesses in the coming months. Indeed, Asia faces much more the

faces an insolvency problem. That's why the IMF's liquidity injections are roughly equivalent to giving a patient with massive internal injuries and bleeding an aspirin. The region doesn't need the IMF technocrats. It needs the likes of Al "Chainsaw" Dunlap, a CEO who over the past year has stemmed the flow of red ink at Sunbeam and turned it into profit flows of 39¢ per share in the third quarter.

The financial and industrial landscapes aren't the only things that will change in Asia. With the coming economic shakeouts, the cozy political relationships that have existed for decades will also be dramatically altered. There is already political turmoil in India and Pakistan. And don't forget China. China has 5 million workers officially listed as unemployed and 145 million who are wandering without work in the countryside. When Premier Jiang's proposed restructuring of China's state-owned enterprises bites, unemployment could swell by another 40 to 50 million workers. This will push the unemployment rate to over 20%, a rate that might even shake the foundations of China's Communist Party.

* * * * *

President Clinton and many analysts who are enamored of the healing powers of the IMF's medicine aren't troubled by the Asian crisis. As the President said, it amounts to nothing more than "a few glitches in the road." The president must be reading *Alice in Wonderland*. Indeed, unlike the Latin liquidity crisis of 1995, the Asian insolvency crisis of 1997 will prove to be more than a glitch in the road. After all, Latin America has only 8.3% of the world's population and accounts for only 4.1% of the world's exports. Asia, on the other hand, has 55.8% of the world's population and accounts for 24.7% of the world's exports. Since an insolvency problem is much more serious than a liquidity problem, and since Asia is much

larger than Latin America, it doesn't take a rocket scientist to see that the problems emanating from Asia will be much more troublesome than those generated in Latin America during 1995.

Asia has excess capacity and the potential to increase its share of the world's trade. The region — with the exception of China and Hong Kong — also has newly devalued currencies, which will help put its excess capacity to work in foreign export markets. These cheap exports are bound to squeeze many profit margins around the world. Without the fuel of double-digit earnings growth rates, the sky-high price-earnings ratios in US equity markets can't be sustained. Consequently, Asian exports will bring the great US bull market to an end. This will have a negative knock-on effect throughout the world's other equity markets.

And this isn't the end of the story. The industrial, financial, and political restructuring in Asia will continue to motivate the re-pricing of risk in the emerging markets. The resulting higher interest rates and, yes, more devaluations will mean that more and more financial institutions and businesses in vulnerable emerging markets will be forced to slide away from hedge toward Ponzi financing.

In this debt deflation environment, cash will be king.

Steve H. Hanke, Ph.D., is Professor of Applied Economics at Johns Hopkins University, a regular columnist of Forbes magazine, and Chairman of Friedberg Mercantile Group, Inc., of New York.

STRATEGY: *Liquidity and risk-aversion are the order of the day. Remain long US Treasury securities across the yield curve spectrum. Watch for new explosions, this time in Central and Eastern Europe, Russia, Brazil, and the two Asian tigers that have as yet not bitten the bullet: Malaysia and the Phillippines.*

Chart 2 — Malaysian Ringgit

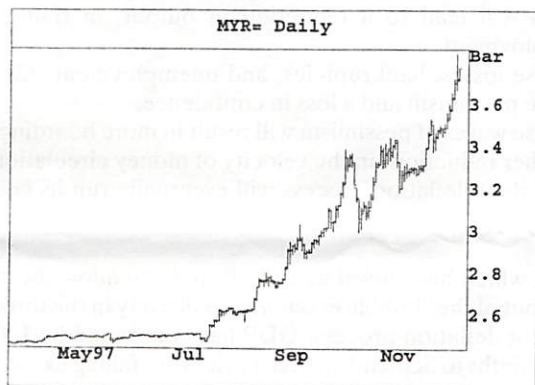


Chart 3 — Czech Koruna

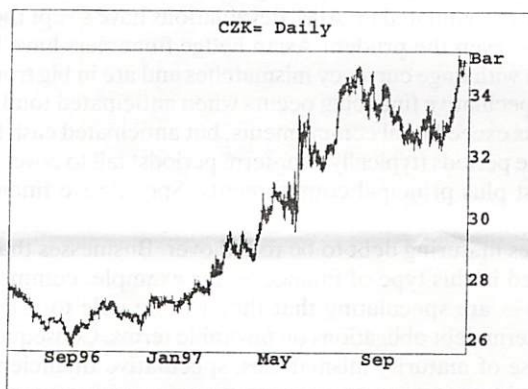
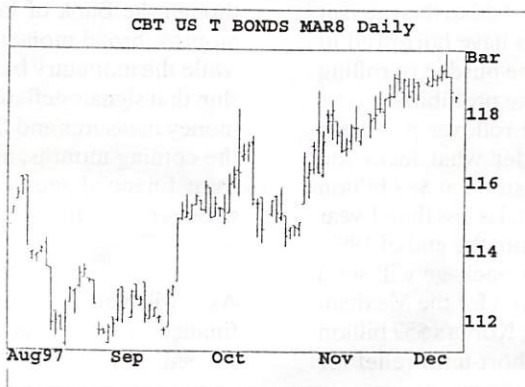


Chart 4 — CBT US T-Bonds



STOCK INDEXES

Was that it?

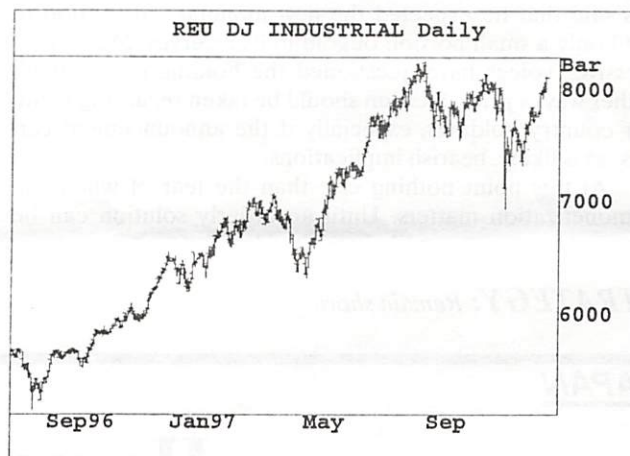
Was that it? (Borrowed from "Crisis, what crisis?" penned by Tony Jackson, *Financial Times* Dec. 6/7, 1997). It seems so. With public liquidity taking the place of retreating private liquidity, a financial Armageddon seems to have been averted, at least for now. (See our earlier comments in "Safe for capitalism?").

Fear, the basis for our bearish equity case, has been quelled by the deft and superbly coordinated bailout orchestrated by the IMF. That the problem has only been swept under the rug is not well understood or of *immediate* concern to Western markets. A new bear market can now be predicated only upon a devastation of corporate profits caused by the pincer movement of rising labor cost and weak pricing power.

Economic rather than financial considerations will take center stage in the coming year. The fourth-quarter earnings report due after the first week of January may provide the first clue of the impending squeeze on profits.

STRATEGY: *Stopped out of all short positions at approximately 952 and 7785, basis S&P 500 and Dow Jones Industrials Index respectively, as per our Hotline Update of Nov. 20. Stand aside.*

Chart 5

**GOLD**

Who sells first, sells best?

It has begun to dawn on the market that central banks are serious about demonetizing. The most recent sale of gold by Argentina — it disposed of its entire holdings of 124 tons — was highly significant for the following reasons: a) It did not come from a European nation, which until now had been thought to want to lighten up holdings in anticipation of the new European Central Bank to be formed in the middle of next year; b) was not announced until almost six months later, arousing suspicion that sales from other quarters have yet to be announced; c) clearly expressed the fear that prices could head lower ("the central bank has been permanently concerned about possible fluctuations in the gold price...").

The delayed report may have more to do with timing the sale so as to show a "profit" (the bank said that it had staved off losses of \$301 million, the difference between the price received, \$370.22 an ounce, and the price on the day of the announcement, \$295 an ounce) and overcome the public's deep-seated attachment to gold, than with any other strategic consideration.

As we have pointed out for much of the past year, it is not the actual pace of official disposals that depresses prices — they have been relatively modest in relation to the mining gap — but rather the fear that all central bank gold will be disposed of. What started out as a trimming of European holdings in anticipation, as mentioned above, of new monetary arrangements for the common European currency, has evolved into a fear of wholesale dumping. Worse yet, there

has been no indication that central banks have as yet been interested in coordinating their disposals, heightening concern that disorderly and chaotic selling would wreak havoc with the market.

The overhang has become the single most important bearish factor for gold. It is for this reason that we reject the argument of many economists who see in the falling price of gold an indication that the Fed is too tight and that deflation is, at this time, a greater risk than inflation. This may have been true until one or two years ago, when demonetization existed only in the unconscious recesses of some central bankers' minds. More recent sales by Belgium, Netherlands, Australia, and Argentina together with a Swiss government proposal to dispose of almost 40% of its holdings, have made the market aware that gold is in fact being demonetized.

The demonetization of silver, in the late nineteenth century, took more than 30 years and saw prices fall to almost 50¢ an ounce from \$1.30 an ounce (it later continued to fall, to reach as little as 25¢ at the nadir of the depression, almost 60 years after it was first demonetized).

It would be strange indeed that in an era such as the present one, of great international cooperation, central banks could not come to an orderly and transparent scheme to demonetize their gold reserves — that is, placing these holdings in a pool to be sold over a number of years. In our opinion the market would have no difficulty absorbing even as much as 15,000 tons (European and some miscellaneous

holdings plus the IMF's horde) over 10 years, in frequent and open auctions. The "mining gap," at current prices, is at least 1,500 tons per year and growing, as production begins to decline and fabrication demand continues to grow. In fact, we firmly believe that this scheme would maximize their proceeds.

The establishment of the European Central Bank is a propitious time, if any, to discuss just such a coordinated approach. Already Bank of England Governor Eddie George has said that he expected the new monetary institution to hold only a small portion of gold in its reserves. More "progressive" voices have questioned the holding of any gold. Either way, a prior decision should be taken regarding member country holdings, especially if the announcement carries, as is likely, bearish implications.

At this point nothing else than the fear of wholesale demonetization matters. Until an orderly solution can be found, then, prices are likely to head lower.

STRATEGY: *Remain short.*

JAPAN

House of cards

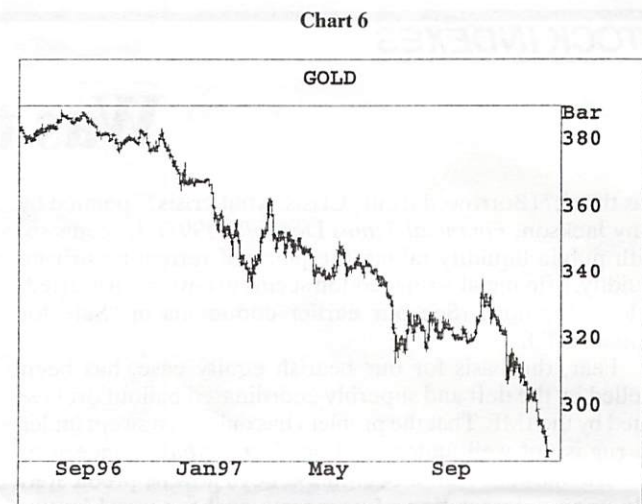
The recent failures of Yamaichi Securities and Hokkaido Takushoku have given the government a good pretext for designing a much-needed lifeboat for their creaky financial system. The LDP proposal is to give government guarantees on loans by the Bank of Japan and other banks to the depleted Deposit Insurance Corporation (DIC), which in turn will assess special insurance fees, on top of general insurance fees, from surviving financial institutions.

This tentative proposal is still rather weak. In the first place, the Deposit Insurance Corporation would not have the power to shut down banks that are deemed insolvent. Moreover, it does not address the question of whether the DIC would be able to seize banks' assets or how they would be sold. Nor does the proposal place a ceiling on the amount of liabilities that the DIC would cover.

Should this half-baked solution become final, uncertainties would mount, because bad institutions would be allowed to continue to operate and force healthy ones to the wall via rising borrowing premiums. A systemic run on the banks could not be ruled out. Another, and perhaps just as serious, problem as the banking one exists in the life insurance industry. It should be noted that while 15.9% of household assets are on deposit at banks, 10% are invested in insurance policies.

The mutual life insurers are not only the biggest holders of bank shares (which have been taking a real pasting — see Chart 7), but they have extended a whopping ¥14 trillion in subordinated loans to banks. These subordinated loans are not covered by the Ministry of Finance's informal guarantee of the top 20 banks. Much less can be said, of course, for their subordinated loans to the rest of the system's commercial banks. It's one big house of cards.

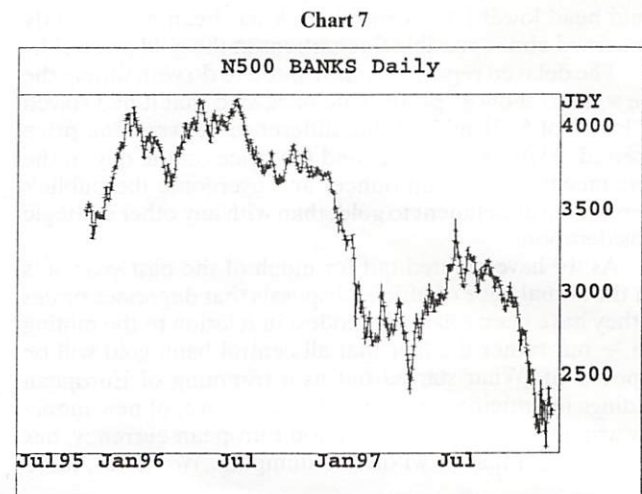
Unlike the rest of Southeast Asia, Japan is not experiencing a balance of payments problem. In fact, Japan is a net creditor nation with absolutely no need for an IMF-type adjustment. Instead, Japan suffers from weak domestic de-



mand sapped by the inability of banks to extend credit, given their precarious condition, and by asset prices (in particular real estate) that are still too high. This phenomenon helps to maintain a high savings rate, which in turn generates an almost chronic current account surplus. Not exactly a candidate for a devaluation.

Nonetheless, the currency continues to weaken in response to extremely adverse interest rate differentials — a result of the BOJ's aggressively easy monetary stance — and outflows associated with the general public's lack of confidence in the banking system. It is thus clear that a satisfactory resolution to the banking crisis *could become extremely bullish* for the yen. If the LDP does not deliver a comprehensive and well thought out lifeboat to the financial industry, the markets will. Time is of the essence.

STRATEGY: *Remain short pending a proper resolution of the banking crisis.*



CRUDE OIL

Bearish but not short

Fundamentals remain bearish: Supplies are rising, and demand, particularly in Southeast Asia, is falling. Traders, however, should take note of the Saddam factor (see the related article below). Chemical and biological attacks, besides their horrible effect on civilian population, can

easily put out of action a great number of oil-producing facilities.

STRATEGY: *Though tempting, it's just too dangerous to be short.*

FOREIGN AFFAIRS

Saddam Hussein's Day Off

By Mark Helprin

Reprinted with permission of The Wall Street Journal ©1997 Dow Jones & Company, Inc. All rights reserved.

A different president, with a competent administration and a secretary of state rather than a rubber duck in a straw hat, might have responded to Iraq's expulsion of United Nations weapons inspectors somewhat differently than did President Clinton. To honor reality, give this hypothetical commander-in-chief a demoralized half-strength military of his own making, a political base of reflexive pacifists, the inability to order people into combat without reminding the nation that he has yet to express remorse for evading the draft while others may have died in his place, and a steward of foreign relations chosen as the antidote to the reckless savagery of Warren Christopher.

Even with these disabilities his way would be remarkably clear, if only because it is impossible to squander in five years a great nation's assets accumulated over centuries, and because Iraq's strategic position is for Iraq as much a nightmare as Saddam Hussein himself. On the instant of expulsion, a real president would begin to marshal American air strength, asking of Turkey and demanding of the countries America defends in the Gulf minimal and temporary accommodation. After several days of military buildup amid ominous silence, he would privately give Iraq the choice of immediate retreat or the loss of everything. Assuming Saddam's continued defiance, another few days of military preparation would see the warning made public and an appeal to our allies — not to tiptoe ahead of us, but to follow where we lead.

Variegated weapons

If Saddam were unmoved, the United State alone, with the variegated and potent weapons it has for such tasks, would attack and destroy Iraq's air defenses. This would result in freedom of maneuver with which, until Saddam capitulated, American air forces would exploit by stages his stunning weaknesses, striking at the inspection sites themselves, the Republican Guard, other military targets and, finally, infrastructure.

The functional portion of Iraq is about the size of Wyoming. Iraq suffers an economy withered by sanctions, subsistence per capita earnings, rule by terror, hostile states all around, Kurdish rebellion and occasional Turkish invasion. It has a single port and only half a dozen decrepit overland

routes to nowhere, and its 22 million people are unusually dependent upon dams, canals, watercourses, bridges and fragile oil installations. A day of bombing could ruin the economy for years. Saddam knows this, and knows as well that even he could not last if his country were stressed to the point of breaking.

According to the common wisdom, Saddam is irrational and unamenable to influence, and our allies and the Gulf states would anyway preclude any of our efforts to sway him. Saddam may be insane, but in many respects he is more rational than this administration. He has proven for decades that he responds adeptly to pressure, although to the president's national security magpies this would apparently be news. Who exactly are these people, and do they still get to punch their tickets even after Saddam has dipped his paw into their shallow think tank and had them for lunch?

If their paralysis has been attributable to superstitious faith in multilateralism, they are beyond salvation. Having studied neither history nor, it seems, the Bush presidency they ended, they cannot even travel down the well-marked highway Mr. Bush built for them, much less cut a path through the unbroken wilderness he left around Saddam himself. Strategic bombing is apparently too illiberal for President Clinton and these advisers, but that is precisely why their philosophy disqualifies them for their responsibilities. Iraq's habitual and proven pursuit of weapons of mass destruction and the means of their delivery makes a strategic bombing campaign, should Saddam flout U.N. demands, not only morally justifiable but morally imperative. Now that he is responsible for the deaths of millions, he could easily be responsible for the deaths of many millions more. That he has taken his own nation hostage is a tragedy, but if the world bends to his purpose it may see a tragedy far greater still.

The U.N. Special Commission on Iraq cannot destroy or remove weapons that are successfully hidden. Nor can Unscm destroy the people who know how to build them, the desire to build them, the components and knowledge that continue to flow through clandestine channels, from rogue states, from our selectively fastidious allies and even perhaps from us. We, after all, on the president's approval, supplied to China

supercomputers useful in perfecting the nuclear weapons with which the Chinese recently threatened Los Angeles. The broader subject at issue, however, is not the disposition of technical matter but who won the Gulf War, and because the coalition did not carry through, Iraq continues to test the question so as to loosen its bonds incrementally.

Recently, the U.S. has failed on almost every count. We have allowed Saddam to take, keep and retire with the initiative. We let what may have begun as a Russian operation (in the classic Soviet mode of creating an irritant so as to remove it in exchange for a concession) certainly to end as one. Last week, America's foreign policy apparatus was like the flight deck of a 747 in which both pilots have had heart attacks and a nun named Bill Clinton sits at the controls, ready to be talked down by Yevgeny Primakov in the tower.

Though it has been deliberately buried in tons of agitated froth, on Nov. 18 the president's national security adviser, Samuel Berger, capitulated to Saddam's demand for reducing the contingent of American inspectors, stating in regard to the arms inspection mission: "As long as they make their judgments not based upon some political factors...that's a judgment that has always been for the chairman to make." Not only shall we defend our island whatever the cost may be, not only shall we fight on the beaches, and on the landing grounds, but we have also conceded to Iraq the right to sell more oil. Perhaps the administration is convinced that Saddam will devote the greater part of new revenues to his people rather than to the reconstitution of his military capacity. Why would Mr. Berger have reason to believe that a psychotic dictator with absolute power would do otherwise?

We have faltered unfortunately in our relations with the Gulf states. They are structurally shy, and if their natural reticence is unchecked the region goes out of balance. The more they doubt American resolve the more they reject our protection, in the hope of mollifying Iraq, which is thereby encouraged to terrify them, and so on and so forth. The cycle stops only when the U.S. accidentally remembers its ancient stores of fortitude, courage and clarity, as it did so admirably in the Gulf War.

Far worse than oversights and omissions is the administration's willingness to allow Iraq to have operated without the UNSCOM regime for three weeks with not even the hint of retribution. The heart of the matter is not how many gallons of anthrax or nerve gas Saddam may have concocted this time, but rather that, like Ferris Bueller, when he wants to, he can take a day off. In fact, he can take a week off, or three. And now that he knows the drill, he can craft a vacation schedule to his liking, all courtesy of a president who, though

he may fancy himself a man of valor and a patient statesman, must be to Saddam's discerning eye nothing more than a boneless chicken.

Mr. Clinton's habitual pattern of easy-going capitulation in exchange for time, indeed his whole approach, is uncannily like that of France and Britain during the interwar period. Because Britain was lucky to have Churchill, France offers the closer parallel. The French Army was fatally weakened by a continual emphasis upon economic measures at the expense of military preparedness, by massive reductions, the demoralization of the officer corps, and the triumph of politicians ideologically hostile to the military. Like their modern counterparts, these parvenus placed as much faith in the proliferation of treaties as they needed to excuse their lack of vigilance. And just as today military futurism is offered as a substitute for actual capability, the existence of the Maginot Line encouraged the French to neglect the more fundamental and demanding military requirements. By their indifference and mistakes, they created the vacuum into which Hitler flowed.

Nascent Hitler

As Iraq is not Germany, Saddam Hussein cannot be Hitler, but if a nascent Hitler does exist in a country potentially powerful and bitter enough to harbor him, he has now received yet another encouragement. If prostrate Iraq can have its way with the U.S. in the Middle East, why not Russia in Middle Europe, or China in the Western Pacific? Why should Kim Jong Il not revise in his favor (yet again) the calculation of risk in regard to military action?

The saddest thing about this most recent capitulation is not even the price that eventually may be paid in untold lives, but that the United States, trusting its president, has been led to believe that it is victorious because the one point that worked in its favor is stressed while all others go unmentioned. Where are the wakeful journalists who used to pride themselves on the discovery of fraud? Evidently, early on, the Fourth Estate asked to be enchanted, and it was.

In a deeply embarrassing show of vanity, President Clinton has spent much time of late preening before the cameras. Clearly, he thinks he looks good. But absent the aura of his all-consuming narcissism, uninfluenced by the gift of buoyancy from a like-minded press, and unmoved by the privileges and protections of his office, history will record, and probably in blood, that his president betrayed our future for the sake of his present.

Mr. Helprin, a novelist and Journal contributing editor, is a senior fellow at the Hudson Institute.

COPPER

The growling bear

The collapse of the copper market represents a victory for proponents of fundamental analysis in their age-old debate with those of the technical analysis persuasion. Alas, while we applaud the fundamentalists in an academic sense, we can't share their success in a financial sense.

The classic signs of a deeply oversold market that have traditionally allowed us to bow out of a short position ahead of a stampede of short-covering appeared way back at 97¢ per

pound. Very negative sentiment coupled with a ballooning open interest that consisted of large long positions held by well informed (we thought) commercials made us nervous. Bears who stayed the course were richly rewarded as March copper closed out the week at 81.20¢ per pound. These price levels have not been seen for four years. The bear continues to growl.

The prediction by Bloomsbury Mineral Economics back in October that LME warehouse stocks would stabilize was

actually accurate. When we discussed this last month, warehouse stocks stood at 341,225 tonnes. They have risen slightly to 345,650 tonnes. However, the report seemed to imply that "stabilize" meant a drop, one that would correct the historic rise in stocks in such a short period of time. The stubbornly immobile stockpile seems to indicate that we have moved into a "post Sumitomo era."

Until now, movements in warehouse stocks could not be relied upon to reflect true, commercial supply/demand fundamentals. Instead, the market was characterized by wild swings in both price and warehouse stocks, that left bona fide hedgers and small speculators out in the cold. This market has matured, because the price is finally representative of the fundamentals.

Although it is too early to find any concrete evidence of the effects of the economic woes in Asia on demand for specific commodities, some assumptions can be made. Unlike food commodities — people have to eat — industrial commodities are far more responsive to economic downturns, and even forecasts for economic downturns. Investment in new construction, both commercial and domestic, will advance cautiously, if at all. Cash-strapped governments will scale back infrastructure investments.

It is already quite clear that there is no urgency by users to acquire copper as seen in the spreads at the LME. The cash-to-three-month spread collapsed from a \$250 per tonne backwardation in mid-summer to the current \$30 a tonne contango. There does not seem to be much relief in sight as the market now enters the very slow holiday season.

Chilean production is booming, having warded off all labor strife and weather-related problems. October output was 295,189 tonnes vs. last October's 288,968 tonnes, or 2% higher. The overall picture is far more dramatic and clearly shows the rate of growth in Chilean production outstripping the rate of growth in demand by Chile's best customers. In the first 10 months of 1997, Chilean copper mines produced 2,834,820 tonnes vs. 2,582,607 tonnes in the same period last year, a rise of 9.8%.

The tenacity of this bear has made getting short this market a challenge. The idea of selling a rally sounds nice, but there haven't been any. Rallies consist of firm openings that are soon met by fresh selling. We are poised to re-enter this market, but we wait patiently for just the right moment.

STRATEGY: *Stand aside.*

— Sholom Sanik

SOY COMPLEX

Take five

The bull market in the soy complex is taking a well-deserved break. Explosive demand, both domestic and foreign, drove soybean prices from a low of \$5.50 per bushel in late 1994 to a peak of \$9.00 in the spring of this year. The rich prices brought increased production and a far more sober \$7.00 per bushel price level. The market looks shaky, as the balance of evidence, *for the moment*, seems to favor the bear case.

The US crop, which is just about fully harvested, was revised upwards again in the November 10 USDA crop report to 2.736 billion bushels from 2.721 billion. The demand side, however, caused a further reduction in the estimate of ending stocks by 15 million bushels to 255 million. However, this was tempered by a like amount hike in the estimate of global ending stocks of 13.2 million bushels.

The darling of the bullish statistics, US exports, must be scrutinized. The USDA raised its estimate to 980 million bushels from 960 million bushels in October, already a record figure. While the evidence at hand clearly supports these numbers, we must question whether the numbers registered so far this season are sustainable.

The export commitments are continuing at a torrid pace. The average weekly commitment for beans and meal since our last report has been 545,000 tonnes and 143,000 tonnes respectively. Both these figures, annualized, are commensurate with the USDA targets for the season. The recent crisis in the Asian countries, though, must call into question the likelihood that the balance of the season could see demand maintained at quite such a pace, although there has been nothing in the way of massive cancellations to date.

Another bearish factor is the end of the planting season in Brazil. Farmers were challenged by unseasonable precipitation that hampered planting efforts, but they muddled through. Analysts are still calling for a record a crop that some say could be as high as 30 million tonnes, which would be another record.

We must remember that \$7.00 is an expensive price for soybeans when put in historical perspective. This in itself flashes a mixed signal. On the one hand, without the excessive open interest that would typically indicate a mere speculative bubble, the market has maintained its composure even long after we've known that both the US and South American crops would be huge. On the other hand, the \$7.00 level was achieved long before we knew that the demand that caused the bull market in the first place could be in jeopardy, which makes this lofty price vulnerable to selling by both hedgers and speculators.

After spending the better part of the bull market on the sidelines, soybean oil prices responded sharply this fall to the threat of an El Niño effect on palm oil crops in Southeast Asia. We went along for the ride but the available fundamentals no longer support the monumental rise in bullish sentiment reflected in the open interest.

A surprising October supply/demand situation report out of Malaysia showed stocks at 1.026 million tonnes, higher than expected, easing fears of lowered yields. Then, a Malaysian outfit that monitors exports from that country reported that shipments for the Nov. 1 to Nov. 20 period totalled 362,140 tonnes compared with 486,472 tonnes recorded in the Oct. 1 to Oct. 20 period, a 25% drop. Although, the most serious effects of El Niño will not be felt for a month or so, these

numbers cast doubt on stories of the development of tightness in this market.

We don't think this market is dead. However, traders should be monitoring several areas for clues to its future. The weekly export figures should be watched for the volume of new purchases as well as cancellations, particularly from the emerging countries whose "emergence" has been pushed back somewhat. The domestic crush has been strong, averag-

ing over 30 million tonnes a week, giving that element of the demand side the challenge of maintaining such a high level. Finally, the US crop has been harvested, and the development of the Brazilian crop will be the main supply factor to watch. Meanwhile, we take a break along with the market.

STRATEGY: *Stand aside.*

— Sholom Sanik

SUGAR

Stay long in complacent market

As the sugar market sits in new high territory, it becomes the antithesis of almost every commodity on the board. You name it, and it has recently made, or is in the process of making, a new multi-month or multi-year low: the petroleum complex, cotton, wheat, the soy complex, orange juice, lumber, gold, the meat complex, cocoa, and copper to name a few.

A further distinction is that, unlike many of the other aging or dying bull markets, we can't blame this one on China. In October China imported a mere 1,311 tonnes of sugar, down from 41,604 tonnes in September, and the lowest monthly figure since January 1993. The total, then, for the 2-month-old marketing year, 42,915 tonnes, is sharply contrasted to the same period last year of 282,688 tonnes. No, this one has its own legs and is not being affected by the fears of the downturn of demand by the hard-hit Asian economies.

The strongest fundamental to emerge is the potential for Russian imports, because its output will drop about 20% from last year as excessive precipitation and freezing temperatures hammer the crop. As the beets are frozen into the ground, they are difficult to harvest, and if they thaw quickly, they rot and become useless.

On Nov. 13, German sugar statistician F.O. Licht summed it all up in its first estimate of the 1997-98 global sugar picture. Production will drop, according to the estimate, to 122.7 million tonnes from 123.9 million tonnes in the 1996-97 season. Consumption, on the other hand, will rise to 124.2 million tonnes from 121.5 million tonnes. Licht forecasts ending stocks at 44.7 million tonnes, which represents a 36%

stocks-to-consumption ratio.

In itself, a 36% ratio has not been enough to cause a serious bull market in the past. Statistics, however, are no match for reality, and reality is the price, which as illustrated above has veered from the trend of all other markets. This must be respected.

There is a certain complacency in this market. The strength has not been completely ignored in terms of at least one important measure, the open interest. It is mammoth, as it hovers at all-time highs of about 200,000 contracts. On the other hand, sentiment numbers show that only 55% of commodity advisers are bullish. The most intriguing gauge of lack of enthusiasm remains the complacency of option writers. Bargain hunters can still purchase May at-the-money sugar options that carry an implied volatility of only 17%.

As we pointed out last month, writers of sugar options have traditionally taken great protection for themselves as soon as the price of sugar stirred, driving option premiums to trade with an implied volatility as high as 38%. Memories of the early '70s must have been fresh in their minds when sugar prices doubled, tripled and beyond.

Tightness has developed as the March vs. October, old crop/new crop spread (see Chart 9) has gone into a steep backwardation of 0.72¢. A couple of months ago this spread was flat. We may have put ourselves up against sophisticated option writers, but we are not uncomfortable.

STRATEGY: *Remain long.*

— Sholom Sanik

Chart 9 — Sugar

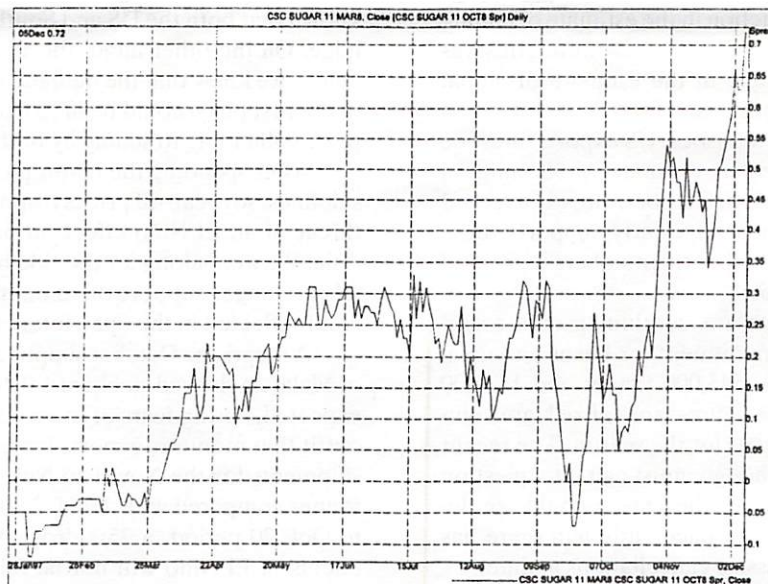


Chart 10 – FOREIGN CURRENCY BONDS

DATE: December 5, 1997 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 PAYMENT
DEUTSCHE MARK DENOMINATED BONDS					
World Bank 7 1/4% 13/10/99 RRSP eligible	104.25	105.10	4.30		Oct-13
World Bank 9% 13/11/00 RRSP eligible	111.30	-	-		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	100.05	100.90	3.37		Apr-15
Argentina 8% 5/10/98	100.90	-	-		Oct-05
Kgdm. of Spain (6 Mo. LIBOR-1/16) 29/6/02 (semi)	99.79	100.09	-	3.09375	Dec-29
CZECH REPUBLIC KORUNA BONDS					
General Electric Cap. Corp. 10.5% 23/10/98	93.60	-	-		Oct-23
Nordic Inves. Bk 10.625% 10/11/00	87.40	-	-		Nov-10
Intl. Fin. Corp 10% 30/4/98	95.90	-	-		Apr-30
SWISS FRANC DENOMINATED BONDS					
General Electric Cap. Corp. 4 3/4% 2/7/98	100.80	-	-		Jul-02
General Electric Cap. Corp. 4 1/2% 17/12/99	103.50	-	-		Dec-17
DANISH KRONE DENOMINATED BONDS					
Kgdm. of Denmark 9% 15/11/98	103.55	104.40	4.07		Nov-15
ECU DENOMINATED BONDS					
United Kingdom 9 1/8% 21/02/01	111.30	112.15	4.92		Feb-21
BRITISH POUND DENOMINATED BONDS					
European Invst. Bk. 7% 22/12/98	98.55	99.40	7.62		Dec-22
Kgdm. of Denmark FRN 28/8/98 3mo LIBOR-12.5b p.(qtlly)	99.68	99.98	-	7.625	Feb-27
JAPANESE YEN DENOMINATED BONDS					
World Bank 4 1/2% 22/12/97 (semi) RRSP eligible	99.40	100.25	N/A		Dec-22
CANADIAN DOLLAR DENOMINATED BONDS					
Ontario Province 10 5/8% 15/7/98 RRSP eligible	102.55	103.80	3.94		Jul-15
Petromet Resources 6.5% 31/3/04 (semi) CV @ \$9.50 p/sh	89.25	-	-		Mar-31
SOUTH AFRICAN RAND DENOMINATED BONDS					
ESCOM 11% 1/6/08 (semi)	82.00	83.50	14.05		Dec-01
AUSTRALIAN DOLLAR DENOMINATED BONDS					
Toronto Dominion Bk. Aust. 7.25% 26/2/99 RRSP eligible	102.00	102.85	4.75		Feb-26
NEW ZEALAND DOLLAR DENOMINATED BONDS					
World Bank 6.25% 30/4/99 RRSP eligible	100.70	101.55	6.99		Apr-30
New Zealand Gov't 8% 15/7/98 (semi)	99.55	100.40	7.29		Jan-15
Ontario Province 7.15% 24/11/98 (semi)	98.20	99.05	8.20		May-24
Fletcher Challenge 10.75% 15/12/97 CV (semi)	99.35	-	-		Dec-15
Fletcher Challenge 10.15% 30/11/98 CV (semi)	100.25	101.10	8.94		Nov-30
Tranz Rail Ltd. 10% 15/10/99 (semi)	101.40	-	-		Apr-15
Trans Tasman 9% 27/6/99 CV (semi)	92.30	93.15	14.54		Dec-26
St. Luke 8.7% 1/4/99 (semi) CV @ 1.00 p/sh	149.10	-	-		Apr-01
Kwi Income Prop. Trust 9% 30/9/03 CV (semi)	118.15	120.15	8.98		Mar-31
ARGENTINEAN PESO DENOMINATED BONDS					
Bocon Pre 1: 1/4/2001	PAR VALUE 115.4489	100.90	102.65	IRR 11.16	Jan-01-98
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS					
Coeur D'Alene 6% 10/6/02 CV@ 26.00 p/sh	73.50	75.00	13.79		Jun-10
JumboSports 4 1/4% (semi) 11/1/00 CV @ 25.5 p/sh	59.25	-	-		May-01
The Learning Co. 5 1/2% (semi) 11/1/00 CV @ \$53.00 p/sh	88.00	89.50	9.64		May-01
Novacare Inc. 5.5% (semi) 15/1/00 CV @ \$26.65 p/sh	93.25	94.75	8.27		Jan-15
Beverly Enterpr. 7 5/8% (semi) 15/3/03 CV @ \$20.47 p/sh	100.00	-	-		Mar-15
U.S. DOLLAR DENOMINATED FIXED RATE BONDS					
U.S. Treasury 6.25% (semi) 28/2/02	101.40	101.70	5.79		Feb-28
U.S. Treasury 6.375% (semi) 15/8/27	103.20	103.80	6.10		Feb-15
U.S. Treasury Coupon Strips 0% 15/2/25	19.05	19.55	6.09		Feb-15-25
Queensland Tres. (Gold Bull) 2% 4/3/98	94.00	94.15	5.90		Mar-04
World Bank 7 1/8% 27/9/99 (semi) RRSP eligible	101.75	102.60	5.58		Mar-27
Mobile Telecomm 13.5% (semi) 15/12/02	115.25	116.10	9.40		Dec-15
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES					
Canada Gov't 10/2/99 3 mo. LIBOR - 1/4 (qtlly), callable @ 100 RRSP eligible	99.60	99.90	-	5.56	Feb-13
Bocon 1/4/01 (30 day LIBOR) starts paying May 1,'97	PAR: 110.7182	104.40	-	-	Jan-01-98
Argentina: Series L:FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	PAR: 96	89.40	90.90	9.49	6.6875 Mar-31
Venezuela: DCB: 18/12/07, 6 mo. LIBOR+7/8 (semi)		90.00	90.85	9.47	6.75 Dec-18

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

Chart 11 – Friedberg Capital Markets
Recommended current portfolio allocations

1. US Treasury Cpn. Strips 0% '25 (US\$)	10%	4. US Treasury 6.25% '02 (US\$)	37.5%
2. US Treasury 6.375% '27 (US\$)	20%	5. Trans Tasman 9% '99 (NZ\$)	5%
3. KIPT 9% cv (NZ\$)	15%	6. 10-year BUNDS, hedged (US\$)	12.5%

HOTLINE UPDATE

Tuesday, November 4, 1997:

Good afternoon for Tuesday, November 4. There are no changes or new recommendations.

Friday, November 7, 1997:

Good afternoon for Friday, November 7. There are no changes or new recommendations.

Tuesday, November 11, 1997:

Good afternoon for Tuesday, November 11. We have one new recommendation: Lower stops on short stock market positions to 7765, basis Dow Jones Industrials cash index.

Friday, November 14, 1997:

Good afternoon for Friday, November 14. There are no changes or new recommendations. This is a recap of this week's recommendations.

- On Tuesday, November 11, via Flash Update, we advised lowering stops on short stock market positions to 7765, basis Dow Jones Industrial cash index.

Tuesday, November 18, 1997:

Good afternoon for Tuesday, November 18. There are no changes or new recommendations.

Flash Update: Wednesday, November 19, 1997:

Good afternoon for Wednesday, November 19, 5:00 pm. This is a Flash Update. Establish a short position in the CDN dollar. Sell March CDN dollars at the market.

Flash Update: Thursday, November 20, 1997:

Good morning for Thursday, November 20, 9:30 am. This is a Flash Update. We have two new recommendations:

- 1) Initiate a short position in gold. Sell February gold at the market, placing initial stops at 317.00, good anytime. February gold is presently trading at 305.10.
- 2) Cover short S&P and Dow Jones positions at the market, presently trading at 952.50 and 7785 respectively, basis the December contract. We repeat the Flash Update of last night to sell short March CDN dollars at the market. March CDN opened at .7092.

Friday, November 21, 1997:

Good afternoon for Friday, November 21. There are no changes or new recommendations. The following is a recap of this week's recommendations:

- On Wednesday, November 19, via Flash Update, we advised to sell March CDN dollars at the market, then trading at .7092.
- On Thursday, November 21, via Flash Update, we advised selling short February gold at the market, then trading at 305.10, placing initial stops at 317.00, good anytime, and covering short December S&P and Dow Jones positions at the market, then trading at 952.50 and 7785 respectively.

Tuesday, November 25, 1997:

Good afternoon for Tuesday, November 25. We have one new recommendation: Initiate a short position in cocoa. Sell March cocoa at the market, placing initial stops at 1620, close only. In the Flash Update dated Thursday, November 20, we recommended selling the CDN dollar at the market. Place initial stops at .7200, basis March, close only.

Friday, November 28, 1997:

Good afternoon for Friday, November 28. We have no new recommendations. This is a recap of this week's recommendations.

- On Tuesday, November 25, we recommended to sell March cocoa at the market, placing initial stops at 1620, close only. On Wednesday morning, March cocoa opened at 1571.

Tuesday, December 2, 1997:

Good afternoon for Tuesday, December 2. We have one new recommendation: Raise stops on soybean oil to 25.20, basis March. Repeat: March soybean oil to 25.20 stop.

Friday, December 5, 1997:

Good afternoon for Friday, December 5. This is a complete summary since our last market letter, dated November 3, of all liquidations of open positions and new recommendations that remain outstanding.

- On Wednesday, November 19, via Flash Update, we advised establishing a short March CDN dollar position, at the market, then trading at 7092.
- On Thursday, November 21, via Flash Update, we advised selling short February gold at the market, then trading at 305.10, placing initial stops at 317.00, good anytime, and covering short December S&P and Dow Jones positions at the market, then trading at 952.50 and 7785 respectively.
- On Tuesday, November 25, via Flash Update, we advised selling short March cocoa at the market, placing initial stops at 1620, close only, and placing initial stops on short CDN dollars at .7200, basis March, close only. On Wednesday, November 26, March cocoa opened at 1571.
- On Tuesday, December 2, we recommended to raise stops on March soybean oil to 25.20, stop.

Friedberg's Commodity & Currency Comments (ISSN 0229-4559) is published by Friedberg Commodity Management Inc., P.O. Box 866, Suite 250, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3. Contents copyright © 1997 by Friedberg Commodity Management Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited. Brief extracts may be made with due acknowledgement.

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

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

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.

The U.S. broker-dealer, Friedberg Mercantile Group, Inc. NY, takes full responsibility for the contents of this market letter. U.S. residents wishing to effect any transactions in any security discussed in this report should contact Friedberg Mercantile Group, Inc. NY, toll-free at 1-800-474-2663.