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War by Other Means: Short Selling JPMorgan

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Global Research, August 11, 2023

Region: USA
Theme: Global Economy

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When the FDIC put Silicon Valley Bank (SVB) and Signature Bank into receivership in March, a study reported on the Social Science Research Network found that nearly 200 midsized U.S. banks were similarly vulnerable to bank runs. First Republic Bank went into receivership in May, but the feared contagion of runs did not otherwise occur. Why not? As was said of Lehman Brothers fifteen years earlier, the targeted banks did not fall; they were pushed, or so it seems. One blogger shows how even JPMorgan Chase, the country's largest bank, could be pushed — not perhaps by local short-sellers, but by China. And that is another good reason not to provoke the Chinese Dragon into "war by other means."

The Targeted Crypto Banks

SVB, Signature and First Republic were not insolvent: they had sufficient assets (largely long-term Treasuries) to match their liabilities. They were just "illiquid": they lacked enough readily available funds to meet the unanticipated deluge of deposit withdrawals in March. In fact no bank could withstand a bank run in which 85% of its depositors demanded their money back in the space of three days, as happened to SVB that month.

As of December 31, 2022, SVB had roughly $211 billion in assets, which were primarily offset by $173 billion in deposit liabilities; but it had only $13.8 billion in actual cash and "equivalents" – liquid money available to meet withdrawals. It had been flooded with deposits from tech startups funded by venture capitalists, and the startups did not need loans. The deposited reserves had therefore been used to buy Treasury securities, at a time when interest rates were so low that only long-term securities provided an adequate return. Some were marked "hold to maturity," meaning they could not be sold at all; and the rest could be sold only at a major loss, since old bonds attracted few buyers after interest rates on new bonds shot up in the last year.

Yet many other banks had followed that path, investing in long-term assets that could not be liquidated or could be liquidated only at a substantial loss. So why did only SVB, Signature and First Republic wind up in government receivership? As explained in my earlier article here, they were considered "crypto-friendly" banks. In a revealing article called

"Operation Choke Point 2.0 Is Underway, and Crypto Is in Its Crosshairs," blogger Nic Carter details the "coordinated, ongoing effort across virtually every US financial regulator to deny crypto firms access to banking services."

Whoever instigated the raid on the three targeted banks, their stock was heavily short-sold, driving share prices down. This alarmed the venture capitalists, who alerted their tech startup clients. Word spread quickly by social media, and the bank runs were on.

The Infamous Bear Raid

In a 2010 article titled "Wall Street's Naked Swindle," Matt Taibbi showed that the bankruptcies of both Bear Stearns and Lehman Brothers, which triggered the banking crisis of 2008-09, were the result of targeted short sales. He wrote:

> [W]hen Bear and Lehman made their final leap off the cliff of history, both undeniably got a push —especially in the form of a flat-out counterfeiting scheme called naked short-selling…. Wall Street has turned the economy into a giant asset-stripping scheme, one whose purpose is to suck the last bits of meat from the carcass of the middle class.

Even countries have been victims of targeted short-selling of their currencies. One infamous case occurred in 1992. According to Investopedia:

> George Soros is said to have "broken" the Bank of England and precipitated "Black Wednesday" in the U.K. in September 1992 as a result of massive bets he made against the British pound…. As a consequence, the pound rapidly devalued, leading to an estimated $1 billion profit for Soros and his Quantum Fund.

Bear raids were also responsible for the "Asian Crisis" of 1997-98. Again according to Investopedia:

> The crisis started in Thailand when the government ended the local currency's de facto peg to the U.S. dollar after depleting much of the country's foreign exchange reserves trying to defend it against months of speculative pressure.
>
> Just weeks after Thailand stopped defending its currency, Malaysia, the Philippines, and Indonesia were also compelled to let their currencies fall as speculative market pressure built. By October, the crisis spread to South Korea, where a balance-of-payments crisis brought the government to the brink of default.

No Bank Is Safe from a Targeted Takedown

Which brings us to the largest U.S. bank, J.P. Morgan Chase (JPM). First Republic, SVB and Signature were not small banks. The country's second, third, and fourth largest bank failures, they had assets of $229B, $209B and $118B respectively. But unlike JPM, they were not GSIBs — Globally Systemically Important Banks. Credit Suisse, however, was; and it too went bankrupt after it was subjected to massive short selling and deposit withdrawals in March 2023. Even GSIBs can be vulnerable.

JPM, however, is the fifth largest bank in the world, with assets of *$3.7 trillion*. Who could possibly bring that behemoth down or have the motivation or assets to do it? In a March 28, 2023 post titled "How to Wreck a Big Old GSIB Bank," an anonymous blogger going by the pen name "DeepThroat IPO" laid out a plausible scenario. He observed:

> Interestingly enough, JPM has about the same amount of cash on hand (available for immediate wire out) as SVB did when it blew up … $ 27.7 Billion.
>
> However, he wrote, it has other liquid assets, totalling about $884 billion. That sounds like a lot, but
>
> JPM has about "$2.34 Trillion in hair trigger Deposit liabilities (gulp) on the books — 15% of the total $16T deposits sitting on the books of the 2,135 U.S. Banks with assets over $ 300 million — that can move anywhere in the world with a few mouse clicks."

DeepThroatIPO argues that China has U.S. assets sufficient to trigger a bear raid on this gargantuan bank, largely because of the unique way it handles its own currency. In the domestic Chinese economy, yuan are used, and the PBOC can print them at will. Merchants exporting to the U.S. take their dollars to the bank, trade them for yuan, and pay their workers and suppliers in yuan, leaving the PBOC with "free" U.S. dollars. This maneuver is confirmed in Investopedia:

> One major task of the Chinese central bank, the PBOC, is to absorb the large inflows of foreign capital from China's trade surplus. The PBOC purchases foreign currency from exporters and issues that currency in local yuan currency. *The PBOC is free to publish any amount of local currency and have it exchanged for forex* [foreign exchange]. This publishing of local currency notes ensures that forex rates remain fixed or in a tight range. It ensures that Chinese exports remain cheaper, and China maintains its edge as a manufacturing, export-oriented economy. Above all, China tightly controls the foreign money coming into the country, which impacts its money supply.
>
> Printing domestic currency is another measure applied by China. *The PBOC can print yuan as needed*, although this can lead to high inflation. However, China has tight state-dominated controls on its economy, which enables it to control inflation differently compared to other countries. [Emphasis added.]

DeepThroatIPO comments:

> The key, for China, Russia, Middle East regimes, etc., is to set up these export relationships with legitimate Western Businesses, continually collect Western Currency, maintain a significant trade surplus, and reinvest the currency in Western Assets, while keeping the RMB/Yuan "walled off"….
>
> The goal is not "free trade". The goal, from the Chinese-axis perspective, is the accumulation of Western currency and financial assets … and it's been working beautifully for more than twenty-five years … and it will continue to work as long as the Chinese-axis Trade Surplus with the rest of the world continues to remain substantially positive….
>
> We know that the Party has been successfully walling off the currency since there are no meaningful RMB/Yuan balances anywhere on the planet (other than the mainland). There's no need … because nobody uses Chinese currency for commerce/investing (… other than on Mainland China). Today, the World's 2nd Largest Economy only lets about 2% of global settlements occur in RMB/Yuan.

The Chinese government and affiliated Chinese entities have purchased not just U.S. Treasuries with their dollars, but U.S. stocks, real estate, farmland and other assets. DeepThroatIPO calculates that the Chinese have "accomplished constructive control of approximately $58.58 Trillion of Western Financial Assets, stealthily hiding in Western Financial Markets, likely in plain sight…. [T]hat $58.58 Trillion, focused directly on select targets … is more than enough to sink our previously thought unsinkable fleet of battleship banks."

Not that China would, but it could. In peaceful times, it profits from trade with the U.S., just as we need Chinese goods. But "all is fair in war," and it is prudent to be aware of these covert potential weapons before fanning the flames of aggression. Cooperation serves the people on both sides of the conflict better than war.

Other Defenses

DeepThroatIPO admonishes that when a financial institution perceives that it is under attack, there needs to be a "circuit breaker":

> Our Banks should NOT blindly wire out all of the current withdrawal requests (or accept the incoming wires)…. Whenever withdrawals or deposits breach normal daily volume by a significant amount, at any particular institution we need to stop….
>
> We cannot continue to come to the nebulous conclusion that "Oh boy … it looks like we a need another systemic liquidity boost" and blindly provide it. We need to slow the entire process down.

Jamie Dimon, CEO of JPM, argues that shortselling bank stock should be banned. Better yet, as argued in my earlier article here, would be to make all shortselling illegal.

Another possibility comes to mind. Banks are vulnerable to shortselling only if they are publicly-traded. State-owned or city-owned banks are impervious to that sort of attack. The Bank of North Dakota, our one and only state-owned bank, is a stellar example. It cannot be short sold and it is not vulnerable to bank runs, since over 95% of its deposits come from the state itself. The Bank of North Dakota also acts as a mini-Fed for local North Dakota banks, extending a lifeline in the event of capital or liquidity shortages.

Like the U.S., China has a vast network of local banks; but most of its banks are government-owned. We may need to follow suit as a matter of defense. We need to ensure, however, that the governments owning our local banks actually represent the people. Banks should be public utilities, serving the public interest.

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This article was first posted on ScheerPost.

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