Salomon targets Japanese banks

by Kathy Wolfe

The Tokyo office of the top Anglo-American investment bank Salomon Brothers fueled recent drops in the Tokyo stock market by issuing an "outrageous . . . unsubstantiated report" on Japanese banks, a Tokyo source told *EIR* on April 15. The report caused U.S. and British investors to dump Japanese bank stocks, dragging the market down. Japan's top 10 banks are also the world's 10 largest.

Foreign investors reportedly led the selling, especially U.S. and U.K. security houses. The trigger is said to be an outrageous report released in Tokyo, New York, and London by Salomon Brothers, alleging that Japanese banks have weak capital. The March 26 report, "BIS—Where Do Banks Really Get Worried?" by David Atkinson, Salomon's Tokyo bank analyst, states that several large Japanese banks would fall short of capital standards of the Bank for International Settlements (BIS) if the Nikkei stock average fell below 18,500, and that a dozen major banks would fall below standard if the Nikkei dropped below 16,200. Japanese banks hold stock as part of their capital.

The market did fall below 18,500—but the drop was led by foreign dumping of Japanese bank stock. "What annoys us," complained our source, "is that the Salomon report was just four pages, unsubstantiated, with a lot of questionable assumptions, and no backup research. It's a list of Japanese banks, and next to the name of each bank, listing the level of the Nikkei average, below which if it falls, one should sell Japanese bank stock."

But the BIS standards do not come into force until March 1993. So why all the pressure? Recent indictments at Salomon for its abuse of the U.S. Treasury market have apparently not kept Salomon from abuse abroad.

Economic warfare bails out U.S. debt

Japan's Nikkei average of 225 stocks collapsed by 17% from the 20,200 level on Monday, March 23, the day Salomon actually released the report, to April 9, when it hit a six-year low of 16,600. Although the Nikkei rebounded to the 17,500 level by April 17, British and U.S. traders continue to talk the Tokyo market down. "No one is convinced the bottom has been reached," Paul Migliorato, the oft-quoted chief trader at Jardine Fleming, the Tokyo subsidiary of Dope, Inc.'s Jardine Matheson, told wire services April 14. Britain's Baring Brothers in Tokyo has forecast that the Nikkei could break below 15,000.

The Salomon report is "a perfect example of how Robert Gates is reforming the U.S. CIA to become an economic intelligence bureau," a knowledgeable Japanese journalist told *EIR* April 15. He confirmed that the Salomon report had made a "major contribution" to the collapse of the Japanese stock market. The Japanese Ministry of Finance is "furious at Salomon Brothers," he said, "but they can't do anything to censure Salomon, because the Bush administration would react wildly. Salomon's activities are protected under free trade, which Miyazawa has been defending since Bush's trip. This is how the Japanese system has caught 'financial AIDS' from Wall Street."

U.S. Federal Reserve officials meanwhile told wire services April 14 that the Tokyo crunch has had the "unexpected" result of bailing out the U.S. Treasury bill market. The U.S. government Monday paid only 3.6% to sell $23 billion in Treasury debt, the lowest rates since 1972.

Fed sources said that the collapse of the Japanese market has frightened Japanese investors away from Japanese stocks, bank deposits, and the yen, and into U.S. government debt. "The collapse of Japanese stock prices has sent those investors looking for a safe haven," said Alan Reynolds, director of economic research at the Hudson Institute. "They're buying and holding U.S. Treasury bills, which is just the opposite of what we had expected."

London versus the 'keiretsu'

The London *Financial Times* and U.S. press have been reporting for weeks that Japanese *keiretsu*, or industrial-financial combines, had caused the Tokyo crash—by dumping stocks in their own associated banks, a move tagged as "cross-share unraveling." But our Tokyo source said on April 15 that although there has been some *keiretsu* selling, it has not been in large amounts.

"No, there is something more conspiratorial here. This is a form of manipulation. . . . Sales of Japanese stocks in fact were led by U.S. and U.K. investors selling Japanese bank stocks. It is very odd that the wires in the U.S. never mention the Salomon Brothers report. The Japanese press has featured it prominently.

"Why should a *keiretsu* member sell his own banker's stock in any large amounts? It just hurts his banker." *Keiretsu* companies have crossholdings of shares for a long-term purpose, and regardless of whether the shares rise or fall, they represent a permanent relationship. Mitsubishi Heavy Industries, for example, holds the shares of Mitsubishi Bank, and vice versa, in good times and bad. If Mitsubishi Industries has a short-term cash need, they might sell some shares in Mitsubishi Bank and realize capital gains on that stock, to cover the cash shortage.

"If firms need cash, why should they dump their own bankers' stock? They have other assets to sell first. The whole argument doesn't make any sense. Clearly the *keiretsu* unraveling did not start this," our source concluded.