

Suing Wall Street

Meanwhile, despite the fact that CITIC has negotiated a settlement of some \$15 million in speculative debts to Wall Street's Lehman Brothers and Merrill Lynch, the state-owned International Nonferrous Metals Trading Company (Minmetals) went ahead on March 9 with its countersuit against Lehman Brothers in U.S. District Court in Manhattan (see *EIR*, Jan. 6, 1995). Minmetals is suing on the grounds that Lehman Brothers induced one of its traders to make "more than \$35 billion in unauthorized derivatives trades unrelated to its business." Minmetals is seeking \$128 million in damages. Lehman Brothers had sued Minmetals last November, when the Chinese company refused to pay Lehman Brothers' claimed \$53.5 million in debts and unpaid margin calls.

The Minmetals suit states that Lehman executives seduced a trader, Hu Xiangong, into making "incredibly complicated derivatives transactions that were impossible for him to understand." A lawyer representing Minmetals said: "This is a classic case of a global investment bank putting profits before prudence, and grossly and negligently disregarding the interests of its client." The Chinese trader was not authorized to make any of the trades, the lawyer said, and Lehman Brothers did not disclose the full risks of trading.

At the same time, although Lehman Brothers professed itself happy about its \$7 million from CITIC (the same week, Lehman announced that it had to lay off top traders to save hundreds of millions), the *Financial Times* was not impressed. An editorial on March 2 stated: "It would be rash to conclude that [China] is setting a new pattern for its handling of commercial affairs. . . . China has yet fully to acknowledge. . . the importance of mutual confidence in international market dealings."

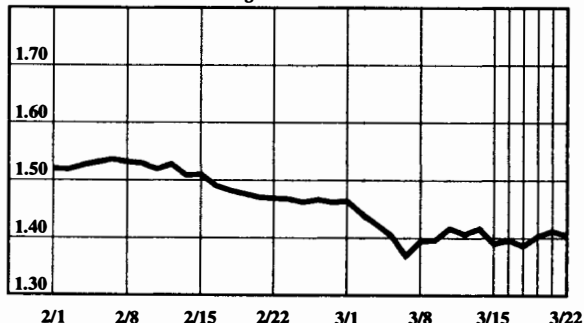
In London on March 15, CITIC representative Xu Shiwei admitted that "there have been some compromises." But he also said that the view being presented in the West, that China is "failing" to pay its debts to western banks, is a campaign to smear China and CITIC. He insisted that this did not have the effect intended, of getting the government to pressure CITIC to pay up. He also maintains that CITIC Shanghai is a subsidiary and not a branch of the parent company, and is therefore responsible for its own debts. The Shanghai traders are now in jail for violating Chinese law. Xu said that while "ego and greed were at work" at CITIC Shanghai, at the same time, "some LME brokers intentionally or unintentionally encouraged CITIC Shanghai to overtrade." Also, some LME brokers used "historic price carries," an esoteric method of rolling over futures contracts, "to help the detainees [the imprisoned Chinese traders] hide the losses."

Heads continue to roll. On March 15, CITIC Chairman Wei Mingyu resigned. While Beijing said that the resignation was not "directly" related to the \$40 million in losses CITIC Shanghai made on the London Metals Exchange, it is very likely that the entire leadership of CITIC will be reviewed.

Currency Rates

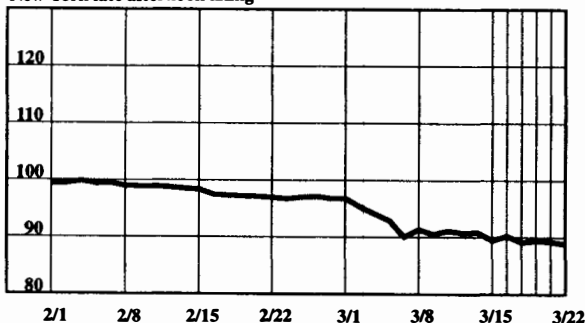
The dollar in deutschemarks

New York late afternoon fixing



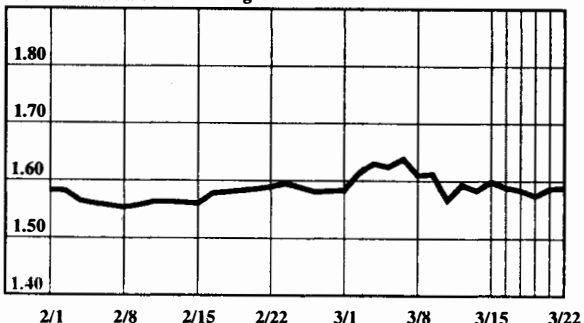
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

