Dateline Mexico by Carlos Cota Meza

Behind the stock market plunge

The speculative bubble has reached its limit, and with the crash of June 17, the "economic miracle" expired.

On June 17, the Mexican Stock Exchange (BMV) suffered a more than 5% drop, putting investors in "a state of extreme nervousness, but not panic," according to press reports. The stock index for the week fell 6.83%.

Innumerable explanations have been put forth to try to explain the plunge, but the only consistent and sensible explanation to date is the one which has been least paid attention to, and which has been described as "the least important" by market analysts.

"The Mexican market is saturated with new and not very marketable bonds," says the sixth and last point of the official explanation.

This doesn't mean that the new bonds which enter the market are necessarily "junk bonds," but rather that the immense speculative bubble that has been created on the basis of *expectations* of the Mexican "economic miracle" has already reached its limit, and can no longer *pay itself* the super-yields that its own speculative dynamic imposes.

This tends to explain why it was the stocks of Teléfonos de Mexico, or Tel-Mex (supposedly the most solid Mexican paper on the international market), that triggered the collapse.

The BMV's other explanations, as well as those of the financial experts, banks, and brokerage firms, include bits and pieces of the truth, but can offer no coherent picture of what really happened.

The remaining five points of the official BMV explanation of the market collapse are the following:

1) The news that the Mexican Telephone Workers Union was planning to sell off its workers' stock package was supposedly responsible for causing Tel-Mex stocks to tumble on Wall Street, dragging the paper of other Mexican companies with it.

This explanation doesn't wash, since if it is Tel-Mex stocks which are the standard-bearers of the Mexican "miracle," it is only logical that the telephone workers' union would have had no trouble finding good buyers.

2) Ross Perot's luke-warm statements against the North-American Free Trade Agreement (NAFTA), to be signed by the U.S., Canada, and Mexico, supposedly led U.S. investors to divest themselves of Mexican holdings.

It is true that $2 billion fled Mexico in the 48 hours after the June 17 jolt. But it is highly doubtful that Perot was the real cause. If he were, his strength as a presidential candidate would have already defeated George Bush, at least in Mexico.

3) The BMV's third explanation is the fall of the international markets, especially that of the Nikkei Index in Tokyo, which registered its lowest level since 1986 on June 18. The Frankfurt, London, New York, Argentine, and Brazilian exchanges fell as well.

This "negative interaction" shows that not only the Mexican but the entire world monetary system is caught in a speculative bubble which can grow no further. It is a fact that ever since "Black Friday" of Oct. 19, 1987, the stock markets of the world have no longer been characterized by "free competition," but rather by political pacts among governments to keep the decrepit international financial system afloat. It is the impossibility of preserving those political agreements that is translating into the market crises we now see.

4) The "juridical monstrosity" of the U.S. Supreme Court authorizing the kidnaping of foreigners abroad had its impact on the Mexican exchange. The Supreme Court validated the so-called Thornburgh Doctrine, which not only put a chill on the Mexican stock market, but also destabilized political, diplomatic, and economic relations between the two governments.

5) The fifth point, according to the BMV, is a persistent instability of the financial markets, with domestic interest rates stubbornly moving upward to four percentage points above the 1992 projected inflation rate.

This upward pressure simply means that some speculators, anticipating further collapses of the market, want to create a "safety net" in some other speculative niche.

Among the more striking observations of the banks and stock brokerages are those which incorporate elements that suggest that the political pacts are no longer holding.

The Vector brokerage house, for example, points to "international political uncertainty" and to "divergencies within the European Economic Community regarding the matter of monetary unity" as a factor. Interacciones, another exchange house, argues a "lack of good news" with respect to NAFTA, but insists that the market collapse is in no way "due to domestic developments." Bancomer simply states that "what was most damaging about the fall of the exchange was the speed with which it occurred."