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COMMODITY AND FOREIGN EXCHANGE TRADING — SOME NOTES AND HIGH POINTS

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Johns Hopkins Institute for Applied Economics,
Global Health, and the Study of Business Enterprise

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By Steve H. Hanke

About the Series

The Studies in Applied Economics series is under the general direction of Prof. Steve H. Hanke, co-director of the Institute for Applied Economics, Global Health, and Study of Business Enterprise (hanke@jhu.edu). The authors are mainly students at The Johns Hopkins University in Baltimore. Some performed their work as summer research assistants at the Institute.

About the Author

Steve H. Hake is a Professor of Applied Economics and Founder and Co-Director of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise at The Johns Hopkins University in Baltimore. Hanke taught economics at the Colorado School of Mines and at the University of California, Berkeley; served on President Reagan's Council of Economic Advisers; as an adviser to five foreign heads of state and five foreign cabinet ministers. He was President of Toronto Trust Argentina in Buenos Aires, the world's best-performing emerging market mutual fund, in 1995. Hanke holds seven honorary doctorate degrees and is an honorary professor at four foreign institutions. In 1998, he was named one of the twenty-five most influential people in the world by World Trade Magazine. In 2020, Hanke was named a Knight of the Order of the Flag.

Abstract

This paper provides a personal memoir and overview of my experience and contributions in the fields of commodity and foreign exchange trading, including major trades in oil, currencies, metals, and the development of the Hanke-Cofnas Gold Sentiment Dial.

Commodity and Foreign Exchange Trading – Some Notes and High Points

Prof. Steve H. Hanke

The Johns Hopkins University

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 70 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. **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, the world's top mining school (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 foreign exchange and 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. The results are gratifying as my students typically land where they want to land: at the top.

3. **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 many tricks of 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, 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."

4. **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 cocaigne: Hunt, Hanke, Goldsmith, Tsutsumi et les autres...", in *Paris Match* recounts.

5. **The World's Number One, 1995**
   Toronto Trust Argentina (TTA) 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 TTA ended up at the top of the world.

6. **Russian Ruble**
   In 1998, the Russian ruble was a spectacular trade. In January 1998, I delivered a speech in Vienna. In passing, I noted that the balance sheet of the Central Bank of Russia was deteriorating rapidly and that the ruble was bound to collapse. The Bank's net foreign assets were falling like a stone and its net domestic assets were surging. A Reuters reporter was in the audience and reported on my remarks. When his story hit the wire, the ruble lost about 3% against the U.S. dollar. I realized that I was onto something. I immediately put on a short position, and as I anticipated, the ruble eventually tanked in a spectacular collapse on August 17, 1998.

7. **Metals and Mineral Economics, Again**
   Since 2013, I have served on the Supervisory Board of the Advanced Metallurgical Group (AMG) in Amsterdam. It is an innovative company that deals in all aspects of critical materials. And, as of May 01, 2019, I assumed the position of Chairman of the Supervisory Board of AMG. 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.

8. **The Hanke-Cofnas Gold Sentiment Dial**
   In 2021, Abe Cofnas -- a former student of mine from many moons ago, when I was a professor at the University of California at Berkeley – and I founded Sentiment Analytics, Inc., which publishes the Hanke-Cofnas Gold Sentiment Report. Our purpose is to develop methods for measuring market sentiment with high-frequency data and to hook up trading algorithms to our sentiment metrics. We started with the gold market.

The Gold Sentiment Report contains the Hanke-Cofnas Gold Sentiment Dial. It provides a unique measure of sentiment in the gold market on an hourly basis. The Gold Sentiment Score represented in the Dial is generated by hourly text-mining of key words contained in articles on the internet reflecting expectations on gold. Positive dial scores represent a bullish momentum, and negative scores represent a bearish momentum. When scores become extended into extreme ranges, they indicate a coming reversal in gold prices.

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