

Could the Silver Market Be Engineered?

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A Structural Case Study of How a Modern Commodity Squeeze Could Be Constructed

Executive Summary

The 2025 silver rally — a move from approximately \$30 per ounce to nearly \$117 within a compressed timeframe — exhibited structural characteristics that demand scrutiny.

While traditional explanations focus on industrial demand growth, inflation hedging, or macroeconomic tailwinds, the price path itself suggests a different dynamic: reflexive float compression amplified by ETF mechanics and systematic capital.

This paper presents a detailed hypothetical model demonstrating how a well-capitalized participant could exploit modern silver market architecture to manufacture convex price behavior — not through illegal coordination, but through strategic interaction with structural fragility.

This is a fictional structural case study designed to explore how market architecture can amplify capital flows in float-constrained systems.

1. Understanding the Illusion of Liquidity

At first glance, London vault holdings of approximately 790 million ounces suggest deep liquidity. However, gross inventory is not equivalent to tradable supply. If 80–85% of vaulted silver is allocated to ETFs or long-term holders, the effective free float may fall below 150 million ounces.

At \$35 per ounce, 150 million oz represents roughly \$5.25 billion of effective liquidity — a relatively small pool compared to global capital flows.

Price is determined at the margin, and when float is thin, incremental capital has outsized impact.

2. Structural Conditions That Precede Engineering

A squeeze-capable market requires several preconditions:

- Multi-year physical deficits creating narrative plausibility

- Elevated ETF ownership share
- Dormant systematic momentum positioning
- Absence of immediate regulatory stress
- Thin effective float relative to capital pools

Such conditions create latent convexity in pricing.

3. Phase One: Quiet Float Absorption

A hypothetical actor (“Operator X”) deploys capital across silver ETFs and futures, gradually absorbing float.

ETF creation mechanisms require physical backing, tightening available supply.

This is not overt market cornering — it is structural positioning within existing rules.

As float shrinks, the market becomes increasingly sensitive to breakout levels.

4. Phase Two: Triggering Systematic Momentum

Once price clears technical resistance (e.g., \$40–45), CTAs and trend-following models activate.

Retail flows respond to performance. ETF inflows accelerate.

The reflexive loop begins:

1. Price rises
2. ETF creations increase
3. Physical sourcing tightens
4. Float compresses further
5. Price impact grows non-linearly

Momentum becomes self-reinforcing.

5. Phase Three: Microstructure Breakdown

As float compresses further:

- Lease rates spike
- Backwardation appears
- Cross-market spreads widen

- Dealers struggle to source metal

Price detaches from linear fundamentals and transitions into convex repricing driven by liquidity stress.

6. The Parabolic Phase

Price accelerates rapidly. Media narratives shift to structural shortage.

Momentum traders, systematic funds, and retail capital pile in.

Market capitalization expands far beyond the initial capital spark.

Convexity replaces stability.

7. Distribution Phase

At elevated pricing, early accumulators reduce exposure into strength.

As ETF inflows slow and float normalizes, reflexivity reverses.

Price retraces sharply, often faster than it rose.

Conclusion

This fictional case study illustrates how modern market structure — particularly ETF mechanics and float fragility — can amplify capital flows into parabolic outcomes.

No conspiracy is required.

In float-constrained systems, structure alone can generate extreme price behavior.