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Soros launches strategic bombing of the D-mark

by Marcia Merry

On June 9, mega-speculator George Soros fired the shot signalling the "strategic bombing" of the deutschemark, and the German economy along with it. No ordinary financial bomber, Soros has for many years served the interests of a money and power faction best known by some of its figureheads—Margaret Thatcher and friends—and oft-described as Anglo-American.

In the June 9 London *Times,* there appeared a letter by Soros, addressed to *Times* economics editor Anatole Kaletsky, who had run an open letter on May 20 calling for Soros to "save Europe from federalism by attacking the French franc." Soros is famous for his exploits such as making close to $2 billion in profiteering in last September's currency turmoil which occurred when Britain pulled the plug on the European Monetary System of pegged currency values, called the Exchange Rate Mechanism. Until that time, the German mark was a linchpin of the ERM, and, however remote the likelihood, there did exist a potential for resumed economic development and currency stability.

In the fall, the German and French central banks coordinated repeated joint interventions to defend the franc against speculative onslaught. However, on Sept. 15, Britain unilaterally pulled out of the ERM, and effectively ended joint currency support. Over the succeeding months, France politically fell in behind Britain in a new "Entente Cordiale," and Germany was further isolated.

In his lengthy reply to the *Times,* Soros said, in essence: Target Germany, not France, to knock out continental federalism. Soros's letter to Kaletsky began: "Your open letter deserves an answer. I agree with some of your arguments, but heartily disagree with your conclusions. It is not the French currency and French bonds that need to be sold, but the German ones.

"I expect the mark to fall against all major currencies." And fall it did. Within 12 hours of this salvo, the deutschemark fell against practically all other currencies. The dollar rose against the mark to 1.6355 from 1.6245 the day before. The pound sterling rose against the mark to 2.4788 from 2.4700 the day before. The next day, headlines proclaimed, for example, from the *New York Post:* "The Letter That Rocked the Market."

While the currency market may swing this way and that, what is clear is that a new round of currency turmoil has been launched, with the deutschemark as the central target. When Soros moves, 15-20% of valuation may change. Speculators are anticipating a drop in the mark to 1.80 to the dollar. The Japanese yen can be expected to rise against the dollar even faster than it had been. The other European currencies are already on the ropes, with the exception of the French franc, which can be regarded as the only survivor—in accordance with France's new subservient relationship to Anglo-American financial designs. Soros spells things out in his letter: "Germany is now in a worse recession than France, and has a large and growing budget deficit."

What lies ahead? According to Soros, you should look forward to a new day in which floating exchange rates are a thing of the past, and a "common currency" will rule. He ends his letter to the *Times:* "Since all exchange rate systems are flawed, it is best not to have one at all, but to have a common currency. The fact that it would put speculators like me out of business is one of its merits."

The one-world dollar

To be sure, if the dollar triumphs over everything, and Japan remains isolated, then the Soros vision of a one-world dollar, based on control of raw materials and commodities,

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may seem realistic to the geopolitically minded financiers of Wall Street and London.

Soros and company are already positioned for speculation in gold. Earlier this year, he "made a mint" when he bought a $400 million stake in Newmont Mining in Nevada. The company produces gold, which is now selling above $400 an ounce, for an estimated $200 an ounce. Another Nevada gold mine owned by Peter Monk, a crony of Soros, both originally from Hungary, produces gold at $170 an ounce.

The vision of a post-speculation world, a world after the crash, is also hinted at elsewhere in recent days, in debate over whether and when the derivatives bubble is due to pop.

Internationally, the derivatives market has gone from a level of $2 trillion to $16 trillion in volume of notional principal amount outstanding at year end over the past five years. To keep up that pace of expansion this year, the $16 trillion outstanding will have to increase to well over $25 trillion, six times the size of the U.S. federal government debt. At present, more than $300 billion of U.S. government securities is traded every day, enough to turn over the entire publicly held portion of government debt every 10 trading days.

Since the derivatives bubble feeds like a parasite off the host of what remains of the real, physical economy, any continued ballooning of the bubble can be done only by imposing austerity at the level of Nazi-modelled genocide. Even so, the loot isn't there to maintain the growth rate. Come what may, the bubble that's been inflating since 1987 will burst.

George Soros, author of *The Alchemy of Finance,* may look forward to a post-derivatives world of dollar-denominated control. And there are others looking a little further down the line. A European-based Trilateral Commission spokesman told *EIR:* "What we have is the mass circulation of financial incomes that are de-linked completely from the real economy. Ninety-five percent of financial transactions have no linkage to the real economy; this fact must destroy the ability to make an economic policy. For such a situation, 'speculation' is hardly the right word. It's much more dangerous than 'speculation.' We're in a bubble economy, and we've gone beyond the 'alert point.' Certainly some people are thinking that some kind of tax must be placed on these transactions, but the reality is that no one in power wants to act. Also, we can't cope intellectually with the problems this implies."

Derivatives: the next meltdown?

Barron's, the U.S. financial weekly, ran a featured article on derivatives June 7, titled, "The Next Meltdown? Fears Grow That Derivatives Pose a Big Threat." The article highlighted the opinions expressed by Warren Buffett, the wheeler-dealer of the George Soros ilk, whose investment company is Berkshire Hathaway, Inc. Buffett's comments were reported from his speech at Berkshire's annual meeting in late April. "He opined that derivatives might one day trigger a catastrophic 'chain reaction' in world financial markets. For one thing, he explained, the derivatives market lacks the restraints of exchange-traded futures and options—namely, the posting of margin by both buyers and sellers, daily marking to the market and margin adjustments of positions and the guaranteeing of the integrity of all trades by some centralized clearing house with broad assessment powers on all participants.

"In the world of bilateral, over-the-counter derivatives trading, though, there's no assurance that the losers will be around at the end to pay off, Buffett worried. Particularly if some low-probability, high-impact event causes a dramatic move in some underlying market. Then derivatives mights become both the medium and the message of catastrophe."

Alexandre Lamfalussy, director of the Swiss-based central bankers' central bank, the Bank for International Settlements (BIS), called for standard rules to monitor banks' exposure to derivatives, when he spoke the week of June 8 at the annual International Monetary Conference in Stockholm. Lamfalussy complained that even professional financial specialists can't tell what is going on from a bank's books. "The phenomenal growth of derivatives and associated trading techniques has reduced the transparency of balance sheets."

In Asia, there are intense battles over attempts to control derivatives. Under pressure, the Japanese Foreign Ministry held up the issuance of a committee report due out on May 31, on the subject of whether to stop stock futures trading under volatile market conditions. The committee work has involved the Tokyo Stock Exchange, and foreign brokerage houses in Japan are opposing placing limitations on trading.

Chase Manhattan Asia Ltd. is one of the U.S. traders pushing derivatives gangbusters in Asia—in contrast to the acknowledged problems in the United States and Europe. "The market for derivatives products in Asia is set for explosive growth," according to a Chase representative writing in the *Bangkok Post* May 26. "Just as the United States and Europe saw an enormous development in their use in the last decade, the macro- and micro-economic factors in Asia favor a period of strong and sustained expansion."

The Chase Asia representative praised the way that "derivative products markets have flourished because of their power to synthetically create or hedge risk positions," and described Asian companies as ripe for derivatives trading, because they are 1) highly leveraged; 2) subject to financial risk; and 3) export oriented. "These three factors, combined with the increasing volatility in today's financial markets, have enormously increased an Asian corporation's financial risk." Chase contrasts the "strong growth" of the Asian economies, with "the weak U.S. and European economies and the tremendous amount of capital demanded by the former East bloc," and says that this is the next growth source for derivatives trading. The booster article concludes with a plug for Chase Manhattan Asia Ltd.'s Structured Derivatives Group's "many years of experience" in risk management through derivative products.