

China's "nickel king" Tsingshan Group suspected of being squeezed by Glencore and countermeasures

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"Demon Nickel" stirred up a muddy water. According to market rumors, Chinese stainless steel giant Tsingshan Group Group Co., Ltd. (hereinafter referred to as "Tsingshan Group") is experiencing the biggest crisis since the company was established. Unable to deliver, the 200,000-ton nickel short order opened by Tsingshan Group may not be able to deliver the spot. Glencore of Switzerland may use the LME nickel transaction to force Tsingshan, and then demand its 60% stake in the Indonesian nickel mine . Tsingshan Group's floating loss will exceed \$8 billion.

The crisis stemmed from the recent "bull squeeze" transaction in the international nickel futures market. The LME data does not disclose the names of clients, but the market is rumoured that Swiss commodities trading giants Glencore and Tsingshan Group are both bulls and bears. Among them, Glencore has continued to increase its holdings of nickel futures contracts for several months and has become a huge long side; and Tsingshan Group, due to holding a certain amount of short positions, is facing a very dangerous situation of liquidation.



Tsingshan Group is bearish on nickel prices

On December 9, 2021, Tsingshan Group announced that its large-scale battery-use high-nickel matte project in Indonesia was put into production. According to the plan, the project will supply 60,000 tons of high matte nickel and 40,000 tons of high-grade nickel matte to domestic mining company Huayou Cobalt Huayou Cobalt (603799.SH) and cathode material manufacturer Zhongwei Zhongwei (300919.SZ) respectively within one year. tons.

According to the plan, Tsingshan Group will continue to increase investment in the Indonesian nickel industry, and nickel production is expected to further increase to 850,000 tons and 1.1 million tons from 2022 to 2023. To a certain extent, Tsingshan Group's production plan has exceeded market expectations. If its Indonesian project proceeds as planned, the Indonesian nickel equivalent will be able to meet the demand for primary nickel in China in 2022, and the living space of domestic nickel pig iron enterprises will be narrower.

On the other hand, the market had previously expected that with the increase in nickel production of Tsingshan Group's Indonesian project, the upward momentum of nickel prices would subside, especially after Tsingshan Group's Indonesian high matte nickel project was put into operation at the end of 2021, the market was triggered by the rise of the new energy industry. Concerns about nickel supply shortages were eased.

A number of nickel industry researchers told the Financial Associated Press, "Because of this year's interest rate cut and the production of high matte nickel, it was relatively correct for Tsingshan Group to be short on nickel prices in the early stage, but the sudden change in the situation of the Russian-Ukrainian war has become a common trigger for the current bulk market. So, the market is worried that Russia's nickel exports will be restricted, which will affect the global nickel supply, resulting in a decline in the number of LME nickel deliveries, which is the primary factor behind the recent strength of nickel prices."

Tsinghsan Group faces the risk of liquidation as nickel prices soar

After the opening of Asian trading on the London Mercantile Exchange at 9:00 Beijing time, nickel prices continued to soar after a short-term correction, exceeding US\$70,000/ton, exceeding US\$80,000/ton, and exceeding US\$90,000/ton. Constantly refresh people's cognition. At around 14:00 in the afternoon, the increase had once exceeded 100%, and the price reached more than \$101,365 per ton. This is not only a record for transactions during the year, but also the highest nickel price ever traded on the London Stock Exchange. Tsinghsan Group, because it holds a large number of LME short futures contracts, is forced by overseas capital players to the point where they may have to close their positions and accept huge losses before they can escape.

Futures prices have skyrocketed, and short positions are in urgent need of additional margin. When entering the delivery month, you can choose to deliver or extend the contract. The latter requires a large amount of cash flow investment. Many senior futures industry sources analyzed to the Caixin reporter, "If you need to add If there is too much capital and cannot be added, the exchange will be forced to liquidate the position and bear huge losses. If it is calculated by Tsinghsan's 200,000 tons of short positions, if the price is maintained at 80,000 US dollars, Tsinghsan Group will spend 16 billion US dollars. The LME is to Pay a 12.5% deposit, which means that Tsinghsan Group has paid a deposit of 2 billion US dollars. If it is forced to close the position and cannot deliver the goods, the 2 billion US dollars will be lost, and the loss of Qingshan will be 2 billion US dollars. The current rule is It can be postponed, which means that Tsinghsan Group will not be forced to liquidate its position. But even if it is postponed for three months, even half a year, Tsinghsan will not be able to produce 200,000 tons of nickel, but no one can tell the price fluctuation during this period. In other words, Qingshan may eventually choose to be forced to liquidate his position. If the short-selling cost is \$20,000 per ton, he may lose up to \$12 billion in forced liquidation."

Since the high matte nickel produced by Tsinghsan Group is not a LME nickel delivery variety, it means that if Tsinghsan Group is a short position holder, it is unlikely to choose delivery, because high matte nickel is the raw material for the production of electrolytic nickel, and only high matte nickel is used. When the price is lower than the price of electrolytic nickel, this conversion path is economical.

Tsinghsan Group's Countermeasures

According to the China Securities Journal, the management of Tsingshan Group is doing its best to resolve the crisis. The main leaders of the group plan to go to Beijing to communicate and coordinate with relevant parties in order to come up with a plan as soon as possible.

Tsingshan Group, which was squeezed by foreign capital, may incur huge losses; however, the situation has taken a turn for the worse. On March 9, Tsingshan Group responded aggressively and replaced domestic metal nickel plates with its high-matte nickel plates, which have been deployed through various channels to sufficient spot for delivery.

More than a week after LME nickel experienced a historic short squeeze and trading was suspended, Qingshan, who was at the center of the storm on March 15, reached an agreement with the bank that the LME nickel contract will be held at 8:00 London time on March 16 (Beijing time in March 16:00 on the 16th) to resume trading.

In the early morning of March 15th, Tsingshan Industrial issued an important statement that Tsingshan Group has reached a silent agreement with a syndicate of futures bank creditors. During the quiet period, Tsingshan and the syndicate will actively negotiate and implement standby and guaranteed liquidity credits, which are mainly used for Tsingshan's nickel holding margin and settlement needs. During the silent period, the participating futures banks agree not to close the positions held by Qingshan, or require additional margin for existing positions. As an important part of the agreement, Tsingshan Group should reduce its existing positions in a reasonable and orderly manner as abnormal market conditions are eliminated. The announcement means Tsingshan can temporarily avoid further margin call pressure, reducing the risk of another short squeeze when the market reopens.

The reason why Tsingshan Group sought the help of the syndicate was also related to the rules of the London Stock Exchange, and the trading rules of the London Stock Exchange were different from those in China. The London Stock Exchange stipulates that the seller can sell as much as he wants, but there are two solutions. One is to give the goods that meet the standards when the goods expire, and the other is to actively close the position if the goods cannot be delivered. If you do not want to be closed, you can only increase the margin to ensure that the position will not be closed.

But despite the bank's backing, Tsingshan has not gotten rid of its short position in nickel it says is more than 150,000 tonnes. It remains to be seen whether Tsingshan can "reduce its existing positions in a reasonable and orderly manner" as he said.

Introduction of the participants Tsingshan Group and Glencore

Tsingshan Group:

Qingshan Group, headquartered in Wenzhou, Zhejiang, is extremely low-key. Its stainless steel production capacity totals 9 million tons, mainly in Fujian, Zhejiang and Guangdong, and another third of its production capacity is located in Indonesia. The company has built Qingshan Industrial Park in Indonesia and has rich local nickel resources. According to statistics from CITIC Construction Investment, Tsingshan Group has an 18% global nickel market share in 2020.

The actual controller of Tsingshan Group is Xiang Guangda, a Wenzhou-born businessman. On the "2021 Hurun Global Rich List", Xiang Guangda holds the position of Wenzhou's richest man with assets of 21.5 billion yuan, and is also regarded by the outside world as the richest man in Zhejiang. One of the mysterious, low-key rich people. Tsingshan Group has not yet been listed. It is separated from the capital market and has the style of a family business. Xiang Guangda started his business in 1988 and established

Zhejiang Fengye Group in 1992, which is the prototype of today's Qingshan Group. In 2020, Tsingshan Group produced 10.8 million tons of stainless steel crude steel and achieved sales revenue of 290.8 billion yuan. In 2021, it will be ranked 279th among the world's top 500 companies.

Indonesia is the country with the largest nickel reserves in the world. As the world's largest nickel producer, Indonesia has long become a battleground for global mining giants. The representative of Chinese-funded enterprises is Tsingshan Group. At present, Tsingshan has built a complete industrial chain of "raw ore-nickel-iron-stainless steel". In 2009, Tsingshan Group invested in Indonesia for the first time to develop laterite nickel ore, and then successively deployed overseas production bases such as India, the United States, and Zimbabwe. In 2017, Tsingshan Group entered the new energy industry and established Ruipu Energy, and it only took three years to rank among the top five installed lithium batteries in China.

Glencore:

Glencore was established in 1974. It started from oil trading and spent more than 40 years growing into a global commodity trading giant and a top 20 regular on the Fortune Global 500 list. It is known as the "Goldman Sachs of the global commodity market." In fact, as the world's largest commodity trader, Glencore and several other commodity frontier companies have already surpassed well-known Wall Street investment banks such as Goldman Sachs, Morgan Stanley and JP Morgan Chase, and become the most famous investment banks in the past decade. Profitable industry groups. Behind this is its rapid mergers and acquisitions over a long period of time, which has expanded from pure trade to mining, smelting, production and trade.



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