

THE SILVER MARKET

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is something more than a commodity in the ordinary sense of the word, but its use as a national standard of value is very limited. Moreover, its mere use as the principal monetary metal in various nonsilver-standard countries like India does not cause silver to merit special consideration any more than the similar use of copper or nickel in fractional currency puts those metals in a class apart. A commodity, in the dictionary sense of the word, is that which is bought and sold. It is under this definition that silver is classed as a commodity in this study. Gold, also, is a commodity; it is bought and sold. But gold is in addition an important standard of value, and in normal times practically all the world's business transactions are, directly or indirectly, measured in gold. This places gold distinctly in a class by itself. But silver is not in the same position. In the economic structure of the United States the position of silver is that of a commodity.

Figure 1 shows the course of the price of silver in New York and that of the index number of wholesale commodity prices in the United States since 1914. This chart reveals a general similarity between the two curves (which are drawn on fairly comparable scales). By and large, silver is seen to have acted very much like other commodities as a group during recent years. Yet, it will be noted that the price of silver latterly has deviated somewhat, in a downward direction, from the course of the trend in American wholesale commodity prices. Later we shall measure with some care the extent of those deviations, after having explained some of the reasons for them. For the present it is sufficient to observe from the chart that silver acts like other commodities as a group, in the matter of price fluctuations.

Since the price of a commodity is determined by the interplay of supply and demand, it might be of interest to tabulate these factors in the price of silver. To some extent this could be done; but only approximately. For example, the annual output of newly mined silver can be measured with some degree of accuracy, and fairly reliable estimates of the supplies of silver which have been put on the market each year by other holders of the metal are available. Demand, also, can be estimated in part—from the export and import statistics of various countries and from estimates of the consumption of silver in the industries and arts. But the problem is far more complicated than it may seem. There are many imponderables, some of which arise precisely because of the fact that in world economy silver is more than a commodity. Because the price of silver is identified with the value of exchange on silver-standard countries, China chiefly, that price is the result not merely of the supply of and demand for silver, the metal, but is further conditioned by the supply of and demand for silver-standard currencies in the foreign-exchange market.

As used in the silver market, the term "supply" usually refers to the silver being currently marketed. In one sense, practically all the silver ever mined by man constitutes supply, at least potentially, because silver is virtually an indestructible metal. Comparatively little is lost in abrasion of coins or is believed to be otherwise used up or irretrievably misplaced. A large part of the mined silver rests in Asiatic hoards in the form of jewelry, bullion, or coin, while a considerable quantity of the metal is scattered throughout the Occident in the

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THE SILVER MARKET

By

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Finance and Investment Division



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CONTENTS

	Page		Page
Foreword.....	v	The international flow of silver....	35
Introduction.....	1	The flow map.....	35
The supply of silver.....	1	Mexico's silver exports.....	36
Mine production.....	5	Silver trade of New York, San	
By-product silver.....	6	Antonio, and San Francisco....	36
The demand for silver.....	7	Summary of United States trade	
Where the price of silver is deter-		in silver.....	37
mined.....	9	Movement of silver in China....	38
Why London is a leading silver		Silver movements of the United	
center.....	9	Kingdom in 1930 and 1931....	39
The great silver markets of the		India and silver.....	41
world.....	11	India's foreign trade in silver....	41
All silver markets interrelated...	11	Seasonal indexes of silver im-	
A day with silver around the		ports.....	42
world.....	13	Exports.....	44
How the London market oper-		Changes in Government stock	
ates.....	16	of silver.....	45
The New York silver market....	19	India's silver hoarding and con-	
Silver in Mexico and the United		sumption in arts.....	50
States.....	22	Recent Indian gold movements....	51
Relative production.....	22	India as a silver producer.....	53
United States foreign trade in		The Bombay mint's electrolytic	
silver.....	23	refinery.....	53
Place of silver in United States		China and silver.....	53
currency system.....	24	Purchasing power and silver im-	
Changes in the price of silver.....	25	ports.....	55
Relative position of silver among		Data on trade of certain silver-	
commodities.....	26	using countries.....	57
Effect of decline in price of silver...	26	Importance of Shanghai stock....	58
The commodity value of silver,		Hong Kong Currency Commis-	
1833 to 1932.....	28	sion of 1931.....	59
Legislation affecting silver....	30	Silver as currency.....	60
Other events affecting price of		Changes in fineness of coins....	60
silver.....	31	Sales of demonetized silver....	61
Recent price fluctuations.....	31	Recent legislation.....	62
Effect of 1926 legislation on			
price.....	33		

APPENDIXES

	Page
Appendix 1. Silver production.....	66
A. Summarized data of world silver production since 1493.....	66
B. World production of refined silver, 1921-1931.....	68
C. Distribution of silver production of the United States, 1930 and 1931....	68
Appendix 2. Industrial consumption of United States and Canada.....	69
A. Industrial consumption of silver in the United States and Canada,	
1920-1931.....	70
B. Estimated distribution of silver furnished for industrial use in the	
United States, 1920-1930.....	71
Appendix 3. New York price of silver, 1913-1932.....	71
Appendix 4. National Metal Exchange rules governing silver trading.....	72
Appendix 5. United States foreign trade in silver.....	76
A. Value of United States foreign trade in silver, 1873-1931.....	76
B. United States exports of refined silver, compared with total silver	
exports to United Kingdom and Asia, 1900-1931.....	77
C. United States foreign trade in silver in 1930, by customs districts....	77
D. United States foreign trade in silver, by months, since January,	
1929.....	79

	Page
Appendix 6. Adjusted price of silver.....	79
Appendix 7. British Indian silver statistics.....	81
A. India's foreign trade in gold and silver (coin and bullion), 1873-74 to 1931-32.....	81
B. India's foreign trade in silver and gold, 1929-1932.....	82
C. India's foreign trade in merchandise and precious metals, 1914-15 to 1930-31.....	84
D. Silver holdings of Indian Treasury at end of each year since 1914.....	84
E. Whole rupees coined and issued from the Indian mints from 1835.....	85
Appendix 8. Chinese silver statistics.....	85
A. China's foreign trade in silver and gold, 1888-1900.....	85
B. China's foreign trade in silver and gold, 1901-1931.....	86
C. China's foreign trade in merchandise and precious metals, 1914-1931.....	87
D. Flow of silver into and out of Shanghai during 1930.....	87
Appendix 9. Some silver monetary statistics.....	88
A. Net coinage of silver by principal countries, 1900-1929.....	88
B. Metallic holdings of principal banks of issue, 1900-1930.....	89
C. Standard silver dollars and silver certificates held in the Treasury, in the banks, and in circulation in the United States on June 30, 1900-1930.....	92
Appendix 10. A brief bibliography on silver.....	94

33830

FOREWORD

Among the features of this publication, which surveys the silver market to date and includes considerable material not previously available, are an analysis of the world trade in silver; the organization of the market and determination of the price; the long-term trend in the price of silver; the position of that metal in the economic life of the United States, India, and China; silver and oriental purchasing power; the movements of treasure to and from the Orient; and—of especial interest lately—the outflow of gold from British India.

As to world trade in silver, in the following pages the chief flows of silver are traced step by step from mine to ultimate "consumer" in Asia; also the reverse flows from Asia to the West are shown. The trade in the United States, where exports regularly exceed mine production, is described and analyzed. A flow map shows the movement of silver within China.

The outflow of gold from India, which after the middle of last year attained a volume exceeding the world's mine production of the yellow metal, has been more than just an interesting economic phenomenon. It has been promoted by the premium to which gold has gone in terms of other commodities (silver included) and is one effect which the world economic depression is having on India. The arrival in the Occident of this metal comes at an opportune moment. The movement, fortunately, is not believed likely to terminate for some time, for India is said to hold between \$2,500,000,000 and \$3,000,000,000 of gold, and there exists no official impediment to the metal's outflow.

As appendixes to this bulletin, statistics believed useful for reference purposes are presented on the mine and refinery production of silver, and industrial consumption; the price of silver; rules governing trading in silver futures; United States, British Indian, and Chinese silver movements; and silver as money.

In an earlier publication (*Trade Information Bulletin No. 682, The Price of Silver*, by Herbert M. Bratter), the Finance and Investment Division of the Bureau of Foreign and Domestic Commerce discussed the elements of supply and demand which determine the price of silver. Although this bulletin is now out of print, persons interested may find copies available for reference use in the files of the bureau's district offices or in the libraries of the larger cities.

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OCTOBER, 1932.