Studies in Applied Economics

COMMODITY AND FOREIGN EXCHANGE TRADING – SOME NOTES AND HIGH POINTS

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Indonesia, a Professor Asociado (the highest honor awarded to international experts of acknowledged competence) at the Universidad del Azuay in Cuenca, Ecuador, a Profesor Visitante at the Universidad Peruana de Ciencias Aplicadas (the UPC’s highest academic honor), and the Gottfried von Haberler Professor at the European Center of Austrian Economics Foundation in Liechtenstein. In 1998, he was named one of the twenty-five most influential people in the world by World Trade Magazine.

Prof. Hanke is a well-known currency and commodity trader. Currently, he is a member of the Supervisory Board of Advanced Metallurgical Group N.V. in Amsterdam, Chairman Emeritus of the Friedberg Mercantile Group, Inc. in Toronto, and is a member of the Board of Directors of Airtm in Mexico City. During the 1990s, he served as President of Toronto Trust Argentina in Buenos Aires, the world’s best-performing emerging market mutual fund in 1995.


Prof. Hanke and his wife, Liliane, reside in Baltimore and Paris.
1. **My Introduction to Commodity Markets**
   I grew up in Iowa, where I was introduced to commodity markets at a very early age – livestock and grain markets. Over 65 years ago, I learned how to sell eggs forward (hedging) on the Chicago Mercantile Exchange by assisting my grandfather. He had a large egg candling operation and supplied NYC with eggs. A few years later, at the age of 14 years, I opened my first trading account and started trading soybeans.

2. **An Early and Long-Term Focus on Water Resources**
   I have had a long association with water resources engineering and management, including responsibility for the water resources portfolio at the White House during the Reagan years. The linked synopsis covers all that.

3. **The Start of a Long-Term Focus on Mineral and Petroleum Economics**
   I had the good fortune to be a member of the faculty – my first faculty position – at the Colorado School of Mines (1966-1969), where I taught the first mineral economics and petroleum economics courses offered at Mines. The linked RIP on the great Prof. M.A. Adelman from MIT covers some of my earliest memories of Mines. I have continued teaching commodity trading courses at Johns Hopkins, where I have produced many who have become known traders. See the linked article, “Back to the Futures”. Now, I deal with commodity and currency markets in Problems in Applied Economics. For an account of how I conduct that course, “Professor Hanke’s Atelier: Reflections on the “Bullpen” and Raphael’s Workshop,” is linked.

4. **Oil Trading – A Huge Trade**
   Another bit of good fortune was my long association with Friedberg Commodity Management, Inc. in Toronto. That is where I learned the trade from the great Dr. Albert Friedberg and where I am Chairman Emeritus. Shortly after I began work at Friedberg’s in 1985, I predicted that OPEC would collapse and that crude would plunge to below $10/bbl., which it did. We were short crude and gas-oil on a massive scale and in every way possible. Indeed, for example, we controlled about 70% of the short interest in the gas-oil contract in London. We were also short the Saudi riyal and the Kuwait dinar. All our ships came into port. Attached is one of my early analyses of the crude market, “The Unraveling of OPEC: Crude Calculations.”
5. My First Mega Trade in Foreign Exchange
In late 1993, while at Friedberg’s, I designed and initiated a short position against the French franc. It broke the back of the Franc Fort and almost forced France out of the ERM. This was duly noted in Paris, as the attached article, “Scénario-fiction pour une journée de cocaïgne: Hunt, Hanke, Goldsmith, Tsutsumi et les autres...,” in Paris Match recounts.

6. The World’s Number One, 1995
Toronto Trust Argentina in Buenos Aires, where I served as President, was the world’s best performing fund in 1995 (+79.25%). My interview with Micropal, “Thoughts from the president of 1995’s best emerging market fund,” recounts how we ended up at the top of the world.

7. Currency Reforms
Since 1990, I have spent a good bit of time predicting and stopping hyperinflations (those that exceed 50%/month). There have been 58 in history, and I have predicted and/or stopped 23 of them – more than any living economist. For some of that, World Trade Magazine named me one of the 25 most influential people in the world in 1998. A brief account of those activities, “Remembrances of a Currency Reformer: Some Notes and Sketches from the Field,” is linked. My most recent efforts in the sphere of currency reform are focused on the use of crypto currencies. I do this as a member of the Board of Directors of Airtm, a company based in Mexico City.

8. Metals and Mineral Economics, Again
Since 2013, I have served on the Supervisory Board of the Advanced Metallurgical Group (AMG), an innovative company that deals in all aspects of critical materials. This has been most rewarding, bringing me back to my early work at the Colorado School of Mines and also my association with Dr. Heinz Schimmelbusch, AMG’s founder and former Chairman of Metallgesellschaft (MG). It was in 1994 that I first met Schimmelbusch, as I was one of those who concluded that MG’s huge oil hedge was brilliant and something that Deutsche Bank (DB) did not understand. In consequence, DB pulled the plug on MG’s credit line and MG lost $1.3 billion on its hedge, as the following New York Times article, “The Oil-Futures Bloodbath: Is the Bank the Culprit?,“ recounts.

AMG instituted an austerity program in 2012, just as the commodity prices collapsed. This was based on my valuation modelling exercise of AMG. The valuation models have been developed in my Johns Hopkins course, Applied Economics and Finance, (The syllabus for this course is linked). This course is well-regarded and internationally recognized (for more on the course, read the three following articles: “This Johns Hopkins Professor Can Guarantee You a Job in Finance,” “Inside the Johns Hopkins finance class that’s ‘guaranteed’ to get you a job on Wall Street,” and “Simonomics on when trade school meets Wall Street”). In consequence, AMG slashed working capital, halted CAPEX, and started to generate very strong free cash flows. These were used to virtually eliminate AMG’s debt and totally deleverage. The austerity strategy worked like
a charm. The *Wall Street Journal* covered the AMG story in two articles: “*A Bold Approach in Commodities Paid Off*” and “*The CEO at the Center of a Controversial 1993 Commodity Hedge*.”

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