
LISTED RESERVE

MoneyBits

Genius

Hello Larry, can you help us?



Lawrence H. Summers ✓
@LHSummers

SVB committed one of the most elementary errors in banking: borrowing money in the short term and investing in the long term. When interest rates went up, the assets lost their value and put the institution in a problematic situation.

I mean, that is the only job banks have. They take deposits, at call, and make longer-term loans like mortgages. Then they hope like hell everyone doesn't ask for their money at once. I wish it was more complicated. Sure, there is complication and regulation and capital ratio this and that, and Basel 1, 2, 3 (4 & 5 will surely follow after this mess). In the end though, a bank's role in society is the arbitrage of maturity profiles.

SVB went bust because people *lost confidence*. The proof of the pudding is the Federal Reserve reporting that there are 186 banks in the US in similar situations to SVB. "Similar situation" aka being an actual bank. They too are playing their role but people have lost confidence.

Here is current Treasury Secretary Janet Yellen, who has clearly never used the internet. Janet still goes into the branch with a cheque book and pen because like most influential people in America, she's 104 years old.

"We had never seen deposits flee at the pace they were withdrawn from Silicon Valley Bank"

Perhaps we need a seminar at the US Treasury on how the speed of light is faster than a physical queue of people.

Larry, of course, has yet to explain his many trips to Jeffrey Epstein's island, including the one when he was still the United States Treasury Secretary. I had previously thought he went there to talk about the maturity profile of investments made by smaller regional banks, but on this evidence, perhaps not.

Credit Suisse

Leafing through past editions of MoneyBits I found [this one](#). It was about the time Credit Suisse opened bank accounts for Ferdinand and Imelda Marcos and called them William Saunders and Jayne Ryan in one of the great KYC heists of all time. It's one of my favourite Credit Suisse stories because it speaks to their unbelievable hubris; the whole [charge list](#) is even longer and it should substantially form their obituary.

What is most remarkable about their effective bail out is the extent to which the Swiss government has compromised themselves to do it. First of all, they have guaranteed the first \$10 billion of losses with taxpayer money. Next, they gave UBS a \$100 billion preferred credit line to the Swiss Central Bank. But most tellingly, in order to avoid a vote by the CS shareholders, they will be changing the laws in Switzerland.

Mum and Dad Schmid and every other Swiss national are on the hook for \$13,000 each in an attempt to bail out the good name of Swiss banking. The \$100 billion credit line is twice the amount Argentina got from the IMF. The Swiss might be rich but they didn't get there by doing things like this.

UBS agrees to buy Credit Suisse for more than \$2bn

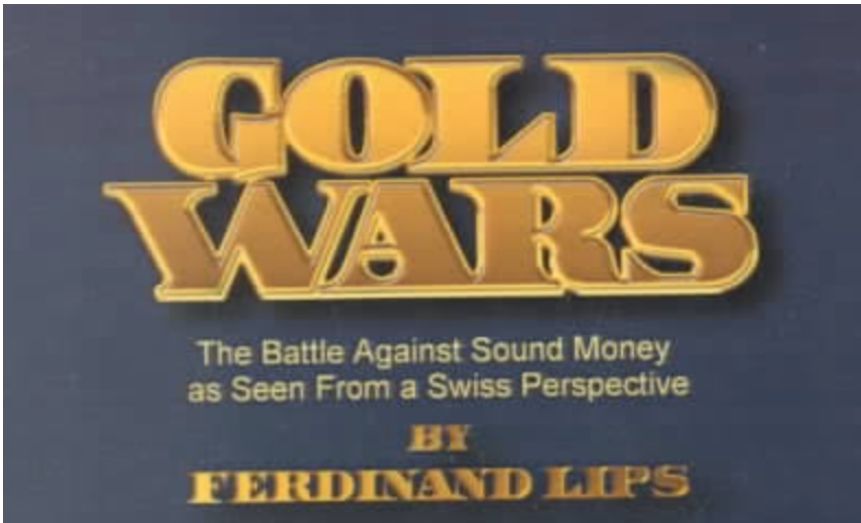
Swiss authorities engineer a deal that will combine the country's two largest banks

"Agrees to buy". That's strange. Not "wants to buy" or "is successful in its bid". They have picked this thing up with a gun to their head because it's a gigantic bag of nails and now UBS will start its slow bleed out. (See immediate rating downgrade [here](#)).

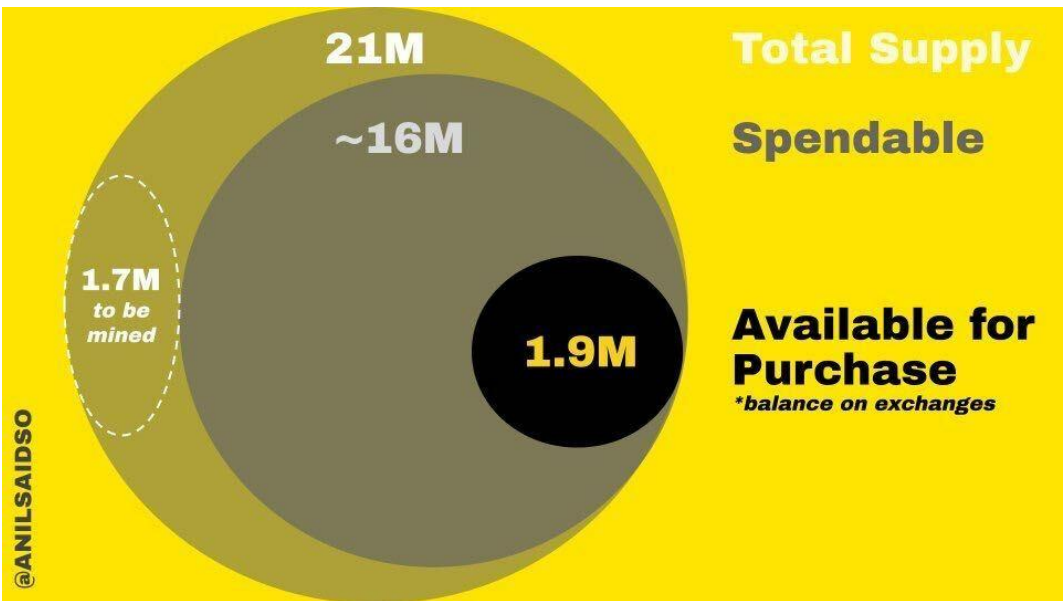
For more context on how great the calamity here is, Credit Suisse was sold for \$3.25 billion. Since 2000 they have paid over \$11.4 billion to authorities in fines. Including \$3.7 billion alone in 2014.

For more background on where it all went wrong I strongly recommend this book by Ferdinand Lips called “Gold Wars”. The Swiss Franc (believe it or not) was backed by gold until the year 2000; under pressure from the American government the Swiss finally pulled the gold backing from their currency because it was starting to undermine the USD. They agreed to fully enter the fiat currency paradigm. It's been downhill ever since and the book records what a great tragedy this has been for the Swiss. I imagine this latest bailout is under huge pressure from the Americans whose banks are deeply intertwined with the leveraged derivative mountain that Credit Suisse was pretending to manage.

Back in 2000, Credit Suisse had a market capitalization of \$70 billion; 10x the market cap of Apple at the time. America wins again.



Violent moves



Happily, the performance of bitcoin in 2023 has yet to hit the mainstream. You would think the [+x%] might register somewhere on the bond vigilante radar, but not a mention. Fundamentally the reason for the violent movements in price is the lack of availability of the asset. It just doesn't take that much at these levels for the price to move quite rapidly, which applies both upward and downward.

Exchanges currently hold some 1.9 million coins. 16 million coins are spendable and 1.7 million are yet to be mined.

7.6% of total global supply is tied up in Corporate Treasuries, all laid out [here](#). So a very small number of global companies already have 7.6% of supply and no meaningfully big company has any at all (depending on your view of Tesla I suppose).

Another tap was turned on in the last few weeks with [Fidelity](#), one of the world's largest asset managers, quietly turning on bitcoin investments for its retail clients. They operate in 36 US states and despite hostile regulatory pushback, they turned it on and began trading. It was not featured in any mainstream financial paper in the US, or here for that matter, which is both good and strange.

The bet

This will be talked about for some time to come. The former CTO of Coinbase Balji Srinivasan made a \$1 million bet over the weekend that the price of Bitcoin would exceed US\$1 million inside 90 days and he gave odds of 40/1 against. So essentially, James Medlock (the man taking the bet) is betting that bitcoin will not be \$1 million in 90 days and receiving 40/1 odds for doing so.

It is insane and Mr Medlock very clearly has the best of it.

I will take that bet. You buy 1 BTC. I will send \$1M USD. This is ~40:1 odds as 1 BTC is worth ~\$26k. The term is 90 days. All we need is a mutually agreed custodian who will still be there to settle this in the event of digital dollar devaluation. If someone knows how to do this... <https://t.co/tcuBNd679T> pic.twitter.com/6Aav9KeJpe
— Balaji (@balajis) March 17, 2023

Balaji is convinced that the US is already in hyperinflation and produced a rather long rant backing up his thesis, which I reproduce for you here.



Balaji ✓
@balajis

...

Just as in 2008, the bankers lied.

This time, the central bankers, the banks, and the bank regulators have lied to all dollar holders and depositors.

This isn't your typical fractional reserve situation. The problem is that there isn't enough in the banks on a mark-to-market basis to cover withdrawals. They knew this through all of last year, and communicated it internally in their coded language.

It's obvious from the graphs (see below). The central banks, the banks, and the banking regulators all knew a huge crash was coming — the phrase is "unrealized losses" [1,2,3,4,5]. But they never notified you, the depositor.

Instead the regulators allowed banks to hide their literal insolvency in footnotes[6], until one guy figured it out[7].

It's Uncle Sam Bankman Fried. Just like SBF used your deposits to buy shitcoins, using accounting tricks to fool himself and others into using the money, so too did the banks.

They all used the deposits to buy the ultimate shitcoin: long-dated US Treasuries. And they all got rekt at the same time, in the same way, because they bought the same asset from the same vendor who devalued it at the same time: the Fed.

Specifically, as NYT admitted, banks "binged" on enormous amounts of Treasuries and other long-term bonds in 2021 when the flood of printed money cut off their typical demand for loans, and because they thought the Fed would keep interest rates low forever.[8].

And they had good reason to believe this. Powell said he'd be "patient" on rate hikes as late as Nov 3 2021[9]. Then he got renominated on Nov 22 2021[10], and hiked rates much faster than anyone had expected — which even Yellen[11] and the FDIC[12] admit caused the current banking crisis.

Why did Powell delay? Probably for political reasons. Presidents don't like rate hikes[13], especially running into the election year of 2022. And Powell thought he could wait and just be like Paul Volcker[14], who was "firm" and then defeated inflation.

But the world isn't an 80s rerun. Hiking from ten years of near zero interest rates in the 2010s was a surprise attack on every dollar holder. Economics isn't politics — the kind of insane flipflops you see in politics don't work when there are actual contracts involved.

So anyone who bet on long-term Treasuries got killed in 2021. And now, anyone who bets on short-term Treasuries is going to get killed in 2023. The absolute worse place you can be is to have large amounts of assets locked up in three month treasury bills. The ~5% interest rate offered by big banks (G-SIBs) is a trap. Most fiat bank accounts are now a trap, for those countries whose central bankers followed the Fed.

Check my references, I've provided quite a few.
If you trust US bankers and US media, ignore me.
Otherwise buy Bitcoin and get your coins off exchanges.
[#Bitsignal](#)

- [1]: Fed, Sept 22: archive.is/1QA4q
- [2]: FDIC Nov 22: archive.is/ZBvli
- [3]: FDIC Mar 6 23: archive.is/yxd1u#selectio...
- [4]: Fed Feb 1 23: archive.is/nGpgk#selectio...
- [5]: Bank CPAs, April 22: t.co/OlEnfFqb1N
- [6]: Insolvency in a footnote: archive.is/OJww3#selectio...
- [7]: Discovered online: archive.is/tfYlc
- [8]: Banks bingeing on bonds, but not because they want to Aug 25 2021: archive.is/CtW1B

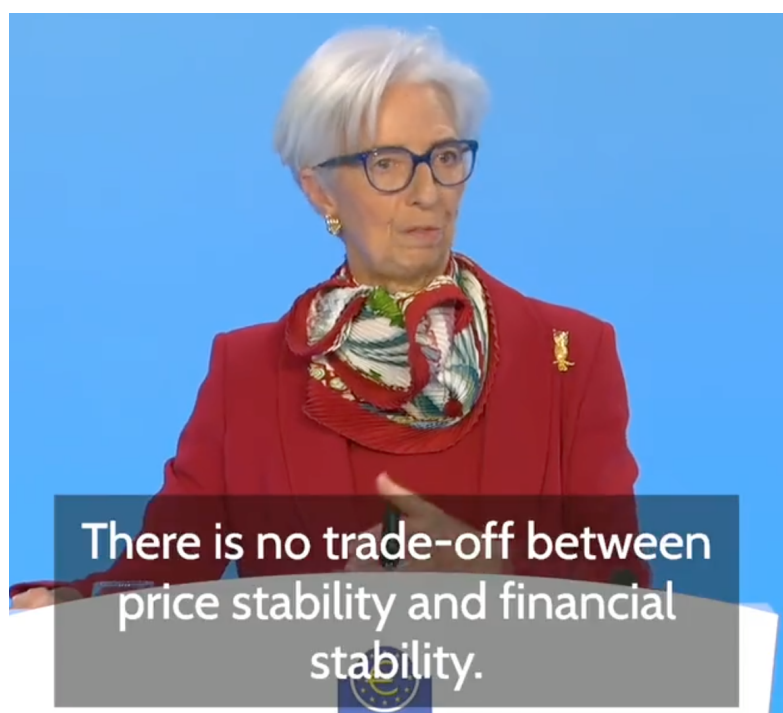
My opinion here is that Balaji has just set fire to \$1 million for no good reason other than to highlight the frailties of the Federal Reserve system. That may be reason enough.

I think he is wrong but in this case my opinion will cost me nothing. His opinion will potentially cost him \$1 million and so perhaps it is worth listening to.

Since he took the bet, a steady line up of naysayers has been mocking him for being an idiot. He is worth several hundred million dollars, has a PhD from Stanford University, had several successful startups, was the CTO of Coinbase and from start to finish he's done one thing, backed himself. For that reason alone, even if he does lose the bet, he's a winner.

Euro-Trash

This was Friday. On Friday, there was no trade-off between price stability and financial stability.



This was Sunday:



Statement by Christine Lagarde, President of the European Central Bank, on the announcement on 19 March 2023 by the Swiss authorities

"I welcome the swift action and the decisions taken by the Swiss authorities. They are instrumental for restoring orderly market conditions and ensuring financial stability.

No trade-off except that a \$100 billion credit line has magically appeared from nowhere. If that were not enough, two hours later the USD swap lines were back, this time on a daily basis. So much more access to free and unlimited United States Dollars for any Central Bank that needs them.



Coordinated central bank action to enhance the provision of US dollar liquidity

- ECB and other major central banks to offer 7-day US dollar operations on a daily basis
- New frequency effective as of 20 March 2023, to remain in place at least through the end of April to support smooth functioning of US dollar funding markets

There is no trade off. Christine says so.