

U.S. funds' revenge for Pancho Villa

by Scott Thompson

In April 1994, a combine of U.S. mutual funds known as the Weston Forum sought to rob the Mexican Central Bank to the tune of billions of dollars in reserves, all in the name of "strengthening the peso" and securing Mexico's fine reputation among international investors.

Some Wall Street observers with a bit of historical insight speculated that the Weston Forum's assault against the Mexican peso might be some kind of revenge for the famous raid by an earlier day *bandito*, Pancho Villa, who crossed into New Mexico on a similar, albeit less ambitious, looting expedition.

The Weston story is for sure a tale of some of America's biggest speculative *banditos* and how they developed a case of collective amnesia when caught in the act of attempted blackmail and extortion.

Loot the reserves!

According to the June 14, 1994 account on the front page of the *Wall Street Journal*, and *EIR* interviews with spokesmen for some of the mutual funds, last April, a private bank called Weston Group pulled together a multibillion-dollar pool of mutual fund capital and tried to impose a diktat on the Mexican government that would have brought \$17 billion in new "investment capital" into Mexico, but only after the Mexican Central Bank had been looted blind in a move to prop up the peso.

John Liegey, head of the Weston Group, a New York investment bank that last year brokered \$5 billion in U.S. mutual fund money into peso-securities, created the Weston Forum with participation by Fidelity Investments; Trust Co. of the West; Scudder, Stevens & Clark; Oppenheimer Management Corp.; Soros Fund Management; Salomon Brothers; Nomura Securities International, Inc.; and Liegey's own bank.

According to the *Wall Street Journal*, Liegey and Fidelity Investment's Rob Citrone "arranged two important meetings between the forum and Mexican officials. The first, on April 8 in Washington, D.C., was attended by Guillermo Ortiz, Mexico's undersecretary of finance, and two central bank officials. Afterward, Mr. Liegey put together a document announcing the formation of Weston Forum, which included a list of six 'policy suggestions.' The document was sent by

overnight mail to Ortiz."

The document, in effect a diktat, obtained by the *Journal*, contained a series of poison pills: Mexican government insurance against any currency exchange losses incurred by the mutual funds up to \$5 billion; a 5% hike (to 20%) of foreign currency liabilities by Mexican banks; financing of these measures by the issuing of long-term Tesobonos (Mexican government-issued dollar denominated bonds); and, finally, a massive Mexican Central Bank peso-purchasing spree committed to driving the value of the peso up to between 3.15 and 3.21 to the dollar.

Armed with insider information on the extent to which the British and Italian governments were prepared to intervene to defend the values of the pound and the lira, in September 1993, international speculator and Weston Forum player George Soros made a \$2 billion killing in 48 hours.

A strategic leak

Liegey told the *Journal* that his suggestions were a "way to help Mexico." Nothing could have been further from the truth. As the result of the April diktat, which did apparently result in a multi-billion Tesobono issue, Mexico's dwindling reserves plummeted and investors began shaking in their boots and pulling their money out.

When word of the looting venture wound up on the front page of the *Wall Street Journal* (Liegey claims that some Mexican government official passed the key documents on to the paper), many key players in the effort began ducking for cover.

EIR calls to participants in the Forum scheme produced a flurry of protests and denials:

- Ashmwin Vasan, who manages three emerging market portfolios for Oppenheimer Management, said: "My understanding is that no such group as the Weston Group was ever formally sanctioned by the investor group as such. . . . Nor have we endorsed any of its recommendations that allegedly the Weston Forum made to the Mexican Government."

- Lincoln Rathnam, managing director at Scudder: "We did not want to be part of the letter to the Mexican government." Launching into market babble, he continued: "The markets are the message. The medium is the message. In this case the medium is the market. And the price of your securities will tell you exactly how people view your policy. . . . We don't need more than that."

- Javier Baz, managing director of the Trust Co. of the West: "No, we're not a part of it. Let me give you the sort of sequence of events. We were invited by John Liegey to attend a meeting in Washington with Mexican authorities to just explore a number of issues and discuss a number of points of view, and when I got there I became aware of the fact that he was calling this the Weston Forum. . . . And, so we never went back to any of the next meetings. . . . We have no intention whatsoever of ever sitting down and telling any government how it should run its country."