

Is silver the new nickel?

There are similarities in the factors behind the nickel crisis on the LME in 2022 and developments in silver markets today



MACLEODFINANCE
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You may recall the kerfuffle in the nickel market when in 2022, in the face of a soaring nickel price, the London Metal Exchange ended up cancelling \$12bn of nickel trades on March 8. It was a short squeeze to end all short squeezes. Hedge fund Elliott Associates said the cancellation of trades that morning cost it \$728 million.

On the other side of the trade was an enormous short position, held by Tsingshan, a Chinese nickel producer which held shorts in OTC derivatives of which the LSE were not aware, though the rumour-mill in commodity markets definitely was.

Could this be repeated in silver in the coming weeks? Silver has underperformed gold recently and gold is now soaring into new high ground. Yet silver still languishes in the mid-twenties. But there are some striking similarities between silver today and the nickel case in March 2022.

The role of China

About ten years ago, I was a speaker at a mining conference in New York, and there were aspects of the silver market which puzzled outsiders, including me. Accordingly, I visited all the silver mining and exploration exhibition stands with a simple question: how do you dispose of your silver doré, and how do you get paid?

The answer was almost always the same. The man from Glencore (or Trafigura) validates the silver content which allows a banker to advance funds so that the mine manager could cover his operating costs. The assessor arranged for the doré (which was now the bank's collateral) to be shipped to the refiner, which was always thought to be China, where it was refined on the bank's behalf and we presume then sold so that the bank can retrieve its loan.

Therefore there were three parties involved: the assessor, the Chinese government, and the bank. And they appeared to collude in a normal commercial arrangement. But what if their relationship went further to actually manage the price? The natural benefits were as follows:

- Glencore or Trafigura had a good flow of lucrative fees, and they would benefit through introduction fees from appointing a bank to handle this captive business.
- The bank (most likely JPMorgan, which was strongly suspected of manipulating the silver market) got lucrative loan business, so long as it could control the silver price to guaranteed the value of its collateral.
- The Chinese whose interest was in silver as an industrial metal would have been determined to see the silver price low to protect manufacturing margins. China would have colluded with the bank (JPM?) to manage the silver price accordingly through OTC and Comex derivatives.

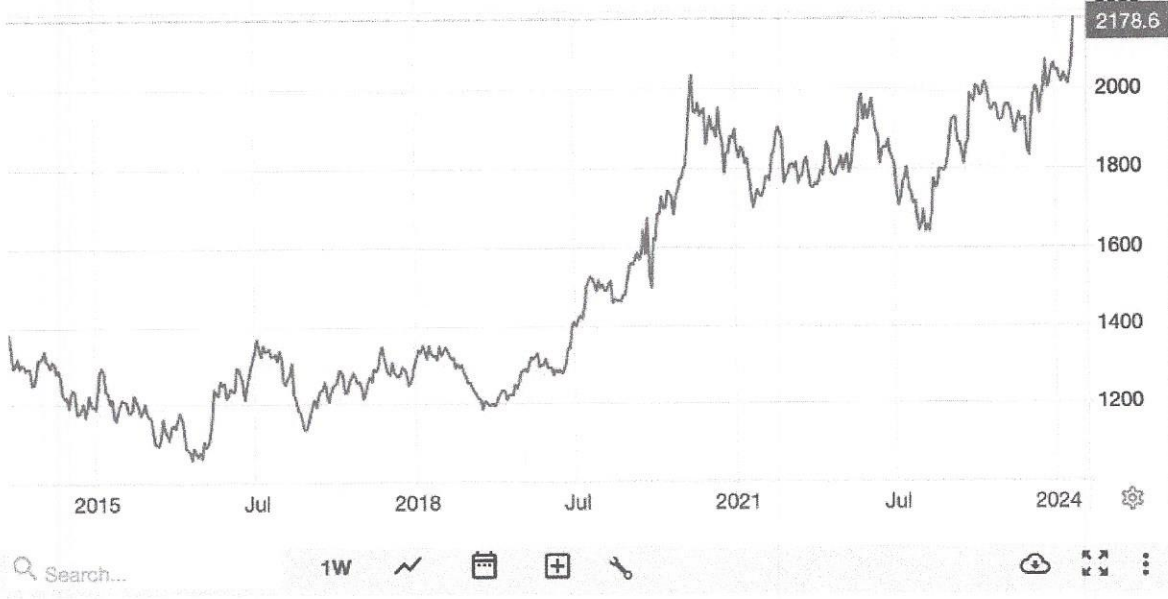
Interestingly, Blythe Masters who ran JPM's commodities division shortly afterwards went on TV to deny rumours that JPM held positions in silver on its own book. Now, this senior executive wouldn't lie — she is too smart for that (despite what the silver bugs believed). But her statement would be true if JPM worked with a major client (i.e. the Chinese) to manage the market "on its behalf".

We can now see some similarities developing with the nickel market blow-up in 2022. A Chinese entity (Tsingshan) was suppressing the nickel price against a background of speculative demand (Elliott and other hedgies), doubtless so that manufacturing costs of a wide range of steel-based products and rechargeable batteries could be contained. Silver is even more important, with China leading the world in solar panel output, as well as its use in a wide range of high conductivity applications.

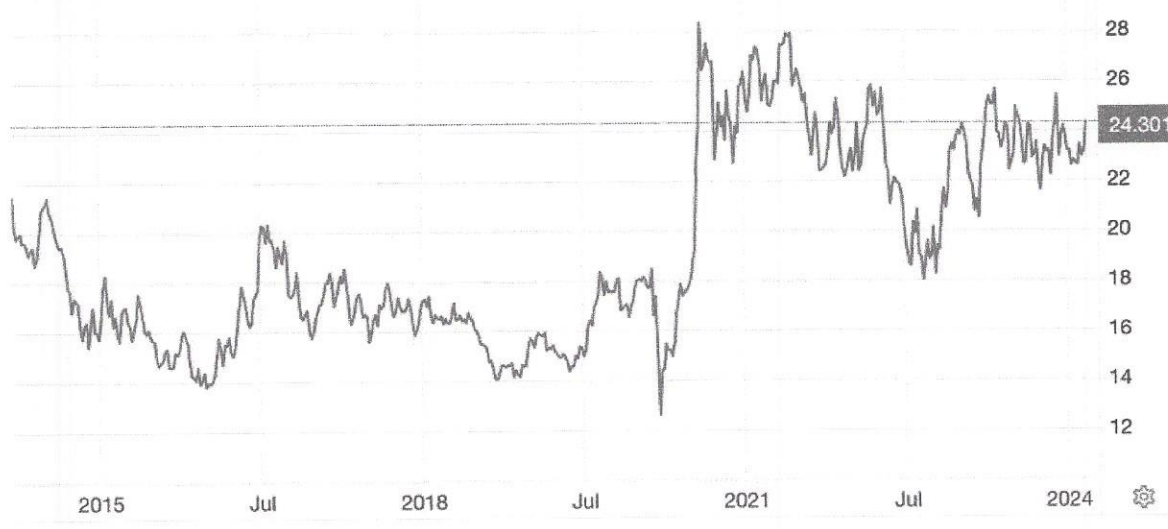
I suggest that the reason the silver price has not risen twice as fast as the price of gold is because it is still being suppressed by Chinese manufacturing interests, working with banks like JPMorgan in western capital markets. But now that gold has shot up and appears to be going even higher, the suppression of silver could come dramatically unstuck.

Just compare the two charts of gold and silver:

Gold (USD/t.oz) 2178.64 +95.25 (+4.57%)



Silver (USD/t.oz) 24.301 +1.153 (+4.98%)



If gold continues to rise, silver price suppression is set to fail dramatically. This time, it will be the LBMA, Comex, and bullion banks in the crosshairs, likely leading to all declaring a force majeure. It would be a far bigger deal/crisis than nickel.

Silver watchers may like to consider buying the physical while they can get delivery.



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