Title: The Fog of War Is Providing a Smoke Screen for Trading Losses at a Dangerously Unreformed Wall Street
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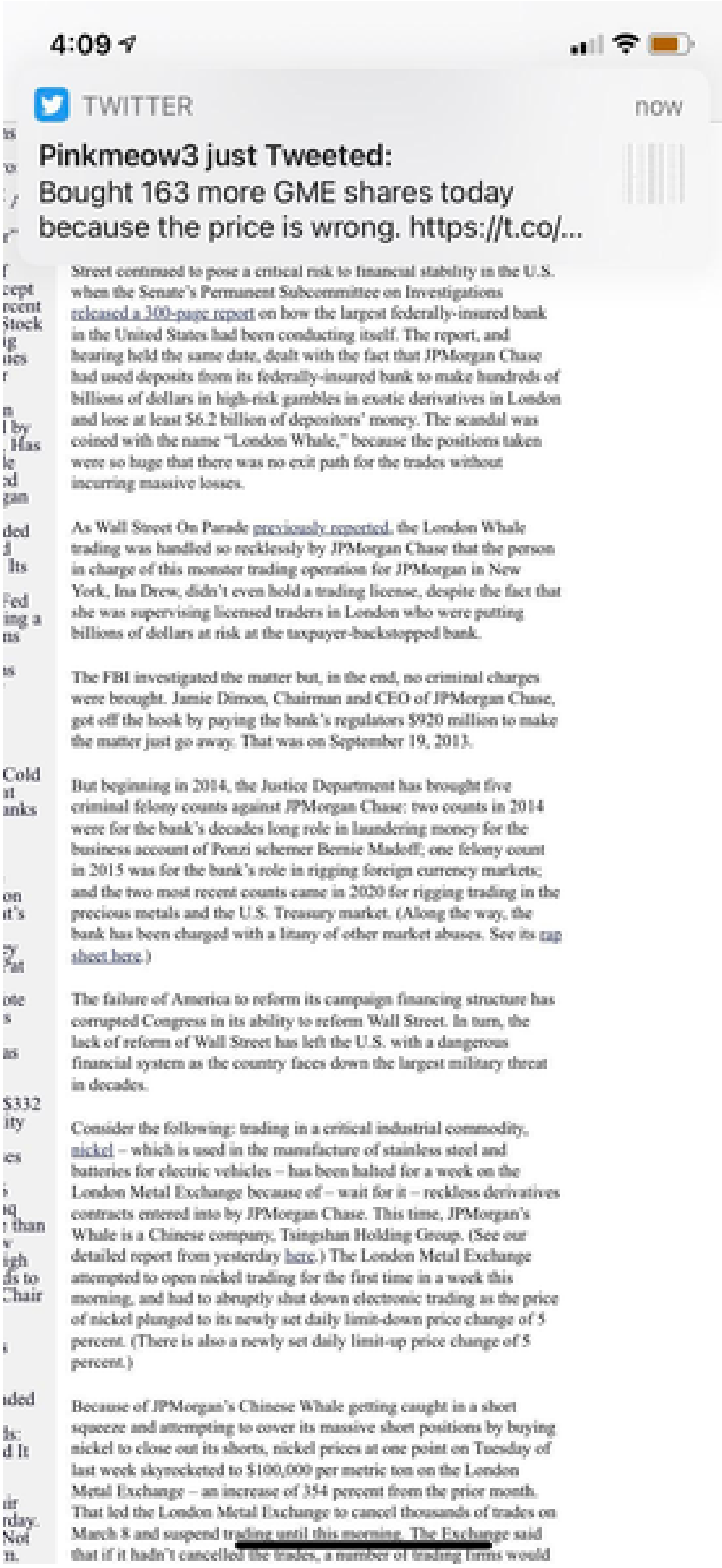

Street continued to pose a critical risk to financial stability in the U.S. when the Senate's Permanent Subcommittee on Investigations released a 300-page report on how the largest federally-insured bank in the United States had been conducting itself. The report, and hearing held the same date, dealt with the fact that JPMorgan Chase had used deposits from its federally-insured bank to make hundreds of billions of dollars in high-risk gambles in exotic derivatives in London and lose at least $6.2 billion of depositors' money. The scandal was coined with the name "London Whale," because the positions taken were so huge that there was no exit path for the trades without incurring massive losses.

As Wall Street On Parade previously reported, the London Whale trading was handled so recklessly by JPMorgan Chase that the person in charge of this monster trading operation for JPMorgan in New York, Ina Drew, didn't even hold a trading license, despite the fact that she was supervising licensed traders in London who were putting billions of dollars at risk at the taxpayer-backstopped bank.

The FBI investigated the matter but, in the end, no criminal charges were brought. Jamie Dimon, Chairman and CEO of JPMorgan Chase, got off the hook by paying the bank's regulators $920 million to make the matter just go away. That was on September 19, 2013.

But beginning in 2014, the Justice Department has brought five criminal felony counts against JPMorgan Chase: two counts in 2014 were for the bank's decades long role in laundering money for the business account of Ponzi schemer Bernie Madoff; one felony count in 2015 was for the bank's role in rigging foreign currency markets; and the two most recent counts came in 2020 for rigging trading in the precious metals and the U.S. Treasury market. (Along the way, the bank has been charged with a litany of other market abuses. See its rap sheet here.)

The failure of America to reform its campaign financing structure has corrupted Congress in its ability to reform Wall Street. In turn, the lack of reform of Wall Street has left the U.S. with a dangerous financial system as the country faces down the largest military threat in decades.

Consider the following: trading in a critical industrial commodity, nickel – which is used in the manufacture of stainless steel and batteries for electric vehicles – has been halted for a week on the London Metal Exchange because of – wait for it – reckless derivatives contracts entered into by JPMorgan Chase. This time, JPMorgan's Whale is a Chinese company, Tsingshan Holding Group. (See our detailed report from yesterday here.) The London Metal Exchange attempted to open nickel trading for the first time in a week this morning, and had to abruptly shut down electronic trading as the price of nickel plunged to its newly set daily limit-down price change of 5 percent. (There is also a newly set daily limit-up price change of 5 percent.)

Because of JPMorgan's Chinese Whale getting caught in a short squeeze and attempting to cover its massive short positions by buying nickel to close out its shorts, nickel prices at one point on Tuesday of last week skyrocketed to $100,000 per metric ton on the London Metal Exchange – an increase of 354 percent from the prior month. That led the London Metal Exchange to cancel thousands of trades on March 8 and suspend trading until this morning. The Exchange said that if it hadn't cancelled the trades, a number of trading firms would

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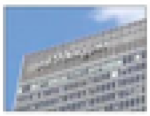
The Fog of War Is Providing a Smoke Screen for Trading Losses at a Dangerously Unreformed Wall Street

By Pam Martens and Russ Martens: March 16, 2022 ~



We received an email alert from the House Financial Services Committee last Sunday indicating that its Subcommittee on Investor Protection, Entrepreneurship and Capital Markets will hold a hearing on March 30 titled: "Oversight of America's Stock Exchanges: Examining Their Role in Our Economy."

You can file that hearing under too little, too late. At a moment in history when the U.S. finds itself dangerously close to World War III and the U.S. financial system should be projecting itself as powerful and invincible to enemies of the U.S., we're watching wheels come off a growing number of markets.

Congress has been on notice that stock markets in the U.S. were rigged since March 30, 2014 when Wall Street veteran and bestselling author, Michael Lewis, released his book "Flash Boys," and sat down with Steve Kroft on *60 Minutes* to explain exactly how the markets had been rigged. In the interview, Kroft asks Lewis: "What's the headline here?" Lewis responds: "Stock market's rigged. The United States stock market, the most iconic market in global capitalism is rigged."

Kroft then asks Lewis to state just who it is that's rigging the market. Lewis responds that it's a "combination of these stock exchanges, the big Wall Street banks and high-frequency traders."

It's just shy of eight years since Lewis wrote the definitive book on the corrupted structure of Wall Street, and yet, Congress has taken no meaningful action to reform it.

If Congress needed a more in-depth look at the timeline and mileposts in the corruption of U.S. markets and financial system, Arthur Wilmarth released the seminal book on the subject in 2020, titled: Taming the Megabanks: Why We Need a New Glass-Steagall Act. (You can read our review of the book here.)

Congress has taken zero meaningful actions to reform Wall Street since it brought the U.S. to its economic knees in 2008 because much of Congress is receiving large chunks of campaign dough from Wall Street and its outside lawyers, as well as from hedge funds that drop $10 million to a Super Pac as casually as paying for lunch at Milos.

You might recall that in the runup to the 2016 presidential election, both the Democrats and Republicans put the restoration of the Glass-Steagall Act in their platforms. Restoring Glass-Steagall would have meant that the giant federally-insured banks like JPMorgan Chase, Citigroup, and Bank of America would no longer be allowed to own trading casinos (investment banks and brokerages). It would also have meant that the quintessential trading casinos, Goldman Sachs and Morgan Stanley, which were allowed to become bank holding companies in 2008 so they could suck at the money teat at the Fed during the financial crisis, would have had to shed their taxpayer-backstopped commercial banks.

But Wall Street's legions of lobbyists and the promise of campaign funds meant that making good on the promise of restoring Glass-Steagall was a dead issue as soon as Donald Trump took the White House. Instead of seriously reforming Wall Street, the Trump

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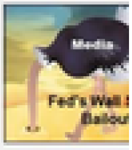

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Another problem for Congress and markets is that, typical of how Jamie Dimon initially handled his original London Whale trading scandal, Dimon has yet to make a public statement on just how much exposure to losses his bank has this time around.

Various media outlets are reporting that JPMorgan and other banks with exposure have agreed to a standstill agreement with Tsingshan Holding Group not to enforce their margin calls.

In the United States, margin calls are federally regulated. But now, in a new leg lower for oversight of Wall Street, powerful banks appear to be able to write new rules on when and if they will enforce margin calls, as well as leaving the public in the dark about the extent of losses at a publicly-traded Wall Street bank, which has such a large interconnected footprint that it poses systemic risk to the entire U.S. financial system.

In addition to darkness surrounding the losses at JPMorgan Chase, there appears to be losses at a large, interconnected trading house, Trafigura Group. Bloomberg News and Reuters are reporting that Trafigura "faced margin calls in the billions of dollars last week," and is now "holding talks with private equity groups to secure additional financing." The nature of the losses has yet to be explained.

As markets continue their roller-coaster ride, the Senate Banking Committee and House Financial Services Committee need to step up their oversight and get a comprehensive understanding of what's *really* going on at the Wall Street megabanks.

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← 5-Count Felon JPMorgan Is at the Center of a New, Multi-Billion Dollar Trading Scandal