MARCH 22, 2023

Fed/Treasury implement de facto Yield Curve Control for banks as JPM accelerates its exposure to gold

In plain English, the Fed's BTFP amounts to a soft version of Yield Curve Control (YCC), but only for banks with US branches – the USTs on bank books were trading at a discount to par, but via the BTFP, banks can now put those bonds to the Fed at par…i.e., the Fed is de facto capping UST yields below the current market price, for the year term of the BTFP (we suspect it will be rolled beyond a year if needed, but we will see.)
-FFTT, 3/17/23

By introducing the net stable funding ratio, Basel III effectively makes standard banking practice unworkable in the case of unallocated precious metals by not permitting a trading book to net off its long and short positions. The regulators at the Basel Committee will not have jumped down on unallocated gold trading unless, in their opinion, they viewed it as a risk to the global banking system which must be offset by proper funding. Plainly, they understand the unallocated shell game for what it is, and that a failure in this market would be a threat to the entire banking system.
-Alasdair MacLeod, "The End of the LBMA is Nigh", 5/13/21

We agree with MacLeod's inference that the regulators in Basel must see the unallocated gold market as a risk to banking stability as the reason that they are implementing the Net Stable Funding Ratio on the unallocated gold market in 2022. But in our view, there's only one way the London unallocated gold market could represent a systemic threat: If the price of gold rose enormously, in nearly binary fashion.
-FFTT, 5/14/21

The world's largest gold ETF is to store some of its inventory outside London for the first time in a move aimed at facilitating further expansion. The $52.5bn SPDR Gold Trust (GLD) has held all its bullion in HSBC's London vaults since its inception as the first physically backed gold ETF in 2004. However, it is now adding a second custodian, JPMorgan, utilizing the US bank's vaults in Zurich and New York, as well as in London. It is believed to be the first time a gold ETF has had multiple custodians.
-Financial Times, 12/5/22

Friday GLD update: Today custodian JPM added over 1 ton. This week GLD added 13 tons. Custodian JPM did even better, adding 33 tons, bringing their total to a new all-time high over 98 tons. Not bad for four months. The gold is in London, for now.
-"MW", via Twitter, 3/17/23

Key point:

- The US Fed and Treasury implement de facto Yield Curve Control for US banks, as JP Morgan significantly accelerates not just its exposure to gold, but its control over the world's biggest gold ETF. *Why now?*

Luke Gromen, CFA
FFTT, LLC
216.533.1622
Luke@FFTT-LLC.com
www.FFTT-LLC.com
Follow us on Twitter:
@LukeGromen

An audio version of this report is available here:
FFTT Full Report March 22, 2023 by FFTT, LLC (soundcloud.com)

It became necessary to destroy the town to save it.
-US Army Major, to AP reporter Peter Arnett, February 7, 1968

I've abandoned free-market principles to save the free-market system.
-Pres. George Bush, December 16, 2008

The Fed has begun inflating their balance sheet to save USTs on bank balance sheets from a crisis caused by inflation.
-3/14/23 edition of FFTT (paraphrased)

As the bank crisis *(that is really just the fourth acute UST market dysfunction episode in the past 3.5 years)* has gone from zero to 100 mph over the last couple weeks, three things have grabbed our attention that many investors have missed:

1. US policymakers implemented de facto Yield Curve Control (YCC) for US banks with the BTFP program *(which while widely considered to be a bank bailout, was really just a UST market bailout for a UST market suffering its fourth episode of dysfunction in the past 3.5 years.)*

2. US Treasury is also quietly considering a soft version of YCC for the overall UST market by considering implementing a Treasury Buyback Program.

3. While other banks scramble and investors debate whether banks' uninsured depositors will be saved and whether those rescues will be inflationary or not, JPMorgan (JPM, not rated) has been notably accelerating its exposure to and control of the single biggest non-sovereign pile of physical gold in the world over the past 3.5 months (the GLD ETF).

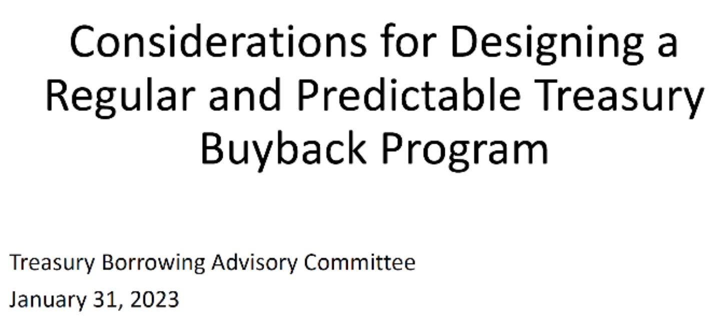
We wrote in detail about the first two points above in both the 3/14/23 edition of FFTT and the 3/17/23 edition of "10 Most Interesting Things", so in the interest of brevity, we will summarize thusly:

1. In plain English, the Fed's BTFP amounts to a soft version of Yield Curve Control (YCC), but only for banks with US branches – the USTs on bank books were trading at a discount to par, but via the BTFP, banks can now put those bonds to the Fed at par…i.e., the Fed is de facto capping UST yields below the current market price, for the year term of the BTFP (we suspect it will be rolled beyond a year if needed, but we will see.)

2. Historically, the playbook to dealing with bank crises is "extend and pretend, and then inflate." This, however, is an entirely different animal in our view – at its core, the decline in the value of USTs is driven by inflation, and yet the Fed is dealing with it via a version of "extend and pretend and inflate." The cost of managing a crisis caused by inflation via "extend and pretend and inflate" should become readily apparent in coming weeks and months.

3. The US Treasury appears to be seriously considering a soft version of YCC for the entire UST market, to be marketed as a "Regular and Predictable UST Buyback Program". *This is a soft version of YCC, full stop*.

Considerations for Designing a Regular and Predictable UST Buyback Program – 1/31/23 (starts on page 58)
CombinedChargesforArchivesQ12023.pdf (treasury.gov)


Considerations for Designing a Regular and Predictable Treasury Buyback Program

Treasury Borrowing Advisory Committee
January 31, 2023

Interestingly, even as investors debate whether or not the Fed and Treasury actions above are inflationary or not in the near and intermediate terms, we have been fascinated to watch JPM *(led by Jamie Dimon, who is widely considered to be the smartest and most politically connected US banker in the room, below)* suddenly and significantly ramp up their control of one of the world's biggest non-sovereign piles of physical gold (the GLD ETF).

JPM's Jamie Dimon consults with US policymakers, meets plays key role in bank rescue, in echo of 2008 – 3/17/23
JPMorgan's Jamie Dimon plays key role in bank rescue, in echo of 2008 (yahoo.com)

> *Consulted by policymakers and able to nudge his peers into action, JPMorgan Chase CEO Jamie Dimon played a key role in a bank rescue effort this week -- a situation sparking reminders of 2008.*
>
> *Following the swift collapse of Silicon Valley Bank and Signature Bank, there have been fears that regional lender First Republic Bank could be the next domino to fall -- despite moves by agencies like the Treasury Department and Federal Reserve to assure SVB and Signature's depositors.*
>
> *While First Republic is not yet out of the woods, it was given a lifeline on Thursday as 11 major US banks pledged to deposit $30 billion into the lender. Dimon, 67, played an important role in the plan. He spoke on the phone this week with Treasury Secretary Janet Yellen and Fed Chair Jerome Powell, as the leaders sought to find a way to boost confidence in the financial system, according to three sources close to the discussions.*

Consider the following recent series of curious events. First, after the GLD ETF had already been existence for 18 years, JPM on December 1, 2022, announced it would become the second vault custodian of GLD…why now?

JPMorgan joins HSBC as vault custodian for top gold ETF, GLD – 12/1/22
JPMorgan Joins HSBC as Vault Custodian for Top Gold ETF - Bloomberg

> *JPMorgan Chase & Co. will store gold held by the world's biggest exchange-traded fund in its vaults, a major coup for the bank's bullion business. The lender will now act as an additional custodian for the SPDR Gold Trust, according to a statement from the World Gold Council, which launched the fund. Previously HSBC Holdings Plc had sole responsibility for holding the bullion.*
>
> *It's a major win for JPMorgan, which will now be paid to guard part of the fund's more than $50 billion of bullion. Better known as GLD, it accounts for just under a third of all gold held by ETFs globally…*

Then, just four days later, JPM announced that it would be moving some of the GLD's gold outside London (for the first time ever), to JPM vaults in Zurich and NYC:

World's largest gold ETF (GLD) to use non-UK vaults for the first time – 12/5/22 (via MW)
World's largest gold ETF to use non-UK vaults for the first time | Financial Times

> *The world's largest gold exchange traded fund is to store some of its inventory outside London for the first time in a move aimed at facilitating further expansion. The $52.5bn SPDR Gold Trust (GLD) has held all its bullion in HSBC's London vaults since its inception as the first physically backed gold ETF in 2004.*
>
> *However, it is now adding a second custodian, JPMorgan, utilizing the US bank's vaults in Zurich and New York, as well as in London. It is believed to be the first time a gold ETF has had multiple custodians. "[GLD] was a market innovation in 2004, which put us in a position of being a market leader. It's now almost 20 years old and we have found a new way to innovate with it," said Joe Cavatoni, principal executive officer of World Gold Trust Services, the sponsor of the fund.*
>
> *GLD is a major player in the bullion market, accounting for more than 25 per cent of all assets held by gold ETFs. At the peak of the gold rally in July 2020, when prices rocketed to record highs above $2,000 a troy ounce, the fund's holdings topped 1,200 tonnes, making it a bigger owner than the central banks of either Japan or India.*

Then, a little over a month after that, it emerged that JPM was looking to start clearing precious metals trades in Zurich, “transactions that long have been almost exclusively handled by UBS and Credit Suisse”:

> ***Gold giant JPM may move into precious metal clearing in Zurich – 1/12/23 (via CF)***
> *Gold Giant JPMorgan May Move Into Precious Metals Clearing in Zurich - Bloomberg*
>
> > *JPMorgan Chase & Co. is looking to start clearing precious metals trades in Zurich, something that for years has been dominated by just two Swiss banks.*
> >
> > *The lender may begin to offer to settle its clients’ trades using metal located in Zurich, according to people familiar with the matter who asked not to be identified as the information is private. So-called loco Zurich transactions have long been almost exclusively handled by UBS Group AG and Credit Suisse Group AG.*
> >
> > *JPMorgan is the world’s dominant bullion bank, with its business spanning everything from trading futures with hedge funds to transporting physical bullion around the world. Its vaults also help underpin trading in London and New York, the two biggest markets.*
> >
> > *Zurich used to be the top hub for platinum-group metals trading, but over the past decade has lost ground to London, with the UK capital benefiting from its wider array of clearing services and infrastructure for storing and transporting gold and silver.*
> >
> > *The Swiss city remains an important trading center, however, acting as a transit hub between Eastern and Western precious metals markets. It’s also aided by proximity to the largest gold refineries that process metal into bars of various sizes.*

In the past four months, JPM has proceeded to add 98 tons to its GLD vault:

> ***Gold bar list for GLD (via MW)***
> *Gold bar list and Inspectorate certificates > USA > SPDR Gold Shares (GLD). Bringing the gold market to investors*

mrwebber
@mrwebber4

Friday GLD update:

Today custodian JPM added over 1 ton.

This week GLD added 13 tons. Custodian JPM did even better, adding 33 tons, bringing their total to a new all time high over 98 tons. Not bad for four months.

The gold is in London, for now.

2:18 PM · Mar 17, 2023 · **1,925** Views

To recap (before we move on to a little historical context that might help us better handicap how events might transpire from here):

1. *JPM becomes a custodian of GLD in December 2022, after the ETF had already been in existence for 18 years, and nearly immediately begins diverting large amounts of gold into its GLD vault.*
2. *The very next month, JPM discusses moving gold clearing to Zurich (out of London for the first time ever), where clearing is dominated by two big Swiss competitors, UBS and Credit Suisse.*
3. *Two months after that, after suffering through rumors of weakness in recent years, one of two of those big Swiss competitors (CS) implodes and is bailed out by the other big Swiss competitor (UBS) over a weekend.*
4. *All of this happens as the fourth UST market dysfunction crisis in 3.5 years (disguised as a US bank crisis) erupts and is then ameliorated by the US Fed and Treasury implementing de facto YCC for banks, as Treasury discusses implementing effective soft YCC (Treasury buybacks) and then debates backstopping an increasing percentage (and possibly even all) of $18T in US bank deposits.*

What a curious set of coincidences, indeed.

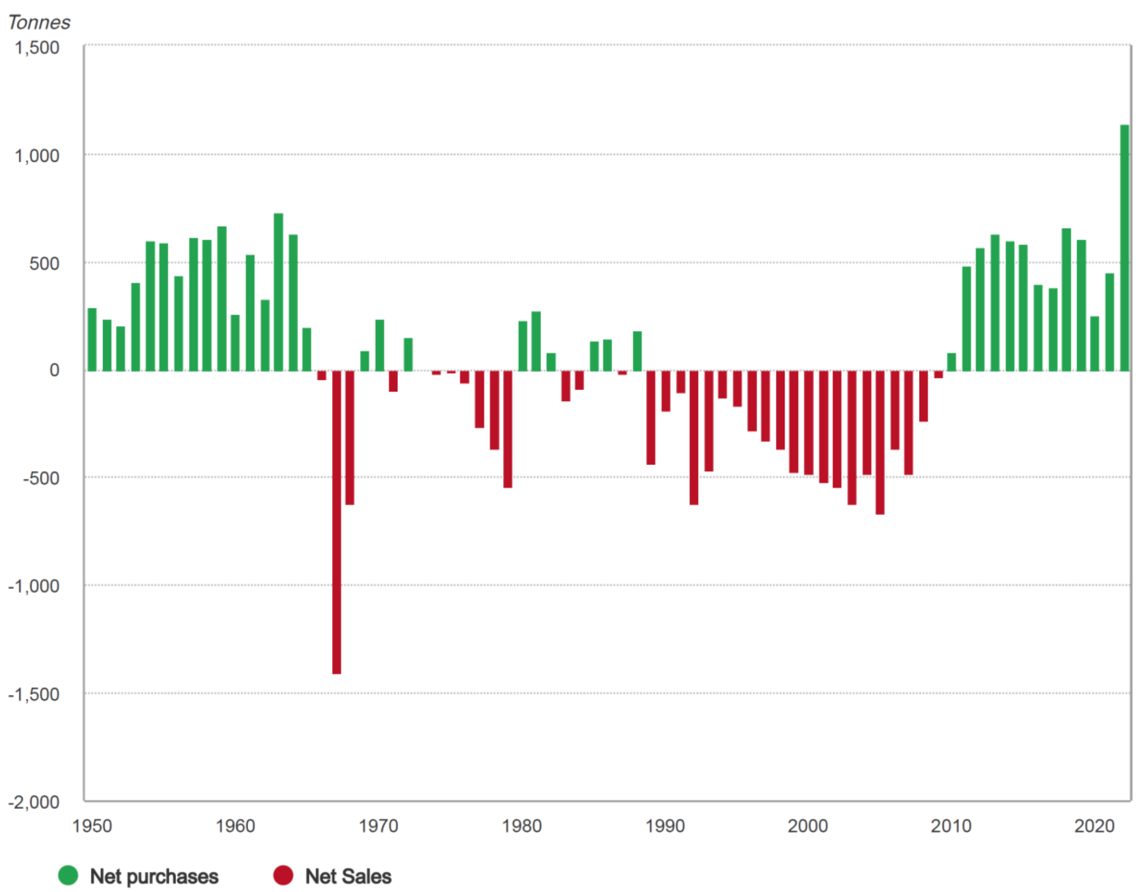
Allow us to speculate what we think might be going on here, why it is happening, and how this movie may end. First of all, global policymakers have known for years that a global debt crisis (sovereign debt crisis) was coming; it is just math:

> *It will become obvious in the next recession that many of these debts will never be serviced or repaid, and this will be uncomfortable for a lot of people who think they own assets that are worth something…The only question is whether we are able to look reality in the eye and face what is coming in an orderly fashion, or whether it will be disorderly. Debt jubilees have been going on for 5,000 years, as far back as the Sumerians.*
>
> **-Former BIS, OECD Chief Economist William White, January 2016**

As William White *(one of the few senior global policymakers to warn of the Great Financial Crisis ahead of time)* noted above, there are only two ways out of such a debt crisis – write-downs of debt *(systemic collapse in nominal terms, also known as debt deflation),* or write-ups of another asset on global Central Bank balance sheets, i.e., gold *(systemic collapse in real terms, also known as a "reset" or "hyperinflation in gold terms".)*

And so, as western investors happily swapped physical gold (harder to own but no counterparty risk) for paper gold (easier to own, but with counterparty risk in extremis), global Central Banks bought the most physical gold in 65 years:

Central bank buying in 2022 was the second highest on record*



*Data to 31 December 2022.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Then, in late 2017, the BIS finalized Basel 3 banking system regulations that included the following curious treatment of gold: *As long as banks held liabilities against it, allocated gold held at the bank or at another bank on an allocated basis would receive a 0% risk weight, the same as cash, USTs and other major western sovereign debt. This sounds a lot like how the gold sitting in JPM's GLD vault relative to the GLD share liabilities against that gold would be accounted for:*

14. Other assets

95. The standard risk weight for all other assets will be 100%, with the exception of exposures mentioned in paragraphs 96 and 97.

96. A 0% risk weight will apply to (i) cash owned and held at the bank or in transit; and (ii) gold bullion held at the bank or held in another bank on an allocated basis, to the extent the gold bullion assets are backed by gold bullion liabilities.

Source: Basel III: Finalising post-crisis reforms (bis.org) – 12/7/17

Then, in May 2021, GoldMoney's Alasdair MacLeod wrote a terrific article about new Basel 3 Net Stable Funding Ratio (NSFR) regulations for unallocated gold markets centered in London. Those gold NSFR regulations reportedly went live in Europe in mid-2021 and in the UK in January 2022. They (puzzlingly) appeared to be designed to make sure that a binary rise in the price of gold did not create systemic risk for TBTF banks; we summarized the key takeaway as follows:

> *We agree with MacLeod's inference that the regulators in Basel must see the unallocated gold market as a risk to banking stability as the reason that they are implementing the Net Stable Funding Ratio on the unallocated gold market in 2022. But in our view, there's only one way the London unallocated gold market could represent a systemic threat: If the price of gold rose enormously, in nearly binary fashion.*
>
> **-FFTT, 5/14/21**

Here are a few of the key excerpts of what MacLeod wrote, as we highlighted in *the 5/20/21 edition of FFTT:*

> *At first sight it seems crazy that the impact of Basel 3 regulations will be permitted to radically undermine forwards and futures markets, which have been so instrumental to deflecting hoarding demand from physical bullion. It is through paper derivatives that the gold price in particular has been kept suppressed in conjunction with central bank leasing, and therefore prevented from challenging the US dollar's credibility, following gold's replacement as the world's reserve currency fifty years ago.*
>
> *The disruption to forwards and futures markets from Basel 3 will be a major shock, yet wider markets appear to be blithely ignoring the problem. When it goes ahead, Basel 3 will mean that banks will be forced to wind down their positions in unallocated precious metals, almost certainly causing massive disruption to physical bullion markets as well.*
>
> *If the expansion of paper markets has suppressed the prices of gold and silver for the last fifty years, then a severe contraction of paper equivalents at a time of escalating fiat money inflation could send prices to the moon.*
>
> *In order to understand the proposed regulations, we need to look at them while taking into account the standard accounting practice of double entry bookkeeping as it is applied to bank balance sheets. There are three new Basel 3 definitions that matter in this regard:*
>
> - *The Available Stable Funding factor (ASF) is applied to the sources of a bank's funding on the liability side of its balance sheet. Depending on the liability (shareholders' equity, customer deposits, interbank loans etc.) they are multiplied by a factor, from 100% for the most stable forms of funding, such as Tier 1 bank equity, to 0% for the least stable. Being on their balance sheets, unallocated gold owed to a bank's depositing customers is to be given a Basel III ASF of 0%, which means it will not be permitted to be a source of funding for any balance sheet assets, which must therefore be funded from other liabilities.*

- *The Required stable funding (RSF) is to be applied to a bank's assets. Unallocated gold positions are to be valued at 85% of their market value. Note that allocated gold, being held in custody, is not on bank balance sheets (except where the bank actually owns physical gold in its own right) and is therefore not involved in the calculation.*

- *The Net stable funding requirement (NSFR) is the ASF divided by the RSF and must be at least 100% at all times.*

The LBMA's problem with Basel III becomes obvious. Unallocated gold liabilities cannot be used for funding the bank's assets, and unallocated gold assets take a valuation haircut of 15% of market value as well. In future, the former cannot be simply offset against the latter, but bullion banks in London naturally run unallocated positions on both sides of their balance sheets. Whether the bank owns vaulted allocated gold to offset some of the price risk is immaterial.

If this Basel 3 proposal goes through without modification, it will effectively be the end of the LBMA's forward settlement business, and the end of arbitrage and hedging between LBMA members and the CME's Comex futures contracts. And the Swaps on Comex, which are the bullion bank trading desks, could be regulated out of existence.

We cannot be sure yet that this will definitely happen, because it was put out for consultation in the UK by the PRA until 3 May. The end-June deadline after which Basel III applies in Europe might be extended again — which seems increasingly unlikely.

In a patched-up compromise, unallocated gold could be rescheduled for a higher ASF and/or RSF, though again, that seems unlikely. Furthermore, the LBMA's plea to the PRA, if successful, would only apply to UK regulated banks, not those in other jurisdictions, unless they set up full-blown London subsidiaries.

And even that is unlikely to be acceptable to European and other regulators regulating their parents, because it is normal practice for regulators to look through such arrangements.

By introducing the net stable funding ratio, Basel III effectively makes standard banking practice unworkable in the case of unallocated precious metals by not permitting a trading book to net off its long and short positions.

The regulators at the Basel Committee will not have jumped down on unallocated gold trading unless, in their opinion, they viewed it as a risk to the global banking system which must be offset by proper funding.

Plainly, they understand the unallocated shell game for what it is, and that a failure in this market would be a threat to the entire banking system. Almost certainly, Basel III's banking experts will have examined the risks in considerable detail before making their decision about the rates of both the ASF and RSF to be applied.

The end of the LBMA is nigh – 5/13/21
[The end of the LBMA is nigh (goldmoney.com)]

In the context of all of the preceding, plus the sudden widespread concern about the balance sheet "hole" that has appeared on global Central Banks and both TBTF banks and small- and mid-sized banks around the world in the aftermath of the sharp rise in inflation and interest rates, allow us to revisit this exchange with the Dutch Central Bank Governor from November 2022 for one last piece of context before we summarize:

Governor of Dutch Central Bank says gold revaluation account is solvency backstop – 11/2/22
[Governor of Dutch Central Bank States Gold Revaluation Account Is Solvency Backstop (gainesvillecoins.com)]

Jan Nieuwenhuijs
@JanGold_

Astonishing response by Dutch central bank Governor Knot when his solvency is questioned due to coming losses: use gold revaluation account.

10:31 AM · Nov 2, 2022 · Twitter for iPhone

Reporter: So what you're saying is that the higher the interest rate by the European Central Bank, the more expensive it gets for us?

Dutch Central Bank Governor Knot: Yes, that is correct…

Reporter: ...and the more money is needed…hold on, I want to finish my question, so we all understand. And the higher the probability the Dutch taxpayer has to fix the balance sheet of the Dutch central bank, of which I always thought, "that's solid, it can't fail." This story is new to me.

Dutch CB Governor: The balance sheet of the Dutch central bank is solid, because we have gold reserves, and the gold revaluation account is more than 20 billion euros, which we may not count as equity, but it is there.

Reporter: But you don't want to sell the gold.

Dutch CB Governor: No, we're definitely not going to sell.

Allow us to plainly state our read of the preceding puzzle pieces in the context of JPM's sudden and accelerated seeming desire to have not just **access to**, but **control of** one of if not **THE** single largest non-sovereign stockpiles of physical gold in the world, even as much of the western investing world is concerned by and focused on how potentially large holes in Central Bank and TBTF bank balance sheets might be filled. In our view, there are two most likely read-throughs:

1. JPM has received the heads up that the US Treasury and Fed will ultimately backstop all $18 trillion in US bank deposits, and also follow the de facto bank YCC with a soft version of a broader YCC (Treasury buybacks), knowing that will, before long, force the US Fed into the outright explicit version of YCC that has been practiced for years by the BOJ.

    a. The implementation of YCC in any form in the UST market renders the UST unusable as a primary reserve asset for the settlement of the global commodity trade *(as it amounts to direct and infinite money printing for finite and increasingly expensive resources).* This means a new settlement asset must be used, and the only acceptable replacement in our view is gold.

       HOWEVER: The unallocated gold market must be severely limited or even ended for gold to serve this role *(because unallocated gold claims are functionally no different than printed USDs, as both are mere obligations of a bank and therefore of the Central Bank)* and therefore, the price of gold will have to be reset significantly higher, in nearly binary fashion, to serve this role.

2. Perhaps related to the implementation of YCC or perhaps unrelated to it, the decision has been made for "the gold revaluation account" to fill the hole in both G7 Central Bank balance sheets and TBTF bank balance sheets, and JPM's seemingly urgent and aggressive actions regarding gaining greater control of gold in the GLD are motivated by a desire to put JPM and the US government in a pole position to manage the process.

    a. In this case, we could see the possibility that gold would be written up over a weekend to a much bigger number ($5,000? $10,000? $20,000?), and on that Sunday afternoon, before markets opened, it would be disclosed that the GLD ETF would be cash settled at the prior Friday close.

       The massive windfall gain between the physical gold on Central Bank, JPM, and other TBTF balance sheets at the new, revalued price and the (much lower) Friday close in the GLD ETF's price would be added to Central Bank and TBTF bank reserves and recapitalize the Central Banks and systemic TBTF banks to a significant extent (depending on price).

       JPM is indeed "too big to fail" on USD depositor claims, but that is not necessarily true on physical gold claims. If GLD holders need to be cashed out at par before a massive physical gold write up that recapitalizes G7 Central Banks and TBTF bank balance sheets to save the system, in our view, that is what policymakers will do in order to save the system.

The scenarios we lay out in the preceding pages are speculative, but they are informed speculation. Importantly, there is historical precedent for something like this happening when the system's back was seemingly up against the wall. Consider the following comments from former Saudi oil minister Sheikh Yamani from 2010, paying particular attention to the underlined section below:

Sheikh Yamani, former Saudi oil minister, interviewed by CNN's John Defterios – 10/17/10
[Sheikh Zaki Yamani, former Saudi oil minister denounces speculation: Different Role for OPEC in the Future - Global ResearchGlobal Research - Centre for Research on Globalization]

> *John Defterios: 1973, the Arab oil embargo you were a key player during that process. The former US Secretary of State Henry Kissinger said it was political blackmail what Saudi Arabia and OPEC were doing to the rest of the world. In retrospect how did you see it?*
>
> *Sheikh Yamani: That's a very long story and the reaction of America of what happened is not a one reaction it's one after the other and it needs even a book, it's not a blackmail, the need to raise the price of oil even before that.*
>
> *<u>There is a book called "A Century of War" and it gives you the story of a meeting at an island in Sweden, attended by Henry Kissinger and they decided to raise the price of oil 400%</u> and this is a very important incident. They needed and that is one of the reactions of America is to help the oil companies to invest outside OPEC in Mexico, in North Sea and so on; and this will not happen without a high price of oil.*
>
> *And this is how they deprived OPEC from their strategical power and that's another thing and I really highly respect Henry Kissinger he is really a planner and strategically he is a man to be respected*

We own the book "A Century of War" – it has the itinerary of the Bilderberg meeting in which the decision to raise oil prices by 400% over a 6-month period of time was made as a means to multiple ends: First, to effectively make the oil market "big enough" to back the "Petrodollar" system, and secondly, to strategically diversify the US' oil supplies away from the Middle East by making UK North Sea, Alaska Prudhoe Bay, and Gulf of Mexico oil production economic.

The book notes the significant, nearly binary, and politically driven 400% increase in oil prices took place over 6 months and required a brief war to aid in offering political cover (Yom Kippur War), but ultimately, the price increase was accomplished and achieved both strategic goals – *"Henry Kissinger, he is really a planner and strategically he is a man to be respected."*

The point is that there is historical precedent for something like this, there are numerous lengthy and now increasingly acute hints of systemic planning in this direction that have been ongoing for years (if not decades), and now the system appears to have its back up against the wall. We even have a war offering political cover.

Why did JPM become a custodian of GLD now, gaining more control over large amounts of physical gold? If JPM wanted to control the PRICE of gold, why not just rig the price of gold lower as the US government said JPM did in the past (below)? What changed that left JPM wanting greater control over of the biggest stockpiles in the world of *<u>PHYSICAL</u>* gold?

JPM Metals desk was a criminal enterprise, US says invoking rarely-used RICO statutes – 9/16/19
https://www.bloomberg.com/news/articles/2019-09-16/jpmorgan-s-metals-desk-was-a-criminal-enterprise-u-s-says

> *U.S. prosecutors took an unusually aggressive turn in their investigation of price fixing at <u>JPMorgan Chase & Co.</u>, describing its precious metals trading desk as a criminal enterprise operating inside the bank for nearly a decade.*
>
> *The prosecutors <u>charged</u> the head of JPMorgan's global precious metals trading operation and two others on Monday, accusing them of "conspiracy to conduct the affairs of an enterprise involved in interstate or foreign commerce through a pattern of racketeering activity."*

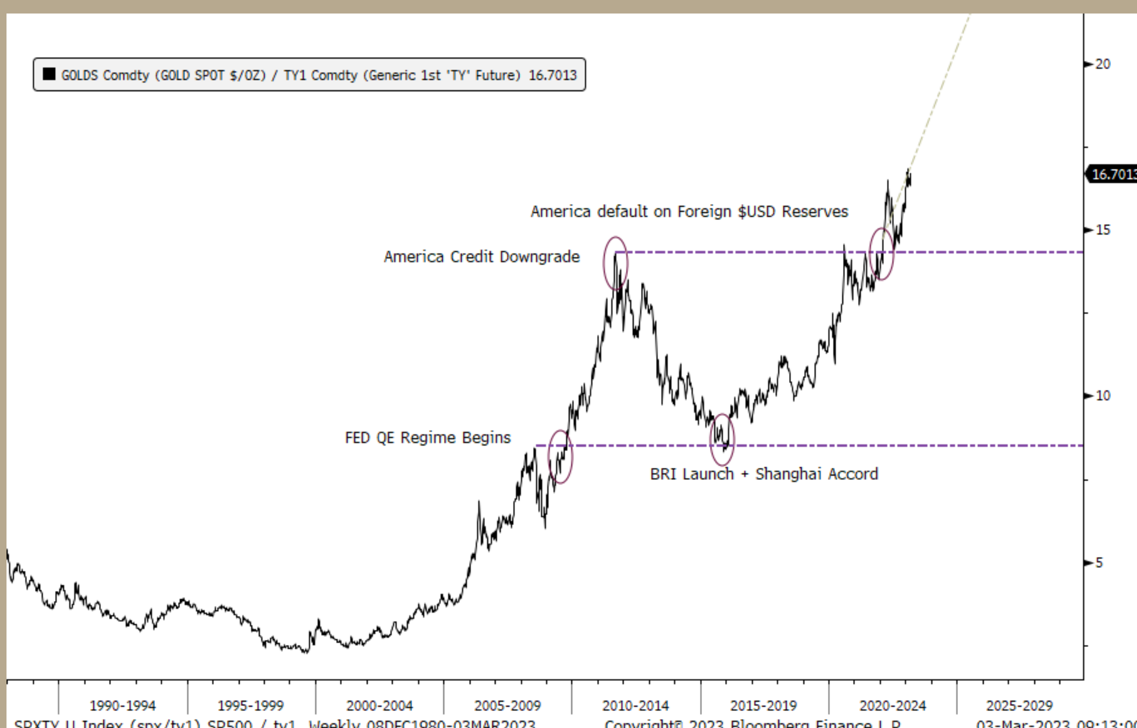
SO HOW DO WE MAKE MONEY WITH THIS?

What does this mean for gold? Over the past several years, we have had numerous examples of counterparty risk in formerly ironclad legal jurisdictions – Venezuelan gold reserves seized in the UK, Canadian bank accounts frozen, Russian FX reserves seized, ongoing questions about US bank deposit insurance levels, CS investors seniority questions – all were surprised by sudden actual or potential rule changes.

Given these examples, our view is that while the GLD ETF is good for short-term speculation on the price of gold, investors should be aware of the underlying counterparty risk that exists if GLD were made subject to the force majeure cash settlement process described on page 8 as a means of recapitalizing G7 Central Bank and TBTF bank balance sheets. In extremis, GLD shareholder needs may be made junior to the needs of Central and TBTF banks, in our view. Note GLD does contain a redemption clause *(or at least used to - 100,000 shares blocks exchanged for physical gold.)*

We continue to believe gold miners would benefit from a revaluation, but acknowledge that the maintenance of property rights while still a tail risk, are a fatter tail risk than they were a few years ago (even in Anglo-American jurisdictions.)

We continue to be overweight gold and gold miners and expect gold to continue outperforming long-dated USTs *(as it has on a 5-year, 10-year, 15-year, and 20-year basis (10y UST futures, TY1, shown below)).* Either some sort of systemic reset being hinted at by multiple major systemic actors occurs, or the rise in real rates drives a rise in G7 sovereign debt default risk, or G7 Central Banks print money to avoid G7 sovereign debt defaults – *all of these are positive for gold, and they do not even touch on counterparty or geopolitical (war) or inflation risks.*



Via DC

From a broader macro perspective, any writeup in gold used to recapitalize G7 Central Bank and TBTF bank balance sheets would likely be broadly inflationary. Further recall that per the Fed operating manual, a writeup of US official gold creates a deposit of USD cash into the Treasury's General Account without an offsetting increase in UST debt which would allow a swift de-leveraging of the US government's balance sheet *(see Appendix on the next page.)*

As such, if the action speculatively hypothesized herein were taken in some form, it would likely also be positive for commodities, equities, real estate, and hard assets of all stripes. *Thank you for reading this edition of FFTT. LG*

APPENDIX:

2.10 Gold Certificate Account (110-025)

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Department of the Treasury (Treasury). At any time, Treasury may reacquire the gold certificates by demonetizing the gold.

Treasury maintains an account with the Board of Governors entitled "Gold certificate fund—Board of Governors of the FR System." When the Treasury monetizes gold, it credits this account in return for deposit credit at the Federal Reserve Bank of New York (FRBNY). When demonetizing gold, Treasury decreases the account and authorizes the FRBNY to charge its deposit account. The offsetting entry in each case on the FRBNY's books is made to the Gold Certificate account and the U.S. Treasury—general account. The FRBNY accounting staff sends an advice of these entries to the Board. Also, whenever the official price of gold is changed, Treasury adjusts the account and, simultaneously, the deposit account.

Source: Financial Accounting Manual for Federal Reserve Banks, January 2023

DISCLOSURES:

FFTT, LLC ("FFTT"), is an independent research firm. FFTT's reports are based upon information gathered from various sources believed to be reliable but are not guaranteed as to accuracy or completeness. The analysis or recommendations contained in the reports, if any, represent the true opinions of the author. The views expressed in the reports are not knowingly false and do not omit material facts that would make them misleading. No part of the author's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views about any and all of the subject securities or issuers. However, there are risks in investing. Any individual report is not all-inclusive and does not contain all of the information that you may desire in making an investment decision. You must conduct and rely on your own evaluation of any potential investment and the terms of its offering, including the merits and risks involved in making a decision to invest.

The information in this report is not intended to be, and shall not constitute, an offer to sell or a solicitation of an offer to buy any security or investment product or service. The information in this report is subject to change without notice, and FFTT assumes no responsibility to update the information contained in this report. The publisher and/or its individual officers, employees, or members of their families might, from time to time, have a position in the securities mentioned and may purchase or sell these securities in the future. The publisher and/or its individual officers, employees, or members of their families might, from time to time, have financial interests with affiliates of companies whose securities have been discussed in this publication.

For more information on receiving Forest for the Trees:

FFTT, LLC.
Email: Luke@FFTT-LLC.com.
Telephone: 216.533.1622