



# Risk Management Analysis and Reset Strategy of High-risk Financial Derivatives - A Case Study of Tsingshan Nickel Incident

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**Abstract.** In this event, Tsingshan's 200000 short orders suffered huge losses due to the sudden sharp rise of nickel price. Therefore, this paper analyzes the current situation of this event and uses the futures fundamental risk analysis method to study the relevant risks of the nickel futures that Tsingshan bought at this time, as well as the role of traders and brokers and risk exposure analysis. Finally, it is suggested that Tsingshan needs to have a good investment strategy when making orders, and Establish a complete risk management system and implement dynamic management of investment risks, so that financial derivatives can better promote investment.

**Keywords:** Nickel, Futures Risk, Reset Strategy, Broker, Market-Maker

## 1 Introduction

### 1.1 The process of events

As shown in Figure 1, we can see the all the character in this event. Tsingshan is a Chinese nickel giant company. Its registered capital was 2.8 billion RMB and revenues reached 38 billion dollars last year. But on March 8th, it was facing a huge lose from short position, that could bankrupt this successful giant!

Tsingshan survived with the help from Chinese state material reserve, the domestic futures bank and other domestic metal production companies.

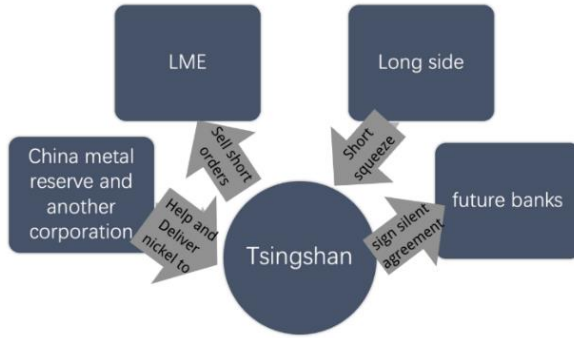


Fig. 1. Character relationship diagram

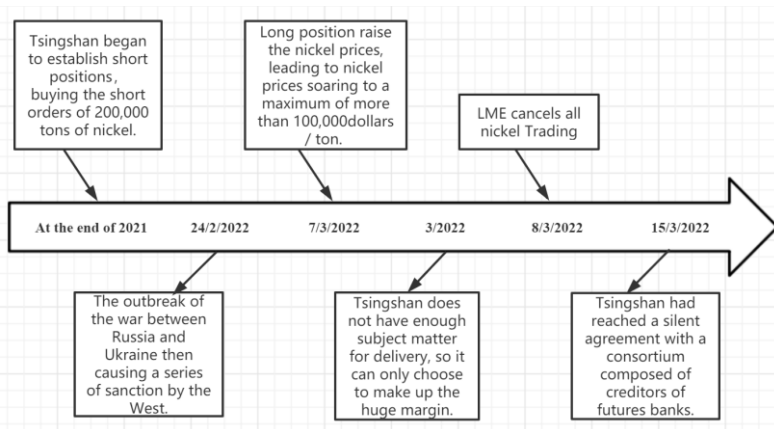


Fig. 2. Event sequence diagram

**Story:** Figure 2 demonstrate the development of the overall event plainly. In order to decrease the risk of low profits from falling prices, Tsingshan choose to hedge. The cost of nickel produced in Tsingshan is 10000 dollars per ton. The market price of nickel is often 20000 dollars per ton. “So, Tsingshan shorted 200000 tons (average prices 20000 dollars per ton) in LME and the original scheduled delivery date is March 9<sup>th</sup>.” [1].

There is a problem there. Tsingshan only produces nickel pig iron and nickel matte from the Indonesian. However, LME only accepts nickel cathodes, pellets, briquettes, and rounds that can be used for price hedging, physical delivery of sales or purchases, investment, and speculation. Tsingshan’s products cannot be used to deliver. It is not usually a problem because Usually, Tsingshan could exchange its nickel with Russia companies before the delivery date. The nickel products from Russia can meet the requirements of LME, and Tsingshan only needs to pay some handling fees.

However, Russia was sanctioned by the West because of the war on February 24<sup>th</sup>. That means Tsingshan cannot change its nickel with Russian companies. Tsingshan has no nickel to deliver on March 9<sup>th</sup>. Some financial institutions started long. On one hand,

the long position buy tons of nickel on the actuals market, on the other hand, they spend a lot of money to push up the Russian nickel prices in the futures market. And we can see the nickel price goes from 20000 dollars per ton up to 100000 dollars per ton in only six days from the figure 3. Then, by raising the price, the long side forces the short side to complete the delivery at a high price.



Fig. 3. LME 3-months nickel price

Tsingshan have three choices that may cause some possible loss that we can see from the Table 1 [2]:

- On the delivery date, if the actual price of nickel is still at 100000 dollars per ton, Tsingshan chooses to buy the nickel from the actual market.
- On the delivery date, if the actual price of nickel is still at 100000 dollars per ton, Tsingshan actively close its position. That means Tsingshan (short position) reopens a position in the market with a long order. For example, Tsingshan now opens a long order, still 200,000 tons of Russian nickel, but the price is no longer \$20,000/ton, closing price is \$80,000/ton. This cannot solve the problem that Tsingshan have no actual nickel to deliver.
- If Tsingshan decides to delay the delivering, margin calls are needed. LME required a portion of at least 12.5%.

Table 1. Tsingshan’s Expected loss

situations	Tsingshan’s Excepted loss
buy the nickel from the actual market	$(100,000 - 20,000) * 200,000 = \$16$ billions
close its position	$(80,000 - 20,000) * 200,000 = \$12$ billions
Pay the margin calls	$12.5% * 16$ billions = \$2 billions

This requires a lot of cashflow and if Tsingshan is unable to pay the margin calls, Tsingshan will be forced to close position by the LME.

## 1.2 Ending

The reversal of this event occurred on March 8. LME announced that all nickel trading after 0:00 a.m. UK time on March 8, 2022 will be canceled. The main reason is that pricing is out of touch with the reality of the actual market (more than 100% increase). The extreme market situation will bring systemic risk to LME. Even though the canceling of the trading gives Tsingshan time to buy nickel actuals, they still lose a lot. The price of nickel is more than 50000 dollars per ton.

From March 8<sup>th</sup> to March 16<sup>th</sup>, Tsingshan was preparing the actual nickel products and finding ways to survive the crisis. Tsingshan signed a silent period agreement with the future banks and has replaced domestic electrolytic nickel with its nickel matte, and through various channels to allocate sufficient spot for delivery.

Finally, the nickel trading started again at March 16<sup>th</sup>. In addition, LME set a price rise and fall limit in nickel future market. In March 16<sup>th</sup>, the limit is 5% and on that day, the slump of prices caused the suspension. On the next day, LME increased the limit to 8% and the price slump caused the suspension again. Then on March 18<sup>th</sup>, LME set the price daily rise and fall limit to 12% [1-2].

## 2 Geopolitics

### 2.1 The outbreak of the war between Russia and Ukraine

The war between Russia and Ukraine broke out on February 24, 2022, which was caused by the eastward expansion of North Atlantic Treaty Organization (NATO). Since the beginning of the war, in order to prevent the Russian occupation of Ukraine from posing a threat to them, European Union (EU) countries have assisted Ukraine and imposed a series of sanctions on Russia, Russian is one of the most important exporters of Nickel. Russian sold 18.6% nickel sulfide ore. In 2021, Russian has 250 k tons of nickel output and 7500k tons ore reserve, which is the third largest output sources and fourth largest ore reserve country. Besides, Russian takes 22% of high-grade nickel in the world [3]. The closing price of LME nickel increased dramatically on 4th March 2022, due to Ukraine war. The sanction imposed on Nonnickel, which is largest Russian nickel producers led to shortage of nickel stock in LME significantly.

### 2.2 The time did Tsingshan buy 200,000 empty order and sanctions imposed by the West.

As shown in Figure 4, We can clearly see the overall process of Russia being sanctioned. According to Bloomberg, Tsingshan began to establish short positions at the end of 2021. At that time, the nickel price on the LME was about \$20,000 per ton. The purpose of buying the 200,000 short orders was to hedge against production growth, because it was believed that the upward trend of nickel prices would subside at the beginning of this year.

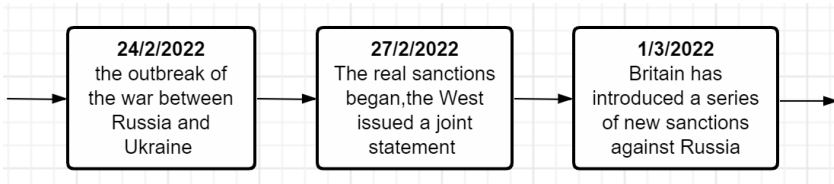


Fig. 4. Russia's sanction schedule

Meanwhile, Some capital groups have already planned targeting Tsingshan. In this event, the main reason was that Russian nickel could not be used for delivery in LME, resulting in the failure of delivery on time of blank orders used for hedging. In fact, the real sanctions began on the third day of the outbreak of the conflict between Russia and Ukraine. On February 27, 2022, the leaders of the European Union, France, Germany, Italy, Britain, the United States and Canada issued a joint statement, announcing sanctions against the Central Bank of Russia, and said that some selected Russian banks would be excluded from the Society for Worldwide Interbank Financial Telecommunication (Swift) system. Although Europe and the United States have not sanctioned the Russian nickel industry and have not excluded Russian nickel from LME deliveries, it is clear that the removal of Russian banks from the Swift system has affected the normal financing and trade of Russian nickel.

On March 3, 2022, under the escalating supply disruption and serious financing challenges in some major Russian ports, the metals produced in Russia or exported through Russia were greatly hindered, resulting in the inability of nickel to be transported out. And the United Kingdom has banned Russian ships from entering British ports, so in any cases, Russian nickel cannot be given to Tsingshan. On June 30, 2022, the British government announced that it would impose sanctions on Norilsk Nickel of Russia, which quickly attracted great attention from the global financial market, especially in the field of industrial metals.

### 3 Trading Risks (Futures Fundamental Analysis)

#### 3.1 Market Risk

**Systematic Risk.** In Tsingshan's case, the war between Russia and Ukraine caused a dramatic fluctuation in nickel's price. "Prices of oil, natural gas, wheat, and industrial metals have experienced haywire moves since Russia invaded Ukraine last month, a sign of the unexpected economic consequences of Russia's invasion and the punishing sanctions unleashed in response. Russia is a major supplier of nickel, which was already in short supply due to strong demand as an ingredient in lithium-ion batteries that power electric vehicles" [4]. The sanction enforced by western countries leads to a dislocation of the production of nickel. They pressured Russian manufacturers including metal production. A decrease in market supply caused an increase in nickel's price. And it is a direct factor in Tsingshan's case.

**Unsystematic Risk (The Encirclement and Suppression of Foreign Magnate).** In Tsingshan's event, there is an outside power intervening at the beginning which is external capital. It seeks profit through the malicious short squeeze. According to market rumors, Tsingshan Group, a leading domestic stainless-steel enterprise, was short-sold by foreign capital, and the potential loss of short positions could be as high as 6 billion to 12 billion US dollars. "In response, Tsingshan Group responded, 'There are indeed some moves by foreign capital, and they are actively coordinating. There are no problems with current positions and operations.'" [5]. However, foreign investors first use the London Stock Exchange's nickel delivery varieties and the company's actual nickel-containing products to have a certain mismatch and use geo-disturbance events to catalyze The short-term price increase is expected, and the short-term capital advantage is used to squeeze short, especially the short duration of the comprehensive nickel 03 contract, which has an adverse impact on the company's hedging short position.

### 3.2 Delivery risk

Dislocation of nickel production is also an important factor. "The mismatch of nickel futures lies in the binary supply structure of nickel itself. From the perspective of global production, nickel sulfide accounts for 30%, and laterite nickel ore accounts for 70%. London Metal Exchange Trading The nickel is a nickel sulfide ore system, and the delivery product is pure nickel plate, while the Indonesian laterite nickel ore is a mixture of nickel, iron, cobalt, etc., mainly in the form of nickel iron. Since laterite nickel ore and products are not available in a mature futures market Hedging can only be done through the nickel futures of the London Metal Exchange, and the general ratio is 20% to 30%. Therefore, there has been a mismatch in which laterite nickel ore products cannot be used to place positions on the London Metal Exchange, which has forced foreign investors to short positions. There are opportunities to take advantage of. In addition, geopolitical disturbances have brought sanctions, and a major overseas nickel-producing country has been excluded from the US dollar transaction settlement system, and its export channels have been restricted, which objectively aggravated the tension of the deliverable spot and was also malicious. Short-squeezed foreign capital created the conditions" [5].

### 3.3 Risk of forced liquidation

LME suspended nickel trading after three-month spot nickel prices more than doubled overnight to a record high of \$101,365 per tonne in early trading March 8. China's Tsingshan Holding Group Co. Ltd. is facing mounting trading losses, sources familiar with the company told The Wall Street Journal, amid a surge in nickel prices triggered by the Russia-Ukraine conflict"[6]. LME got involved and the potential loss is huge. Tsingshan sold down some of its position on March 7. However, Table 2 shows the each margin payment for Tsingshan, using the 200,000tonne figure gives an idea of the scale of losses. On March 4, LME Clear raised initial margin requirements for nickel by 12.5% to \$2,250 a tonne effective at the close of business March 8, which meant Tsingshan would have had to deposit another \$50 million. Tsingshan would also have had to add \$3.8 billion to its variation margin — 200,000 tonnes multiplied by \$19,159,

the difference between the closing price on March 4 and 7. This would have taken the variation margin Tsingshan needed to deposit on March 7 to \$6 billion — 200,000 tonnes multiplied by \$29,578, the difference between the closing price on March 7 and costs between \$18,000 and \$19,000 a tonne. On March 8, nickel trading was halted at \$80,000 a tonne. At this level, if the LME hadn't cancelled the trades, Tsingshan would have had to find another \$6.4 billion.

**Table 2.** Margin payment of Tsingshan

margin	payment
Initial margin	$12.5\% * 200,000t * \$2000 = \$50\text{million}$
Variation margin	$\$29,578 * 20,0000t = \$6\text{ billion}$
Margin calls	$\$19159 * 20,0000t = \$3.8\text{ billion}$
Normal operating loss	$(\$80000 - \$18000) * 200,000t = \$6B = \$6.4\text{ billion}$

## 4 Mistakes Made by Tsingshan While Selling 200,000 Empty Orders

### 4.1 Lack of understanding of the market situation

Tsingshan treated hedging as speculation and it shorted 200,000 tons of nickel that is much larger than the delivery capacity. Tsingshan can only produce 8,000–10,000 tons of nickel in every month. That means Tsingshan cannot produce 200,000 immediately at that month. Tsingshan can only use its inventories. However, the nickel it produced cannot meet the requirements of LME. The only way is to exchange its nickel matte with Russia. One feature of market is that market is changing rapidly. Tsingshan did not consider what if Russia cannot exchange with Tsingshan. (Russia was then internationally sanctioned )It did not treat this problem as a possible risk to them. Another feature of market is that others are good at catching opportunities. It is very dangerous for Tsingshan to have a fluke. Tsingshan definitely needs to understand that it needs to give themselves a lot of back before making big short orders.

### 4.2 Excessive risk exposure

As a resource-based enterprise, Tsingshan carried out a hedging of 200,000 tons of short orders, which is a normal investment of Tsingshan as a resource-based enterprise. This behavior is to prevent excessive fluctuations in the price of nickel, so Tsingshan purchased short orders and hedged the spot. But the risk exposure of Tsingshan this time is that Tsingshan itself does not produce high nickel matte, and there was a war between Russia and Ukraine at the same time, which was not expected by anyone. This sudden event led to a decline in global nickel production, which led to Tsingshan 200,000-ton empty order has become a huge risk exposure. This will cause Tsingshan, which does not have high nickel matte, to become very passive in the market. This is also the main reason that directly caused Tsingshan to fall into a huge crisis.

### 4.3 Unable to make up the delivery window period in time

**Tsingshan had a short nickel position total around 300,000 tonnes at prices between \$18,000 and \$19,000 a tonne** in early March; however, Tsingshan's annual production is about 850000. The short is nearly one third of annual production, so it is impossible for Tsingshan to fill up the delivery vacancy in such a short period.

### 4.4 Fail to move or reduce positions in time

“In January 2022, foreign media disclosed that the long positions of LME nickel were mainly concentrated in a certain customer, but Tsingshan did not pay attention to shifting or reducing positions, and it still held a large number of short positions in March contract of LME nickel in late February.” [7]. In order to avoid sharp fluctuations in the market in the short term, a large number of empty orders held by Tsingshan shouldn't be completed in a short time, and there should be a gradual and long-term position building process. Therefore, under the condition that Tsingshan buys a huge number of empty orders, the futures price rises too fast so that the speed of shifting positions may not necessarily keep up, resulting in an irreversible situation.

## 5 The Broker-CCB

### 5.1 CCB's role in this accident

China Construction Bank (CCB), a large state-owned bank managed by the central government, second in size among banks. Tsingshan holds a total of about 200,000 tons of London nickel short orders, including about 30,000 tons of short orders in LME through brokers such as CCB international and ICBC standard bank. Other short positions may be held in the form of OTC trading. Because LME adopts the settlement mode of members (brokers), it means the secondary settlement is carried out between members and investors or between members and secondary agents. Under normal circumstances, brokers can release margins by balancing customers' futures positions. However, the sharp rise in the price of nickel futures in this round is too large, and even the nickel futures positions of margin closeout customers cannot release enough margin. Therefore, as the parent company of Tsingshan's brokers, CCB needs to face the obligation of making up a huge margin. And it is reported that CCB sought the support of nickel spot inventory for Tsingshan on March 8th.

### 5.2 Silent agreement

In the small hours of March 15th, Tsingshan issued a new message, stating that Tsingshan group had reached a silent agreement with a consortium composed of creditors of futures banks. During the quiet period, Tsingshan and the syndicate will actively negotiate and implement standby and guaranteed liquidity credit facilities, which are mainly used for the nickel position margin and settlement needs of Tsingshan. During the silent period, the participating futures banks agreed not to close the positions of Tsingshan, or to require an increase in margin for existing positions. As an important



part of the agreement, Tsingshan should reduce its existing positions in a reasonable and orderly manner with the elimination of abnormal market conditions.

Due to the emergency of this incident and the degree of losses, this agreement is more like a suspended agreement than a silent agreement in terms of accurate expression. It means that the lender temporarily stops asking the borrower to repay the loan, and the two parties need to negotiate a new contract agreement. Generally speaking, this will change the original repayment schedule. The borrower may need more time to raise funds to repay the debt, that is, the bank agrees not to close the position of Tsingshan, or requires an increase in margin for the existing position. If the position is not closed by agreement, it will push both CCB and Tsingshan into bankruptcy.

### **5.3 CCB's projected loss**

If the price of nickel is maintained at \$80,000 based on Tsingshan's 200,000 ton short position, Tsingshan will spend \$16billion. LME requires to pay a 12.5% deposit, that is, Tsingshan needs to pay a deposit of \$2billion. If it is forced to close its position and cannot deliver the goods, the \$2billion will disappear, which means that Tsingshan's loss will be \$2billion. CCB is a middleman who places orders for Tsingshan and needs to advance funds, if LME does not give CCB international more time to make up for the margin not added to the exchange due to Tsingshan's failure to pay the margin, it means that all positions of CCB in default can be suffered a margin closeout and a maximum loss of \$16billion will be directly generated.

### **5.4 Risk exposure**

Tsingshan adopts a position structure dominated by over-the-counter (OTC) transactions, which has brought great risk exposure to its OTC counterparties in the case of soaring futures prices. This incident may cause many banks to face considerable losses. "People familiar with the matter said that the units under China Construction Bank were unable to pay the deposit on time, but it was not necessarily the parent company that had problems. It might be because "Tsingshan" did not pay to CCBI global markets." [8]. After the Tsingshan "close position event" occurred, some brokers faced the obligation to pay a huge amount of margin. So the CBRC required banks to report overseas risk exposure, and the sharp fluctuations in the bulk commodity market also made the banks and related enterprises nervous.

CCB recovered the loss from Tsingshan, which could not have made so much money. Even if CCB helps it make up the margin, the nickel position squeeze will not end, and the nickel price continues to soar, which means that the risk exposure left to CCB is infinite. The sharp fluctuations in the market also reflect that banks need to better know your customers, reduce risk exposure, and prevent huge losses in the event of emergencies.

## 6 The Trader-LME

### 6.1 LME's role

Tsingshan has a short position of 200,000 tons, 30,000 tons of which are held directly in the exchange trading of LME, and the rest are held through bilateral OTC trading led by JPMorgan Chase. As an international exchange, LME, like most financial banking organizations, adopts a membership system. That is, give full play to the role of market regulation, generally do not take the initiative to intervene in market behavior.

### 6.2 Why was nickel trade cancelled

The reason why the LME canceled the transaction is mainly because the extreme market situation of nickel futures brings systemic risks, which will eventually spill over the risks to the whole market. If the price continues to rise, some market participants will find it difficult to continue their activities. This time it happened in the nickel market, which seriously damaged the reputation of LME. In fact, LME seems to have saved Tsingshan, but it is actually the protection of itself, trading varieties and brokers.

### 6.3 Set multiple limits for nickel futures trading

The Tsingshan Nickel incident also exposed the problem of insufficient LME supervision. At the same time, the cancellation of all transactions on March 8 is unreasonable for the beneficiaries of the incident. At the same time, the occurrence of such an incident will have a great impact. The market has confidence in the LME, so the LME must promulgate a set of sufficiently standardized market rules to prevent similar incidents from happening again 'When trading resumes at 0800 GMT on Wednesday, price moves for nickel will be constrained to 5% above or below the last closing price before the suspension, the LME said. The exchange also imposed 15% limits from Tuesday on other base metals including aluminium, copper, lead, tin and zinc - the first time in its 145-year history the LME has ever placed limits on outright contracts. If a price limit is hit, trading will not be suspended, but any bids above the higher limit and offers below the lower limit will be rejected, an LME notice said. An LME spokesperson confirmed that it was the first time it had ever placed price limits on outright contracts.' [9].

## 7 Suggestions for Tsingshan

### 7.1 The amount of capital invested should be moderate (excessive speculation)

The regulatory authorities in the Chinese market should be alerted by this incident, which shows that the market supervision departments are not effective in supervising the investment of Chinese enterprises abroad, so they should strengthen the supervision of overseas investment by Chinese domestic enterprises to prevent the recurrence of

such incidents. From a fundamental point of view, the amount of hedging of Tsingshan this time is too much, so the amount of loss is also huge. Therefore, it is suggested that Tsingshan can appropriately allocate the amount of hedging.

Market regulators should verify the capital of a domestic company when it wants to invest in an offshore company, and if the domestic company is unable to bear the risk, then cancel the investment of the domestic company abroad. And look at the risk factor of this investment of the domestic company, if the amount of a single investment is too high, the market regulator has the right to require the domestic company to reduce the amount of this investment.

## **7.2 Have a good investment strategy/Moderate hedging in times of market instability**

To this Tsingshan event, it is very important to formulate a set of investment strategies suitable for the company's development, Tsingshan should carry out moderate hedging when the market is unstable. First, before developing an investment strategy, investors need to understand that the main motivation for hedging is to mitigate potential losses on existing trades, in case the outcome moves in the opposite direction that the investor wants. Independent of individual investors, hedging by companies contributes to the certainty of future costs. Hence, it is a common practice for nickel producers to “hedge” their risks by temporarily substituting futures for physical transactions in order to avoid or reduce losses from adverse price movements. For the Tsingshan incident, this is undoubtedly the best strategic measure. Tsingshan shorted at high levels in the futures market to lock in gains at higher prices. This was the company's normal hedging operation, and there was nothing wrong in essence. However, Tsingshan did not pay attention to whether its futures position was in line with the actual production plan. This shows that the risk point of Tsingshan's hedging strategy is that the nickel content of its nickel products does not meet the LME delivery standards. On the other hand, Tsingshan's short positions are too concentrated. Therefore, there are some misjudgments in the hedging strategy of enterprises.

## **7.3 Enhance the sensitivity to the change in the futures market**

Another point of advice for the Tsingshan case is that companies need to be more sensitive to changes in the futures market. The actual controller of Tsingshan believes that the entry of so much nickel into the market will drive the price of nickel down. In addition, as the market share of new energy vehicles increases year by year, the demand for nickel is gradually increasing. Tsingshan does have market influence in this regard, but from the perspective of supply and demand, global nickel inventories continue to decline. LME nickel stocks have dropped from more than 200,000 tons last year to less than 100,000 tons this year, and the problem of insufficient deliveries has surfaced. A large number of short positions is a very dangerous thing in itself, and there may be some miscalculations in the hedging strategy of the company. There are two main motivations for Tsingshan to short nickel. One is that Tsingshan needs to short futures to hedge spot risks, because Tsingshan has obtained 47,000 hectares of laterite nickel mining rights. In the Indonesian mine, Tsingshan has the mining rights of laterite nickel

ore, and the spot nickel is large, so Tsingshan opens a short order on the LME. If the nickel price falls, the short order in hand is profitable. The second is based on the analysis of the supply and demand of nickel in the previous stage. From the observation of open positions, Tsingshan's 200,000 tons of nickel obviously exceeded the demand for hedging. But Tsingshan may be based on knowledge of its own nickel production prospects. It is expected that the nickel price will fall after the supply of high-grade matte copper increases, so shorting nickel is Tsingshan's 'market judgment'. The seemingly reasonable short-selling motive has encountered a black swan event [10]. Therefore, Tsingshan needs to strengthen its sensitivity to the future market, so as to avoid the occurrence of such incidents and lead to profit damage.

#### **7.4 Improve the insufficient stop loss ability for abnormal market**

In addition to the imbalance between nickel supply and demand, Tsingshan's strategic mistakes, and the conflict between Russia and Ukraine, the lack of LME supervision is also an important reason for this incident, which also led to the abnormal market, Tsingshan did not have enough stop loss ability. The strong intervention and cancellation of all trading performance by the LME on the 8th is important. To a certain extent, this is a "self-help" behavior. In this incident, the market seriously deviates from the actual spot market. Therefore, customers in the upper, middle and lower reaches of the industry chain cannot quote and trade. Some short-sellers may fail to pay margin after subsequent price increases, threatening their basic functions of price discovery and hedging. The reason for this abnormal market is that for a long time, the LME's supervision of the market has been very weak. Compared with other futures exchanges at home and abroad, LME has major deficiencies in risk control systems such as large-value declarations, monthly delivery, price limit, and forced liquidation, and the supervision of delivery warehouses is also very loose. Therefore, Tsingshan must improve the lack of ability to stop losses in abnormal market conditions. In addition, Tsingshan needs Choose a timely stop loss at the right time to ensure that the risk is reduced to make up for the loss to the greatest extent.

#### **7.5 Establish a set of supervision mechanism of Chinese enterprises to participate in oversea market**

As mentioned in the above paragraph, the use of LME prices as the basis for the settlement of annual long orders has been questioned due to the lack of improvement in the system. Although the LME has issued the latest regulations, the LME can know and inquire about the large and limited positions at any time, but it is very important to establish a set of supervision mechanisms for Chinese enterprises to participate in overseas markets. In overseas markets, domestic traders are inexperienced, unfamiliar with trading rules and regulatory rules, lacking geographical advantages, and it is easy to damage economic interests. Establishing a regulatory mechanism for Chinese enterprises to participate in overseas markets can maximize risk management and reduce excessive risk Speculation leads to excessive risk exposure. In the progress of continuing globalization strategies, China and its corporations such as commodity company facing new challenges from various aspects including international capital. Among all

these, there's no doubt a more rigorous information security policy should be built up to protect themselves from voracious counter parties. One of the best way to protect these rising young Chinese international companies is to create an internal market with same functions like LME or create a channel which guide the national capital flows to global market. the second way not only provide opportunities to participate into global market but also reserve certain power within Chinese government's hand to protect their corporations. Previous London Shanghai stock connect program show us successful experience that could be also copied and used in this commodity and derivatives market.

## 8 Conclusion

By studying the risks of nickel futures trading in this event and the behaviour of some middlemen, this paper concludes that Tsingshan suffered huge losses in this abnormal market due to its ignorance of the market situation and its overconfidence in its speculative ability. Therefore, it is hoped that Tsingshan will do a better job in its rational and independent thinking and risk control ability in the international market environment full of uncertainty and challenges.

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