Is Fed’s super-QE directed by JPMorgan?

By Elisa Barwick

When the overnight lending (“repo”) market where banks can access quick capital suddenly seized up on 16 September, requiring an extraordinary US Federal Reserve intervention, rumours swirled that one or more major banks was in trouble. Some fingers pointed in the direction of JPMorgan Chase (JPM), the USA’s largest bank. With more financial time-bombs set to blow, the actions of both the Fed and the bank are increasingly incriminating. Not only is the Fed back to full-blown quantitative easing (QE), it is set to supercharge it with new mechanisms proposed by JPM.

On 30 October the Fed cut interest rates by a quarter of a per cent for the third time this year. After repeatedly extending the length of its repo market interventions, on 23 October it announced it was increasing the limit of daily repo loans from $75 billion to $120 billion per day,[1] and its twice-weekly 14-day loans to $45 billion. It is now offering up to $690 billion per week to plug liquidity holes.

On 11 October the Fed had announced a new program to buy up Treasury bills and commercial paper at the rate of $60 billion per month, running at least through the second quarter of 2020. This has the effect of boosting liquidity to the banks from which it buys the instruments. Despite the Fed claiming this is not QE, the US Fed balance sheet is now back to over $4 trillion; in the bloated post-global financial crisis QE period it reached $4.5 trillion. Efforts to unwind those holdings were short-lived.

In his press conference announcing the latest interest rate cut, Fed Chairman Jerome Powell suggested the Fed might introduce what are known as “daylight overdrafts” or “intraday liquidity”, to supplement its overnight loans. And there are a few other “technical things” the Fed can do to make liquidity “move more freely”—if it can be done “without compromising [the] safety or soundness of our financial stability”, he said.

The Fed suggestion appears to follow the script of JPM, whose CEO Jamie Dimon had blamed the repo crisis on post-2008 regulations and restrictions. The bank issued a note to clients reported by Bloomberg on 31 October, which contended that the Wall Street banks should not have to hold any cash reserves, and the Fed should provide all liquidity needs of the banking system. It proposed the Fed establish a “standing repurchase-agreement facility” as the daily source of liquidity for all US banks. “This would free up cash that is currently held by the banks for regulatory purposes”, Bloomberg summarised the note. This would allow the megabanks to use all their reserves for the speculative operations of their own trading desks, broker-dealer operations, investment divisions and hedge funds. It would upend the normal process whereby the Fed provides liquidity access to the 24 primary dealer banks which in turn ensure liquidity to the entire system. When JPM and other primary dealers stopped their overnight lending on 16 September, sending repo markets haywire, it already undermined regular procedures, and, holding the Fed to ransom, forced it to step into a new operating mode in order to keep the banking system afloat.

JPM and UBS have specified that more money likely won’t solve the problem as regulatory hurdles are preventing dollars flowing from primary lenders to smaller banks, but experts say their reserves are significantly above minimum requirements. Are there other reasons they ceased overnight lending when they could have made a tidy profit with rates soaring to 10 per cent? A top-10 US bank told London’s *Financial Times* on 1 October, at the height of the repo crisis, that “We have plenty of liquidity. We are just choosing not to lend it out overnight to hedge funds.” Wallstreetonparade.com, in a 30 October article titled “New York Fed’s Repo Loans Are Foaming the Hedge Fund Runways”, reported on market analysis firm eVestment’s September “Hedge Fund Asset Flows Report” detailing how hedge funds are haemorrhaging cash. Investors have withdrawn almost $77 billion so far this year—more than double last year’s withdrawals—$29.4 billion of it in the third quarter. A number of highly leveraged hedge funds have frozen withdrawals or gone into liquidation.

Primary Dealers
Amherst Pierpont Securities LLC
Bank of Nova Scotia, New York Agency
BMO Capital Markets Corp.
BNP Paribas Securities Corp.
Barclays Capital Inc.
BofA Securities, Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse AG, New York Branch
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman Sachs & Co. LLC
HSBC Securities (USA) Inc.
Jefferies LLC
J.P. Morgan Securities LLC
Mizuho Securities USA LLC
Morgan Stanley & Co. LLC
NatWest Markets Securities Inc.
Nomura Securities International, Inc.
RBC Capital Markets, LLC
Societe Generale, New York Branch
TD Securities (USA) LLC
UBS Securities LLC.
Wells Fargo Securities, LLC

The New York Fed’s primary dealers are Wall Street trading houses—some, units of troubled foreign banks—and which count hedge funds among their largest borrowers. Photo: wallstreetonparade.com

In what the 4 November *Financial Times* described as a “major shift”, JPM has moved $130 billion of excess cash into bonds, because banks need to hold less capital against bonds than they do for loans. Charles Peabody of Portales Partners said JPM is “acting like the [next] recession is here—everything the bank is doing points that way”.

With interbank lending down, banks are being forced to find other sources of funding. According to US Securities and Exchange Commission (SEC) statistics, banks are more exposed to money market funds (mutual funds that invest in highly liquid assets) which now hold almost a trillion dollars’ worth of foreign and domestic bank instruments (such as asset-backed commercial paper), up from $660 billion one year ago. This is a 29 per cent increase in bank funding from such sources. In the lead-up to the 2008 crisis, money market funds were similarly loaded up; many of them collapsed.

JPM has another major exposure to think about. The latest US Office of the Comptroller of the Currency (OCC) reporting of derivatives figures at 30 June 2019 reveal US derivatives gambling increased by 51 per cent since 30 September 2008, reaching a face value of $280 trillion. Of that total, 86 per cent is held by JPMorgan Chase, Citigroup, Goldman Sachs, Morgan Stanley and Bank of America. As documented in “Move to unchain derivatives raised ghost of AIG” (*AAS*, 30 Oct.), a new drive to rip up the minimal derivatives regulation implemented after 2008 is under way. And as with AIG in 2008, the credit default swaps insuring banks’ derivatives bets are again concentrated in just a handful of counterparties, as revealed by a 2016 Office of Financial Research study.

Making matters worse, JPM has bought $77 billion worth of its own stock since 2013, $17 billion of that in 2019.

1. All figures are US dollars.

According to SEC filings reported by wallstreetonparade.com, the bank has even been using deposits to fund these buybacks and prop up its share price. "Had JPMorgan Chase not spent $77 billion propping up its share price with stock buybacks", wrote Pam Martens and Russ Martens, "it would have $77 billion more in cash to loan to businesses and consumers—the actual job of its commercial bank. Add in the tens of billions of dollars that other megabanks on Wall Street have used to buy back their own stock and it's clear why there is a liquidity crisis on Wall Street that is forcing the Federal Reserve to hurl hundreds of billions of dollars a week at the problem."

Unwinding this disaster is urgent. McKinsey & Company's October global banking review, "The last pit stop? Time for bold late-cycle moves", which surveyed 1,000 banks in developed and emerging markets, stated unequivocally that "A majority of banks globally may not be economically viable". Over one-third of banks are at risk, according to the study, and may not survive a downturn; nearly 60 per cent of banks globally are not generating adequate returns and would struggle. McKinsey warned that the world economy has "entered the final stages of the economic cycle"; but its proposals, which include mergers, radical cost-cutting and instituting artificial intelligence for improved risk management, fail to address the underlying causes of bank vulnerability. For instance, it reports that banks can't compete with financial technology companies that have moved into banking, such as Amazon in the USA and Ping An in China. But no mention is made of how Glass-Steagall bank separation would prevent such non-banks from operating in the realm of commercial banking.

Russia offers nuclear future to Africa

By Elisa Barwick

Leaders of all 54 African nations, including 43 heads of state or government, on 23-24 October attended the first full-format Russia-Africa Summit and Economic Forum in Sochi, Russia. The theme was "For Peace, Security and Development".

Russia pledged to assist Africa to defeat the scourge of terrorism and unleash the real economic development denied by decades of technological apartheid. This will ensure African nations can finally achieve true sovereignty; as Russian President Vladimir Putin declared in an interview with TASS ahead of the summit, the goal of Russia's programs in Africa is to "strengthen African states, their sovereignty and independence. And hence, the world will be more stable and more predictable."

The declaration issued at conclusion of the summit established the "Russia-Africa Partnership Forum", dedicated to co-operation to combat terrorism, drug trafficking and other illegal activities; to fostering economic cooperation in areas ranging from energy to space; and to upholding the principle of non-interventionism in global politics. The forum will meet every year for political consultations with three-yearly summits.

In her 27 October Schiller Institute New Paradigm webcast, Institute founder and President Helga Zepp-LaRouche announced: "This is good news, and people should not freak out about geopolitical competition, because it would have been the privilege of European countries, or the United States for a long time to do likewise, but they didn't. And now China and Russia are doing it, so they should join hands with these countries, rather than 'by opposing end them'."

Like the Chinese, Putin affirmed in his TASS interview that "we do not make our support and the joint development projects which we offer contingent upon the fulfilment of political or any other preconditions". He also denounced those who view the development perspective through a geopolitical prism: "Our African agenda is positive and future-oriented. We do not ally with someone against someone else; and we strongly oppose any geopolitical 'games' involving Africa."

Buoyed by Chinese-Russian assistance, Africa is becoming a world centre of growth. Ethiopia continues to forecast growth of around 9 per cent, and African GDP is expected to reach US$29 trillion by 2050. But 15,000 African children still die every day of preventable causes, and according to the Global Energy Architecture Performance Index Report 2017, only five African nations have 100 per cent electrification.

Russian investments in Africa have quadrupled since 2009, sitting at some US$20 billion per year. Trade between Russia and Africa has more than doubled over the last five years, however most of the increase was trade with the more developed nation of Egypt. Russia is currently constructing railways in Ghana, Burkina Faso, Nigeria, Libya and Egypt, among others; is building an industrial zone in the Suez Canal Economic Zone; and is building Egypt's first nuclear reactor. Other states likely to take up the nuclear ambition with Russia's help include Ethiopia, Nigeria and Kenya.

The Sochi forum included a panel on the "Contribution of Nuclear Technologies in the Development of Africa", featuring the Director General of Russia's state nuclear energy corporation Rosatom, Alexei Likhachyov, officials from the International Atomic Energy Agency (IAEA), and representatives of African government ministries.

In his speech, Likhachyov detailed how nuclear energy is an infrastructure driver for the entire economy and can fix a multitude of challenges. "We are talking about solutions related to raising the level of education, energy security, applying nuclear solutions to medicine, agriculture, as well as other scientific research and development", said Likhachyov. "Every dollar invested in our projects in any country, brings two dollars in localisation to that country. This significantly increases the country's GDP." A report by *World Nuclear News* elaborated: "Rosatom said a job is created for every 0.5 MWe [megawatt of electricity] produced at a nuclear power plant, meaning that a 1,000 MWe plant provides employment for more than 2,000 people. Human capital development is both 'a condition and a consequence' of nuclear power plant construction projects, it added." Rosatom is working with more than 20 African nations; along with Russian universities, it sponsors hundreds of scholarships for African students. Russia's premier scientific body, the Russian Academy of Sciences, is considering opening offices in African nations.

More than 500 agreements, memoranda and contracts were signed during the Sochi summit. Also discussed was collaboration between Africa and the Eurasian Economic Union (EAEU). Russia's minister for integration with the EAEU, former Putin economic adviser Sergei Glazyev, warned in his speech against the IMF policies that had looted Russia of over a trillion dollars over the last 30 years and which have been ever-present in Africa.

Putin declared the event had "opened a new page in relations between Russia and the States of the African Continent". Co-chair of summit, Egyptian President Abdel Fattah al-Sisi praised Russia's role in developing and financing infrastructure projects across the African continent. South African President Cyril Ramaphosa hit upon a key factor when he commented, "What stands Russia in good stead in the eyes of many African countries is that Russia was never a colonial power."