G-7 central bankers hold a Tiger by the tail

by William Engdahl

Evidence being pieced together by this news service indicates that in June the global financial system had again been brought to the brink of a new meltdown, the second systemic near-miss since the collapse of the giant Long Term Capital Management (LTCM) hedge fund on Sept. 23, 1998—and it clearly won't be the last.

On Friday, June 11, according to reliable reports from the New York financial market, the $13 billion Tiger Management LP hedge fund was subject of emergency talks at the New York Federal Reserve. Tiger reportedly was on the brink of insolvency. Tiger is the world's second-largest hedge fund, after George Soros's Quantum Group. Typically, the high-risk Tiger Fund might leverage its speculation through borrowed money, to 50 times its capital, which would imply a total market exposure of the fund above $650 billion.

The insolvency rumors were firmly denied by Tiger. The same day, the New York Treasury bond market underwent a mini-collapse, pushing interest rates on 30-year bonds up to 6.14%. Bond market insiders said, had rates gone above 6.2% the following Monday, June 14, the world could have seen another "Black Monday" collapse of global stock markets, similar to the one that occurred on Oct. 19, 1987.

What is clear, after carefully scrutinizing the actions of the Bank of Japan, the U.S. Fed, the European Central Bank, and Group of Seven governments, is that sometime during the weekend of June 12-13, the leading G-7 governments, meeting in Frankfurt, Germany, covertly agreed to a system bailout to prevent a repeat of the October 1998 meltdown—or, of something far worse. Curiously, the press was deafeningly silent regarding the troubles in major hedge funds over the same June 12 weekend. Reports from senior City of London sources are that relevant central bankers of the G-7 let it be known—discreetly—through their market and media contacts, that such reports on the Tiger crisis were not to be printed. Rarely has such a major financial story disappeared so rapidly from the press.

The Tiger with too much yen

As in the case of the global crisis last October, hedge funds and the Japanese yen's ultra-cheap credit market, were at the heart of this crisis. A German financial newsletter, *Der Goldmarkt,* leaked a report on June 23 that the otherwise bizarre behavior of the Japanese yen, and the major currency intervention by G-7 central banks during June, were part of an attempt to prevent a hedge fund liquidation that would have blown up the fragile global system.

On June 15, three days after the Frankfurt G-7 talks, the Bank of Japan made an extraordinary intervention to sell yen and buy U.S. dollars and the Europe's single currency, the euro, significantly weakening the yen. That day, the Bank of Japan sold the equivalent of $10 billion in yen for dollars, and $3 billion in yen for euros. The explanation was given that the bank did it to "support Japanese exports" with a low yen. The flaw in this argument, however, is that just three weeks earlier, the Bank of Japan had been alarmed about a too *weak* yen. Also, Japanese export surpluses were still huge, implying no need to force the yen lower in so dramatic a manner.

According to *Der Goldmarkt* editor Martin Siegel, the reason for the huge Bank of Japan intervention that began June 15, was to "allow the hedge funds the chance to cover their short yen positions. Had the Bank of Japan not intervened thus," Siegel said, "then there would have been a major rise in the yen to dollar. The open positions of the hedge funds then could only be closed with large losses, which would have forced them to sell U.S. stocks and bonds."

Just this kind of forced selling of U.S. and European bonds to cover yen exposures of Tiger Fund was the consequence of the dramatic and violent market shocks between Japan and the United States in September-October 1998. At that time, Long Term Capital Management's crisis forced funds to liquidate positions in Japanese yen at a loss. As central bankers—from U.S. Federal Reserve's Alan Greenspan, to Bank of England's Eddie George, to Bank for International Settlements Chairman Urban Baeckstroem—all recently have admitted: At that point, the world financial system was brought to the brink of an out-of-control meltdown.

By all market insider accounts, the hedge fund most exposed in Japanese yen borrowing was the offshore Tiger Management LP, which runs the Tiger and Jaguar funds out of Curaçao, Netherlands Antilles, which is also the home of Soros's Quantum Fund.

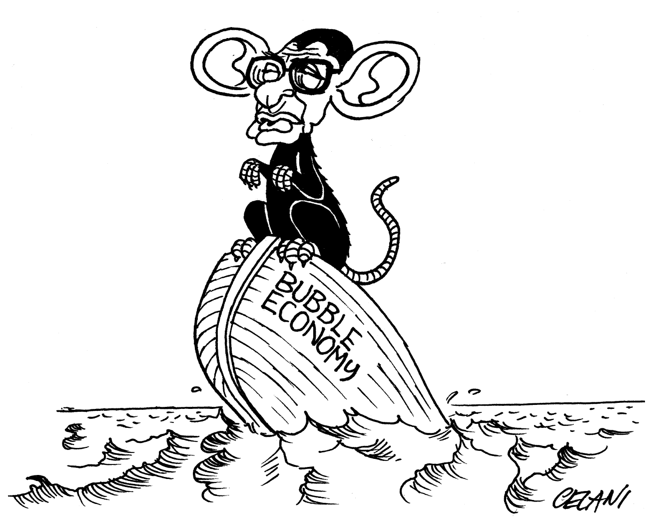
The same Tiger Fund, which had $20 billion in assets on Oct. 7-8, 1998, reportedly lost 10% ($2 billion) overnight, when the yen rose dramatically against the dollar, as a consequence of the LTCM debacle. Tiger had bet that the U.S. dollar would rise against the yen. When the reverse took place on Oct. 7, Tiger was forced to liquidate large stock and bond positions in New York, and across Europe, in order to buy yen to cover its Japanese loans, the so-called "yen carry trade" speculative gamble.

'Yen carry trade' backfires

Since August 1995, when the Bank of Japan drastically slashed interest rates to 0.5%, and the Japanese government, in cooperation with the U.S. Treasury and Federal Reserve, forced the yen sharply lower to prevent the Japanese economy from collapse and the Japanese banks from meltdown, high-risk hedge funds like Tiger and Soros's Quantum had indulged in what they saw as a "one-way bet," known as the yen carry trade.

The funds would borrow yen by the carload from Japanese banks, and then turn around and use the cheap yen, often costing little more than the official 0.5%, and buy dollars with the borrowed funds. The dollars were then used to make leveraged bets on U.S. or other stocks and bonds, which often paid 5-8% or more. So long as the yen showed no sign of becoming strong again, the billions of dollars in Japanese yen credits of these hedge funds could always be repaid at a huge profit. That was the game that blew up in Tiger's face on Oct. 7, losing the fund at least $2 billion in one night.

After the LTCM debacle in October 1998, Tiger and other hedge funds got out of their yen loans, bleeding profusely in the process. In February 1999, the Bank of Japan effectively pushed interest rates to "zero" to try to jump-start the depressed Japanese economy, making the lure of yen borrowing for dollar speculation "irresistible" to Tiger and other hedge fund speculators. By spring 1999, Tiger and the same hedge funds were gambling on the yen-dollar again. By May, the Japan Center for International Finance reported that the "yen carry trade" held by overseas hedge funds had risen to $8 billion, up from $3.5 billion in April. The funds were betting that the Japanese economy would continue to collapse and the yen with it, falling to 127 or lower. They were by no means alone; this was the universally held consensus.



Federal Reserve Chairman Alan Greenspan, writes Lyndon LaRouche, "has exposed himself to the world as one big fat nothing."

In addition, the banks—the major culprits in the LTCM debacle by lending billions in unsecured off-balance-sheet credits to LTCM to leverage their speculative bets on Russian GKO bonds to Japanese yen—quietly began to resume lending to hedge funds in the April-May period. The roulette wheel was starting to spin wild again.

The Bank of England noted the alarming trend of resumed bank lending to hedge funds for renewed speculation. The bank's June "Financial Stability Review" warned, "Market anecdotes have suggested that financial institutions may have been rebuilding their positions this year . . . that lenders to highly leveraged institutions [i.e., hedge funds] may have begun to relax their terms again, by waiving 'initial margin' requirements, despite the obvious lessons of last year's events."

When the Japanese government's Economic Planning Agency released astonishingly strong first quarter Gross Domestic Product growth data on June 10, showing a near 8% annual growth of the economy, the hedge-fund bets on a weaker yen exploded. The yen soared on the news of the data. Tiger Fund and the other hedge funds which had gone back into the Japanese yen carry trade casino, faced sudden ruin when markets opened on Friday, June 11. To cover its yen carry trade losses, Tiger was forced to panic-sell its holdings in U.S. and European bond markets, and convert its dollars and euros into yen.

The scale of the meltdown in progress on June 11, led the G-7 to decide that weekend to bail out a major hedge fund—

once again. Bank of Japan data just released confirm that in the entire month of June, the Bank of Japan increased its holdings of foreign currency reserves by a staggering $22 billion. In normal times, a $2 billion rise would be notable.

A golden parachute for a post-crash world

Another, seemingly unrelated event took place inside the Bank of England the first week in July—the very same Bank of England which has so accurately warned about the dangers to the financial system of bank lending to hedge funds.

On July 6, the Bank of England sold 25 tons of a planned sale of 415 tons of its gold reserves. The decision to literally "sell the crown jewels," and cut the bank's gold holdings by more than half, follows similar decisions by the central banks of two other British Commonwealth states—Canada and Australia—over the past three years. The mere announcement on May 7, by a central bank with such influence and historical ties to gold as the Bank of England, that it planned to auction the first of six tranches, pushed the gold price lower by $30 an ounce to $262 on the eve of the auction. The day after the sale, gold hit a new 20-year low of $257, in London and New York, its lowest level since May 1979.

The July 6 auction of Bank of England gold drew a furious protest from the new President of South Africa, Thabo Mbeki. Mbeki accused "rich nations such as Britain" of following policies that will have a "potentially disastrous effect on poorer economies." The South African mining industry is threatened with wholesale unemployment, as numerous gold mines face bankruptcy or closure with the recent plunge in gold. South African Finance Minister Trevor Manuel stated, "Too many countries in Africa survive from export revenues, primarily from commodities, and this will impact very directly."

Commenting on the motives of the Bank of England creating such a deliberate collapse of the gold price and "privatization" of state gold reserves, Lyndon LaRouche stressed that the sale was part of efforts by the British-led international financial elites to prepare their "golden parachute" into a "post-crash world." LaRouche insists that the price-dumping strategy now under way by the Bank of England, is intended to force gold sales on a massive scale, which will enable select financial elites to quietly amass huge private gold holdings, in preparation for the imminent day when paper stocks and bonds, or other titles, simply become worthless. Once the global market crash is under way, LaRouche noted, funds will be frantic to shift into gold again, driving the price up. By executing the collapse in gold's price now, he notes, these powerful insider interests of the City of London, Switzerland, and such, hope to consolidate their control over one of the few commodities—gold—which is sought in a period of systemic crisis.

In effect confirming LaRouche's charge of Bank of England collusion, the Marketing Director of AngloGold of South Africa, Kelvin Williams, told the *Times* of London on June 8, "The Bank of England chose the most disruptive method to go to market. To announce a transparent sale in advance is to allow every single speculator to speculate against the metal before your sale."

LaRouche pointed out that there is a fatal flaw in such calculations by the London-centered financial oligarchy: "Under conditions of financial breakdown, all those public assets, such as publicly held gold, which are now being channelled into the hands of private financiers, will be confiscated. Whoever is now looting and stealing these public assets had better be aware: Those assets will be seized and put back into the public's hands. No 19th-century private gold standard schemes will be allowed. We need a New Bretton Woods system in order to rebuild the world, nothing less."

The June 29th that never was

by Lyndon H. LaRouche, Jr.

The following was released by LaRouche's Committee for a New Bretton Woods, his Presidential campaign committee.

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Essentially, Federal Reserve Chairman Alan Greenspan has exposed himself to the world as one big fat nothing. All the official and press hype about the so-called "big decision" to be made at the June 29th meeting of the Federal Open Market Committee was all just one badly scripted dog-and-pony show. All the silly chatter about raising the discount rate was pure smoke-screen.

The real story is, that the G-7 governments and central bankers were up to their ears, from June 11 through and beyond June 29th, in the biggest bailout of bankrupt bankers yet on record, about $25 billions worth, or more. All of this bailout of bankers and hedge funds—much bigger than the September-October G-7 bailout of Al Gore's cronies at LTCM, was, once again, ultimately at the taxpayers' expense. All the chatter about the big decision of June 29th, now turns out to have been nothing but part of one of the biggest cover-ups ever.

During June, some of the world's leading central bankers, including the Bank of England's Eddie George, not only lied, in effect, about what was really occurring during that month, but they distracted your attention from that lie, by—finally—admitting the truth about what really happened during the October 1998 Washington, D.C. G-7 meeting. George and others chose the month of June to announce that the entire world financial system was at the verge of a global meltdown during late September and early October of 1998.

If you are fussy about facts, read what leading press, Federal Reserve, and U.S. Government hand-outs said about the financial situation during the time this meltdown of 1998 was ongoing. Don't complain that they lied to you. They don't call it lies; they call it "spin."

Now, let me drop the other shoe. Not only was the world's financial system on the edge of a global meltdown, once again, during June 1999. Despite the big bailout which Alan Greenspan tried to cover up with his June 29th dog-and-pony show, the entire system is still on the edge of the biggest financial collapse ever. But, even that, is not the really big story.

The really smart crowd operating from behind the curtains, is no longer trying to save the present world financial system. They put the dying system on a financial and political life-support system, just to keep it alive long enough to prepare to bury it in ways which various groups of high-level insiders think might be to their long-term advantage. They do not intend to save this financial system. They are buying a little bit of time to prepare their post-end-game scenarios, with various strategic plans for taking over the world after the present financial system has crashed.

Don't ask who is going to end up holding the money after the system crashes. Instead, ask yourself who is going to have the political power to create money after the present world monetary and financial system evaporates, soon, pretty much the same way the German Reichsmark evaporated in the 1923 hyperinflationary blow-out. The fools are worrying about "my money." The smart money is betting on the crash coming soon and is concentrating on post-end-game political power scenarios.

To understand these guys and the games they are playing backstage, you have to think ahead, think ahead to the point that $300 trillions-equivalent, or more, of financial paper, is suddenly wiped from the map, just like the hyperinflated Reichsmark of Autumn 1923. What do we do then? That's the only thing that really intelligent people are asking about, are thinking about, right now.

You wish to know what the options are for that post-endgame situation? That is what I and my associates, among a few other knowledgeable persons around the world, have been trying to tell you. You do have options, if you will listen to what those are, in time.