

# Liberty's Outlook

Volume 11 Issue 8 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics August 3, 2005

## China Changes Currency Policy— U.S. Dollar Falls Gold, Silver, Platinum Rise!

### P. 2. Industrial Silver Demand Strong Despite 36% Price Increase!

The People's Bank of China announced on the evening of July 21 that it would no longer fix the value of the Chinese yuan against the U.S. dollar. Instead, it would now let the yuan trade within a narrow band against a basket of world currencies. The Bank immediately raised the value of the yuan by 2.1% against the U.S. dollar.

Readers of this newsletter were alerted in early June about this possible development, so that they could take action before the devaluation of the U.S. dollar spurred higher precious metals prices.

The news broke at about 7 AM in New York, resulting in the prices of gold, silver, and platinum rising about 1% that day.

In making the announcement, the Chinese central bank made it clear that the value of the yuan was not to be free-floating and market driven. To a significant degree, the price will be controlled by the Chinese central bank.

As you can see in the table at the top, the dollar has lost value against most of the world's currencies in the thirteen days since this announcement.

From July 20, the day before the announcement, until today, the price of gold has climbed 3.6%, silver is up 3.4%, and platinum has jumped 4.4%.

Now that the Chinese government has signaled that it is willing

#### The U.S. Dollar's Decline Since July 20, 2005

As of August 2, 2005

##### US Dollar vs Foreign Currencies

South Korea Won	-2.5%	Turkey New Lira	-0.5%
Norway Kroner	-2.2%	Canada Dollar	-0.4%
China Yuan	-2.2%	Euro	-0.4%
Singapore Dollar	-1.8%	Denmark Kroner	-0.4%
Chile Peso	-1.8%	Russia Ruble	-0.3%
British Pound	-1.7%	Lebanon Pound	-0.3%
New Zealand Dollar	-1.6%	Taiwan Dollar	-0.2%
Sweden Kroner	-1.5%	Mexico Peso	-0.2%
Thailand Baht	-1.5%	Brazil Real	-0.1%
		Hong Kong Dollar	-0.1%
		Argentina Peso	-0.1%
Malaysia Ringgit	-1.4%	Jordan Dinar	0.0%
Israel New Shekel	-1.3%	Saudi Arabia Riyal	0.0%
Australia Dollar	-1.3%	UAE Dirham	0.0%
Japan Yen	-1.2%	Venezuela Bolivar	0.0%
South Africa Rand	-0.9%	Egypt Pound	0.0%
Swiss Franc	-0.7%	Kuwait Dinar	0.0%
Indonesia Rupiah	-0.7%	India Rupee	0.0%
		Pakistan Rupee	+0.1%
		Peru New Sol	+0.2%
		Philippines Peso	+0.5%

for the value of its currency to rise against the dollar, that will also make the cost of precious metals higher to the Chinese.

Ordinarily, you might expect that to put a damper on demand.

However, keep in mind that this small increase is only a token move to appear to appease the U.S. government, and that some analysts expect the yuan to rise by another 10-15% against the dollar within the next two years. If you look at the cost of gold or silver at today's yuan price, it is almost certain to be much lower than it will be in the coming years. From that perspective, the breaking of the fixed rate between the yuan and the U.S. dollar

could be one of the most bullish factors for higher demand (and therefore higher prices) for precious metals in the short to medium term.

By the way, any widespread expectation for a decline in the U.S. dollar against another major currency will almost certainly mean that the U.S. government will have to pay a higher interest rate on its debt in order to borrow money to cover deficits. Higher long-term interest rates could quickly chill the overheated U.S. real estate market.

If you still have not acquired precious metals as protection against the

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further decline in the value of the U.S. dollar, consider the recent small rise in the Chinese yuan to be perhaps the final wake up call before precious metals' prices really start to soar. Don't wait any longer to establish or add to your holdings.

### **Terrorism Strikes Again**

Some readers of last month's discussion of the potential risk of electro-magnetic pulse (EMP) attacks on the U.S. did not understand the nature of the organization that presented the alarming report to Congress. It was the U.S. Congress that es-

tablished the Commission to Assess the Threat to the United States from Electro-magnetic Pulse (EMP) Attack and selected the Commission's high-caliber membership. The Commission's purpose was to prepare a report to submit to Congress.

This report was not prepared by some obscure outside organization of perhaps dubious ethical stature or competence. If anything, the Commission members perhaps might have an incentive to make the report less alarming than it actually is.

Although there was no EMP attack on the U.S. since the last newsletter, and I pray there never is, there were four closely-timed explosions on the London public transportation system on July 7.

These have been tied to Islamic terrorists.

Later, another round of terrorist bomb-

ings in London was prevented when the bombs didn't detonate.

In the past few weeks, people around the world have become more skittish about possible terrorist attacks, jumping at the latest announcement at various spots around the globe of what may or may not have been an actual attempt at terrorist mayhem. Creating this environment of fear and uncertainty is exactly the aim of the terrorists. To the extent it succeeds, it only encourages more attacks.

An environment of fear and uncertainty sparks more demand to own gold and silver for protection and insurance. Higher demand invariably

### **Industrial Demand For Silver Still Strong Despite 36% Price Increase!**

In their recently released *World Silver Survey 2005*, the Silver Institute reports that worldwide industrial demand for silver in 2004 declined a meager 2% from 2003 despite the average silver price in 2004 that was 36% higher than the year before!

In fact, if you exclude the jewelry and silverware market in India—a market that is exceptionally price-sensitive—industrial demand for silver in 2004 actually increased from 2003 levels! The decline in silver used for photography was more than offset by increases in other areas.

The report, prepared for the Silver Institute by GFMS Limited, a highly respected precious metals research and advisory firm, attributed the strong price increase to other factors in addition to strong industrial demand:

1. Two areas of declining silver supplies are falling recycling of silver especially because of the decline in silver used for photography (A high percentage of silver used in photography, especially x-rays, is recovered and re-used. Hence, a decline in silver used for photography also causes a decline in recycled silver.) and a continuing decline in the amount of silver exported by China. Both trends are expected to continue for at least the next several years.
2. Strong investment demand for silver, which the report notes has continued in 2005.

The industrial uses for silver keep growing. Here are some recent developments that are almost certain to increase silver consumption in the future:

North Carolina State University at Raleigh has received a grant to develop high-tech t-shirts. Silver particles containing nanometer-sized transmitters are screen-printed onto these shirts. The transmitters can monitor the wearer's vital signs such as respiration and temperature and send the information to a nearby receiver. Perhaps the most significant problem to solve is finding a battery that is both small enough yet with enough power to operate the transmitter. This "e-textile", if developed, would have significant medical and military applications.

You may have heard of the developing use of radio frequency identification (RFID) tags as a more efficient way to track inventory than current bar code systems. RFID devices are passive. They have no batteries. Instead, they are energized by radio signals from a nearby transmitter. The tag responds by sending its own information identifying the product. The computer-type chip that is the heart of the system relies on a small silver antenna to receive and send information. Although the amount of silver used per unit is minuscule, annual usage should climb into tens of millions soon, and perhaps into the billions in the not too distant future.

More than 50,000 people per year in the U.S. die from methicillin-resistant staphylococcus aureus (MRSA), which is a drug-resistant bacteria that is contracted while staying in hospitals and health care facilities. A hospital is now testing a hospital bedside cabinet made of a plastic that is impregnated with silver ions. Silver's antibacterial properties are physical, which means that germs cannot mutate to become immune to it. The silver literally destroys the bacterium's cell walls, rendering the germ inert. As MRSA can be passed by setting medical equipment and supplies on infected surfaces, it is expected that this cabinet may save several thousands of lives annually. The silver ions also quickly destroy all other bacteria such as e. coli and salmonella.

Lumber used in construction that is cut and partially assembled in factories can now be efficiently coated with a silver ion finish that resists mildew and mold. Before now, this finish could only be applied at the job site at a far higher cost.

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means higher prices.

I don't think that the fear of terrorism is going to magically disappear soon. It realistically may last the rest of each of our lives. Any terrorist attack that causes thousands of deaths in any developed nation may well result in significantly higher gold and silver prices from that instant onward. As none of us know when such an event might happen, it is better to acquire your hard assets now, not "someday."

### **But What If Things Stay The Same?**

The previous discussion focused on spurring you to act to protect yourself against calamities that are not certain to occur and will not necessarily happen soon if they do come to pass.

However, there is a chance that one or more of them could happen at any moment. The potential that any one of them could wreak havoc with the value of your U.S. dollar-denominated paper assets is high enough that I genuinely urge you to establish your gold and silver bullion holdings for your own protection.

That being said, I don't like to take the approach of scaring people into taking knee-jerk action.

I would much prefer to offer solid background information and add some experienced wisdom so that you can make your own considered judgment.

So, assuming that none of the foregoing bad news has happened or ever will happen, would I still recommend establishing a core holding of physical gold and silver bullion-priced coins and ingots.

I certainly would.

Both metals have long term fundamental annual shortages. For about 15 years, demand has exceeded new mining supplies, recycled supplies, and government sales. It would take several years for higher prices to result in the development of new mines to increase production; in fact, newly mined gold supplies have most been declining in recent years.

Since 1990, most of the available

inventories of silver have been consumed to cover shortages. Actual remaining inventories are uncertain, except that they are getting quite low.

As for gold, there is significant evidence that much of the officially owned gold inventories have already been leased out. The most conservative estimates are that only 15% of central bank and government holdings are now in the form of fabricated products while some analysts think that as much as 75% of official holdings are out on lease. Despite the appearance of more paper substitutes for owning physical gold, the quantity of physical gold held by investors has grown over time.

On a net basis, gold mining companies are aggressively closing out their pre-sold gold contracts, as they have for the past several years. The reason for doing this is that they expect the future price of gold to be higher than it is today.

I could run through a laundry list of other concerns affecting the value of paper assets (budget deficits, trade deficits, and overheated real estate markets being just a few of them) that only add to the reasons to own precious metals, but regular readers have already heard them in prior issues. They simply reinforce the conclusion that it is prudent for an investor to hold a position in gold or silver, at least for insurance purposes. If you do make a nice profit by so doing, consider that a bonus.

### **Gold and Gold Coins**

Gold finished today at \$436.75, up \$13.25 (3.1%) from last month.

I would expect gold to be higher than last month simply from the rebound effect that almost always occurs within a few weeks of an interest rate hike by the Federal Reserve Open Market Committee. That did happen again, where gold and silver fell after the June 30 interest rate hike.

I had thought that with all the positives going for gold that it had a good chance of making it to \$500 by the end of June. Well, it didn't.

Still, I am far more optimistic that

gold will rise sharply before year end rather than decline significantly from current levels. Even though gold hasn't touched \$500 yet, it is still possible that it could reach all the way to \$600 by the end of 2005. The timing shouldn't concern people much who already have purchased their position in gold. It really only matters to procrastinators or those who are on a tight budget and cannot spare much right now for precious metals.

In the past couple of weeks, physical gold demand has been much stronger than we have typically seen over the past year. This only adds to my optimism for higher prices by the end of December.

The recommended low-premium best buys are still the Austria **100 Corona** (3.5%), South Africa **Krugger- rand** (3.7%), and U.S. **American Arts Medallion** (3.7%). Among smaller coins, go for the **British Sovereign** (7.5%).

**Common-Date U.S. Gold Coins** are all over the market this month. It seems like about 1/3 of the prices of MS-62 through MS-65 type coins are up and 1/3 are down. I believe that prices today will be considered real bargains within the next year or two. I especially like the \$2.50, \$5.00, and \$10.00 Liberties and \$5.00 and \$10.00 Indians in MS-63 and MS-64 quality.

The only reason I am not more enthusiastic about these Common-Date coins is that there are even more interesting values in **Better-Date U.S. Gold Coins**. The problem with these is that savvy collectors love the value and are taking them off the market almost as fast as they appear.

LCS Chief Numismatist Allan Beegle was fortunate to find a small group of **Choice Mint State-63 1881 \$10.00 Liberties** while working at the huge American Numismatic Association (ANA) show in San Francisco last week. Unfortunately, there are so few coins that we must limit customers to a single specimen. See our offer for details.

Allan also was in the right place at the right time to snap up an original

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roll of **Gem Mint State-65 + U.S. 1988 1/4 Oz Gold American Eagles.** They have the third lowest mintage of the entire series, but don't cost that much more than the most common dates. When a research book on the relative rarities of the Gold, Silver, And Platinum Eagles appears, most likely within the next six months, these coins could take off.

### ANA Convention—Market Mostly Strong

At the ANA show, Allan saw that there was some softness in demand for some type of Common-Date U.S. Gold Coins.

There was also significant paralysis in the high-grade Morgan and Peace Dollar market. Several silver dollars (such as the 1895-O, the 1894, and the issues from the Carson City Mint) have jumped so high so fast that collector demand has slacked off. Dealers are hesitating to purchase more coins until their current stock moves. Although there is continuing interest in other dates, dealers are less eager to acquire these coins as well, while still not willing to cut prices on what they already own.

Other than these two areas, Allan found plenty of activity at the ANA show. Collectors are aggressively building collections, and investors are pouring unbelievable amounts of money into rare coins.

Even Mint State Morgan and Peace Dollar Rolls are actively sought!

Although I don't have any hard data, I would not be surprised if the rare coin market today is even larger than it was when some Wall Street brokerage houses established funds to invest in rare coins circa 1989, sparking the last major market peak.

Actually, one sign of the market strength can be inferred by the recent purchases of two major California and one Minnesota coin wholesalers in separate transactions.

Obviously, multiple parties with a lot of money to invest think that be-

### The Month

Gold Range	\$17.25	4.1%	
Net Change	+13.25		
Silver Range	.35	5.1%	
Net Change	+.35		
Gold/Silver Ratio	60.0		
Net change	-1.1		
Platinum Range	56.00	6.6%	
Net Change	+56.00		
Platinum/Gold Ratio	2.02		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Jul 06	423.50	6.93	854.00
Jul 07	423.00	6.94	857.00
Jul 08	423.00	6.99	857.00
Jul 11	425.50	7.07	864.00
Jul 12	426.25	7.05	871.00
Jul 13	423.75	7.03	869.00
Jul 14	419.50	6.97	861.00
Jul 15	420.50	6.96	861.00
Jul 18	420.50	6.97	863.00
Jul 19	419.50	6.95	867.00
Jul 20	421.50	7.04	872.00
Jul 21	425.25	7.11	882.00
Jul 22	424.50	7.08	885.00
Jul 25	425.50	7.12	884.00
Jul 26	423.50	7.00	884.00
Jul 27	424.75	7.02	884.00
Jul 28	427.50	7.17	878.00
Jul 29	430.00	7.23	891.00
Aug 01	431.75	7.28	904.00
Aug 02	431.75	7.24	900.00
Aug 03	436.75	7.28	910.00

London Silver Market Premium To New York Silver Market = 3¢

Gold, silver and platinum quotes are working spots at 2:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

ing in the coin business is where the action is right now! I agree, but you don't have to be a coin dealer to find numismatic bargains today.

### Silver and Silver Coins

Silver ended up today at \$7.28, a rise of 35 cents (5.1%) from four weeks ago.

Like gold, silver was limping along around the \$7.00 level until after the Chinese announced the change in their currency policy. Most of the rise in silver has occurred in the past eight days.

Last month, the difference between the silver prices in the London and New York markets had jumped to eight cents,

a level where it would about cover the cost to re-refine the New York inventories to the stricter London standards and then ship them over to Britain. This larger than normal spread disappeared almost instantly. It is now back to three cents. Had the spread remained larger, that would have been a confirming signal to me of imminent sharply higher silver prices.

Obviously, silver did not reach \$10.00, or even \$8.00, by mid-year. I still think, with all the positive factors for the silver market, that we could easily see at least \$8.00 before year end and even at least a 50% possibility of topping \$10.00.

If you are buying silver now, my favorite form is U.S. **90% Silver Coin** (3.0%). It has the lowest cost per ounce of silver content, the greatest divisibility, and is also the most liquid. The **100, 10, and 1 Oz Ingots** (5.9-6.6%) have an advantage of occupying slightly less space, but generally I don't think it is worth paying the extra 21-25 cents per ounce just to save a little storage space.

As with most other areas of the rare coin market, many **Classic U.S. Silver Commemoratives** are considered to be great bargains by collectors today. We have accumulated a modest quantity of those we consider to be among the best values. Please see our flyer.

It is becoming more difficult to find bargains in world silver coins as well. However, last week, one of our West Coast wholesaler friends dug up a reasonable sized lot of **Mint State French 50 Francs Hercules** coins that we can offer at huge discounts to our competitors' prices.

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