

SQUEEZING SILVER

A true story

Minpeco S.A. v. Hunt

(New York, February–August 1988)

SQUEEZING SILVER

Peru's Trial Against Nelson Bunker Hunt

by
Mark A. Cymrot



TWELVE TABLES PRESS

XII



www.twelvetablespress.com

P.O. Box 568
Northport, New York 11768

© 2018 by Twelve Tables Press
All Rights Reserved

Library of Congress Cataloging-in-Publication Data

Name: Mark A. Cymrot
Title: Squeezing Silver
Description: Northport, New York: Twelve Tables Press, 2018
ISBN: 978-1-946074-19-5
Subjects: Law—United States/Law,
LC record available at <https://lccn.loc.gov/>

Twelve Tables Press, LLC
P.O. Box 568
Northport, New York 11768
Telephone (631) 241-1148
Fax: (631) 754-1913
www.twelvetablespress.com

Printed in the United States of America

Cover Art: Rebekah Feldman

Table of Contents

Prologue	vii
Part I The Opening	1
Part II Searching for Oil-Rich Partners	41
Part III Gathering Forces	85
Part IV September 1979 Trap Is Sprung	145
Part V Bunker Staves off the Regulators	191
Part VI Debacle in December 1979	257
Part VII The Unrelenting Ascent Continues	315
Part VIII The Hourglass Empties	341
Part IX Hovering Near Disaster	391
Part X Closing, Verdict and Afterwards	411
Acknowledgments	425
Endnotes	437

Prologue

Nelson Bunker Hunt comes striding down the center aisle of the packed courtroom, shoulders back, head up, eyes focused forward. Short, rotund with a pudgy face and sandy hair, he is wearing a gray business suit, presumably tailor-made, although Bunker might be proud to tell you he bought it off the rack. On his doughy frame, the difference might not matter. With a blue shirt, simple blue tie and white pocket square, he looks poised. This is the moment the jurors—four women and two men—have been waiting for; they are sitting erect, three of them on the edges of their seats. Bunker's wife Caroline, brothers Herbert and Lamar, and friends are sitting among reporters and the curious. TV news artists are drawing on sketchpads resting across their laps. The courtroom is silent. Bunker steps up to the witness box, raises his right hand, and intones the oath in a strong voice.

As Bunker settles into the hard, wooden witness chair, he turns toward his lawyer who was standing across the well of the courtroom waiting to ask him questions. I am watching Bunker's every move. I know he is nervous; so am I. In different ways, we are confronting turning points in our lives.

Our young trial team is accusing the infamous Texas oil tycoon of executing a scheme to manipulate silver prices. When prices spiked from \$9 to \$51, Bunker and his cohorts pocketed billions while thousands were cheated, our client Minpeco S.A. among them. Ultimately, the scheme was calamitous when silver prices collapsed, driving Bunker and his family into default and the US economy to the verge of a major financial crisis. The jury can save Bunker and cleanse him of the embarrassment and shame of his very public failure or label him a manipulator and wretched crook.

Bunker will tell his story before I have my chance to cross-examine him, a confrontation that might determine the outcome of the case. I can soar or crash and, with me, our team that has been tireless for five years. Can I stand with the renowned lawyers who have lined up for the defense, or will I fade and be forgotten, one more pretender unfulfilled?

Before Bunker arrived, the jurors patiently listened for three months to our witnesses lay out the complex events of the fall of 1979. We hope to prove that two groups secretly working together bought virtually the entire inventory of silver bullion in US commodity exchange warehouses, which caused the extraordinary price rise. Bunker Hunt and his family made up one group, and a second group that included the brother-in-law of the Saudi Crown Prince, dubbed the “Conti Group,” was trading through a flamboyant broker,

Norton Waltuch at ContiCommodity Services, Inc., a subsidiary of the commodity conglomerate Continental Grain. We are accusing the two groups of a scheme to commit racketeering, monopoly, and fraud designed to make spectacular profits at the expense of other traders. “A small group of men, acting for themselves, ignoring others, uncaring about innocent people, innocent traders, manipulating the silver markets,” is the way I described their scheme to the jury.

A single silver futures contract bought for \$4,500 before the price spike could be sold less than four months later for \$255,000, a magnitude of return rarely seen on Wall Street. For each dollar that silver prices rose, the two groups received \$200 million in nightly margin payments on silver futures contracts, a massive wealth grab from other market participants.



The abrupt price spike inflicted suffering across the economy. Many ordinary traders incurred debilitating losses. The headlines shrieked of brokerage houses, banks, and major metals dealers teetering on the edge of bankruptcy. Commercial silver users, like film and medical equipment manufacturers, struggled to contain costs. High silver prices even touched households. Police statistics showed a marked increase in burglaries for silver, 30 percent involving violence. When silver was not stolen, families sold silverware, jewelry, and irreplaceable silver artifacts to be melted down into bullion, lost to history, but exchanged for extra vacations, new cars, or extensions on their homes.

Minpeco, Peru's state-owned minerals dealer, was one of many on the wrong side of the wealth transfer when it lost \$80 million in ten days as silver futures prices surged in early December 1979. Minpeco could no longer pay its margin calls when its chief lender, Peru's national bank, ran out of money, a stark display of the impoverished of the country as it transferred its limited capital to oil billionaires. The one life tied most directly to Bunker's at this trial, Ismael Fonseca, Minpeco's hedging chief, was fired and walked out of the rundown converted mansion that served as Minpeco's headquarters into a shattered, haunted life.

When the price bubble burst in late January 1980, money that came in so quickly went out quickly. Bunker Hunt's silver lost value daily, prompting a steady series of multimillion-dollar margin calls. For two months, Bunker

struggled with a variety of schemes to steady deflating prices. He traveled the Middle East and Europe looking for financing, determined to maintain his crown as king of silver. No one would help him. On Silver Thursday, March 27, 1980, silver prices crashed back to \$10.80, down from \$51 just two months before. That night, the wealthy Hunt family was humiliated to announce they could not pay margin calls due to brokerage houses, banks, and others.

Newspapers blared panicky headlines. The US economy hovered on the brink of collapse from the escapade of a single family. Although “too big to fail” had not yet entered our collective vocabulary, Federal Reserve Chairman Paul A. Volcker, Jr. feared a Hunt default would bankrupt the venerable brokerage house, Bache, Halsey, Stuart, Shields Inc., and perhaps the country’s largest, Merrill Lynch Pierce Fenner & Smith Co. A chain reaction of failures could crash the US economy, Volcker worried. Volcker fostered a secret bailout of the Hunts and, in turn, their irresponsible brokers and lenders.

Congress investigated. Politicians grandstanded with lofty speeches. “The futures markets,” warned the formidable Senate Banking Committee Chairman William Proxmire, had “become the Indianapolis 500 for individuals hoping to strike it rich in the high risk, highly leveraged, and fast-moving marketplace.” Causing it, he added, to “more closely resembled a demolition derby.”

Gloomily tramping from Congressional committee room to committee room, Bunker Hunt failed to display

any remorse or even awareness of the havoc he had wrought. He railed at commodity regulators for imposing market restrictions that had halted his accumulation of silver, breaking the price spiral. They “changed the rules in the middle of the game,” Hunt blustered, perhaps revealing more than he intended by labeling the disaster a game. Really, what did he expect to do with a crown of silver? He was left to churlish lamenting: “A billion dollars isn’t what it used to be” was his explanation for his family’s inability to pay margin calls. Like Bunker, his father H.L. Hunt, the world’s richest man, was good for a quote: “Money is just a way of keeping score,” H.L. reputedly said. Bunker was losing the game at that moment.

The Hunt bailout was the first in a series of controversial bailouts that provoked intense debate over the ensuing thirty years. During the Congressional hearings, Paul Volcker was much criticized for not allowing Bunker to feel the full pain of his folly. But years later he told me, “I don’t remember losing much sleep over it.” Twenty-eight years later, he was proven right when the bankruptcy of the brokerage house Lehman Brothers triggered the worst recession since the Great Depression. This was the prequel.

Bunker and his fellow perpetrators were not prosecuted; the case supposedly was too complicated, I was told by one regulator. Thousands of victims were left on their own to unravel Bunker’s vast scheme in order to recoup their losses. Cole Corette & Abrutyn, a small Washington, DC law firm, filed a civil lawsuit in Manhattan federal court for Minpeco,

the single largest plaintiff in the many lawsuits filed. The lawsuits might do what the Government was unwilling to: provide some measure of relief for the victims and inflict some measure of retribution upon the Hunts, their cohorts, and the reckless brokerage firms that enabled them.

A phalanx of prestigious trial lawyers signed up for the defense. Cole Corette & Abrutyn did not even have a litigation department; it was a law firm of international business and tax lawyers that advised Minpeco in its regular business dealings. The firm recruited the deputy chief of enforcement at the Securities and Exchange Commission to file the complaint and fight the early skirmishes, but he did not want to focus his entire practice on a single case.

He found me to take over.

When Ted Sonde called, I was sitting in my office at the Justice Department coincidentally contemplating my future. The prospect of a trial against a notorious family that created a worldwide financial crisis was irresistible. I did not hesitate.

I assumed I was prepared. I had no concept of what awaited me.



Bunker Hunt on the stand; Lamar Hunt watching