

Dateline Mexico by Carlos Cota Meza

Soros is bankrupting Mexico

The derivatives market that lured Mexico's top companies is falling, and taking the economy along with it.

Mexico's speculative financial sector and stock exchange have been suffering instability for a month now. Officially, it is said that the situation is temporary and that the "mini-cracks" are due to the U.S. Federal Reserve's announcement of a hike in U.S. interest rates. This supposes that a portion of the investments in Mexico are returning to the United States, where they will obtain similar or higher yields. Other analysts are trying to find internal explanations: conjunctural instability due to the election process, the events in Chiapas, etc.

However, the chronology of the Mexican speculative debacle reveals other elements that need to be taken into account. The speculative instabilities did not begin on Jan. 1, the day of the "uprising" in Chiapas by the Zapatista National Liberation Army, but on Feb. 14, when George Soros's Quantum Fund, the world's largest speculator in financial derivatives, lost \$600 million betting on a devaluation of the yen against the dollar. Because of the trade conflict between the two countries, the yen revalued instead.

Then came Feb. 21, when Federal Reserve Chairman Alan Greenspan announced an interest rate hike. This produced a generalized fall on the international bond markets, which had already been hit by the losses of Quantum Fund and by the rumor that either Goldman Sachs, or one of its main clients, had gone bankrupt on the French markets.

Contrary to what some are saying, foreign capital in Mexico was not frightened by the Chiapas affair. In fact, by the end of February, the fi-

ancial authorities had registered an inflow of nearly \$2 billion in stock market investments alone. Described as an "excess of liquidity" in dollars, this enabled the Mexican government to manipulate its bond interest rates downward.

Due to Mexico's "worst political crisis ever," interest rates reached a historic low of 8.81% for 28 days. "The recovery is starting to be felt," pronounced Finance Minister Pedro Aspe. He and the bankers announced a restructuring of overdue agricultural and manufacturing loans. Single-digit interest rates "will begin to take effect" at commercial bank windows, insisted President Carlos Salinas de Gortari. But the party lasted just two weeks. By March 9, the 28-day interest rates had already risen to 9.30%, and 91-day interest rates to 9.71%. Six-month rates broke the single-digit barrier, reaching 11.02%, and one-year rates 10.99%.

There is also capital flight. Since Feb. 24, the Mexican stock exchange has suffered five consecutive declines, losing all the gains accumulated in January. Some analysts observe that this is occurring in an environment of very reduced buying and selling of stocks.

At the same time, a large number of banks suddenly reported a liquidity crisis and began to make unusual purchases of dollars, the currency that began the process of revaluation with respect to the peso, although still within the "limit" of daily devaluations established by the government. (In a single day, the peso was devalued by figures equivalent to the accumulated slide of all of January. Estimates are

that a huge devaluation would require some \$10 billion to flee the country.)

These phenomena still have no explanation: significant falls in the stock exchange in a practically stagnant market, and banks that report "shortfalls" in an ocean of dollars. What is going on?

As far as the banks are concerned, they are probably facing financial warfare from the foreign institutions that will presumably be setting up shop in Mexico shortly.

On Feb. 21, the brokerage house Goldman Sachs issued a report for its clients on seven Mexican banks. According to press reports, "at least seven institutions used legal technical maneuvers to hide the amount of their lost loans" and this mechanism has already been detected by foreign institutions, the report states. Goldman Sachs explains to its clients that "the Mexican banks which . . . operated inefficiently will sink, given that Mexican banking is still underdeveloped." The banks named are Banco Mexicano, Serfin, Mercantil-Probursa, Bancreser, Banco Union, and two smaller ones. However, also reporting "shortfalls" are the two largest, Banamex and Bancomer.

In the shifting sands of the stock exchange, what has these companies paralyzed are George Soros and his Quantum Fund. Almost nobody knows it, but for some time the 15 principal companies that control the Mexican stock market have been making investments in financial derivatives on the international markets, with the result that they too are being affected by the fall on the international bond market. Some of these companies have already been publicly named: Alfa, Apasco, Cemex, Cifra, Comerci(banco), Desc, Femsa, Grupo Carso y Telmex, Gigante, G-Video, ICA, Liverpool, Tolmex, Vitro, and Banacci.