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The Silver Situation

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The squeeze in foreign silver supplies in the United States market which has followed the end of the war is seen by the proponents of higher prices for silver as having placed the metal in a strategic position. The highlights of the market position for the past three months have been: (1) the revocation in August of WPB Order M 199 which limited and controlled the uses of silver; (2) the practical disappearance of foreign silver supplies as the result of this order; and (3) the increase in the OPA ceiling price for imported silver from 45 cents to 71.11 cents per ounce. Although apparently intended as a de-control adjustment which would bring more foreign silver into the United States, the latter action has backfired and has not only failed to improve receipts from abroad but has touched off a wave of speculative interest which has had quite the opposite effect.

Coincidentally with these developments, Senator McCarran has introduced into Congress bills proposing an increase in the Treasury price for domestically produced silver from 71.11 cents to $1.29 per ounce, the monetary value. His bills would also abolish the 50 per cent tax on profits in silver transactions and end the Executive's power over silver imports, exports, and acquisitions. On the other hand, Representative Celler has reminded Congress that he has a bill before the Committee on Ways and Means to wipe out the Silver Purchase Act and the support the Treasury has given since 1934 to silver prices. Another legislative item, of immediate interest to the market, is that introduced by Senator Green to extend beyond December 31 the time during which the Treasury, under the original Green Act, may make its "free" stocks available to domestic industry. Without foreign silver, the New York market is reported able to get along on domestically produced silver, which the Treasury is not buying, plus the Treasury's releases from its "free" stocks. Failure to extend the Treasury's authority to continue these releases, however, would put the market under serious pressure.

This latter situation indicates how radically the position of silver has changed in world markets during the war. It is suggestive also of the strength of inflation sentiment in world commodity markets. Traditionally silver has had a strong affinity for the movements of commodity prices. Because of the United States subsidy to domestic production, however, and the parallel policy of purchasing all foreign silver offered, this affinity has been overshadowed for some years by the Treasury's large accumulation of silver stocks. Now that these stocks are being reduced, silver may recover its pre-depression sensitivity as an inflation index. The chart showing prices of silver on the New York market since 1913 is of interest in this connection.

The bases of the war-time change are several. As is shown by the accompanying table of imports all the important contributors to our large pre-war receipts have greatly altered their relation to our market in recent years. Declining production, due to manpower shortages, has been partly responsible for the change. Larger coinage requirements arising from the higher world price level have had some influence. In addition, many countries have experienced a notable demand arising from hoarding. Another abnormal factor with the Latin American producers has been the unusual demand for silver objects, particularly jewelry, which these countries could satisfy by retaining their bar silver for home manufacture. The war-time restrictions on production in the United States have afforded double protection to foreign manufacturers in limiting the amount of competing civilian goods of United States origin and in keeping our ceiling on foreign bar silver prices low.

At the same time that imports have been falling, domestic consumption of silver has been rising rapidly. In the war industries, there has been an extension of silver-using technology as well as substitution of silver for scarcer metals, especially tin and nickel. We have also become exporters on a substantial scale to allies in need of silver to meet coinage and hoarding demand. Notwithstanding a severe limitation on the output of non-essential silver manufactures in the United States (to 50 per cent of 1941-1942 production), it has been necessary to make available some of the Treasury's so-called "free" (i.e., non-monetized) silver for industry and for lend-lease export, as well as to shift to non-consumptive use in plants working on war contracts some of the silver backing silver certificates. At the present time, the Treasury's stocks of unmonetized silver, while still substantial, are some 900 million ounces below their early May 1942 figure, which was the high point of accumulations. They now amount to approximately 490 million ounces, of which it is estimated that approximately 210 million is obligated for monetization.

The present agitation for higher silver prices, therefore, springs in a general way from the fact that stocks in the United States market are dependent on legislative action. Our 1944 consumption of silver amounted to 120,000,000 ounces. This was six times the pre-war figure. Although consumption for war purposes has been shut off, the figure for this year will probably again be large because of the backlog of civilian demand fed by high purchasing power. United States production in 1944 was 37 million ounces; although renewed operations of the gold mines is again contributing some by-product silver to the supply, it does not seem that 1945 production will be a great deal larger. Thus the Treasury's authority to continue sales from its free silver is of great interest. The amount of this free silver remaining in the Treasury, approximately 280 million ounces, would seem to be adequate to meet our coinage and industrial requirements. The question of the authority to continue releases is the important factor in the bullish sentiment and there has been no indication of official policy one way or the other.

There have been some indications that the situation in our market has had upsetting consequences in the larger foreign markets. In Mexico, the rise in our price increased the intrinsic value of the silver peso above its monetary value so that the Mexican Government has attempted to retire the outstanding silver coins at a 20 per cent premium. Despite the fact that this premium cancels out the estimated profit to be derived from foreign shipment, the Bank's retirement program is reported to have met with comparatively little success. The Bank intends to mint new coins with a lower silver content. The failure of hoarded silver to return will, of course, make less newly mined silver available for sale on the world market.

In Canada, the Government has been under pressure to increase the domestic price for silver above the present price of 40 cents Canadian but so far has not yielded. Of the 14 million ounces of Canadian silver produced last year, about three-quarters was required for domestic use. Although comparatively little production can take advantage of the higher United States price, an active market in silver properties is reported. In London, prices have been raised to correspond to the United States price. There have been no other repercussions since the market is controlled and there have been no special demands. There is no indication as yet of any marked effects of the United States price increase in India and China. In these markets, where hoarding is very important, the quotations are considerably above the United States price.

Table 1

United States Imports of Silver Bullion
(In millions of ounces)

Period	Total	Imported from						
		United Kingdom	Canada	Mexico	Peru	Other Latin America	Japan	All other
1938	246	83	29	97	17	8	7	4
1939	194	39	23	81	16	10	11	14
1940	166	1	20	74	18	11	31	13
1941	134	-	18	75	14	12	8	7
1942	108	-	14	70	11	8	-	6
1943	63	-	8	24	12	15	-	4
1944	51	-	6	15	11	15	-	4
1945: Jan.-Sept.	34	-	4	12	7	10	-	2

Table 2

Silver Consumed in Industry and Arts
in the United States
(In millions of ounces)

1938	20
1939	45
1940	44
1941	72
1942	101
1943	130
1944	120

Table 3

Silver Production
(In millions of fine ounces)

Area	1938	1939	1940	1941	1942	1943	1944
Mexico	81	76	83	78	85	71	63
United States	59	58	67	69	54	45	37
Canada	22	23	24	22	21	17	14
Peru	21	19	19	15	16	15	12
Other Latin America	16	17	15	16	16	15	14
Europe, excluding U.S.S.R.	14	15	13		Not available		
Australia and Oceania	15	15	15		"	"	
Asia, excluding Japan	11	11	12		"	"	
Africa	6	5	6		"	"	
Total	247	240	255				

Table 4

United States Silver Stocks
(In millions of ounces)

	April 30, 1945		October 31, 1945		Change	
In Treasury		2,901		2,052		-849
As security for certificates		1,521		1,535		14
Bullion	1,158		1/ 1,273		115	
Dollars	363		262		-101	
In General Fund		1,380		517		-863
Dollars	10		17		7	
Subsidiary coin	10		10		--	
Bullion for recoinage	2/		--		--	
"Free" bullion	1,360		1/ 3/ 490		-870	
Outside Treasury		414		707		293
Dollars	51		104		53	
Subsidiary coin	363		603		240	
Total stock		3,315		4/ 2,759		-556

1/ 878 million ounces of these items are held by Office of Defense Plants of the Reconstruction Finance Corporation in non-consumptive uses.

2/ Less than 500 thousand ounces.

3/ Of this amount it is estimated that approximately 210 million ounces are obligated for monetization.

4/ Excludes silver contained in five cent piece coinage. Through June 1945, the latest date available, 40 million ounces had been consumed.

NOTE: In the appended chart of New York silver pieces, the line since 1933 represents quotations on foreign silver. The Treasury's price for domestic silver is not shown.

NEW YORK PRICE OF SILVER

MONTHLY AVERAGE OF NEW YORK PRICE PER FINE OUNCE OF BAR SILVER

[1]MARKET PRICE LESS CARRYING AND MARKETING CHARGES.