Liberty's Outlook

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August 7—Chinese Government Has The Economic Clout To Boss Around The U.S. Government!

- **Gold Mines Buy Back Massive Amounts Of Pre-Sold Gold Contracts!**
- **German Financial Woes Tied To U.S. Sub-Prime Mortgage Problems!**
- **Gold Price Manipulation Becomes More Blatant!**

Perhaps the biggest news story of the year, if not the decade, broke yesterday. Neither today's issue of *The Wall Street Journal* nor my local newspaper covered it (are you surprised?).

In fact, when I did an internet search this morning, I found only one American news source which covered it, Forbes.com. Even that was merely picking up the story from a British newspaper.

Yesterday, in effect, the Chinese government stated that it had sufficient economic clout so that if the U.S. government were to apply pressure on China to increase the value of its currency, then China would be "forced" to destroy the value of the U.S. dollar.

This reaction is a direct response to legislation introduced in Congress to levy punitive duties on Chinese imports if the Chinese government did not increase the value of the renminbi yuan. The main sponsors of this bill are Senators Baucus (D-MT), Grassley (R-IA), Schumer (D-NY), and Graham (R-SC). However, the bill got a big boost last month when Senators Hillary Clinton (D-NY) and Barack Obama (D-IL) jointly announced that they were co-sponsoring it, and would push to have it enacted. As these are the two current leading candidates for the Democratic nomination for the next presidential election, this announcement significantly increased the likelihood that the bill would pass Congress.

Yesterday, in an essay in Beijing's *China Daily*, He Fan, an official at the Chinese Academy of Social Sciences, said:

"Thanks to the trade surplus, China has accumulated a large sum of US dollars, and China's foreign exchange reserves, the world's largest, are mostly in US dollars. Such a big sum, a considerable portion of which is in the form of US treasury bonds, contributes a great deal to maintaining the position of the US dollar as an international currency."

"Russia, Switzerland, and several other countries have restructured their foreign exchange reserves and reduced the US dollars they hold. China is unlikely to follow suit as long as Yuan's exchange rate is stable against the US dollars."

"<u>But the Chinese central bank will be forced to sell US dollars once the renminbi appreciates dramatically, which might lead to a mass depreciation of the US dollar against other currencies</u>." (emphasis added)

Later in the essay he continues, "It would be totally against the rule of the market economy when a country, through a political course, asks the Chinese government to change a key price in the economy."

As I have noted in the past, and Forbes.com reiterated this morning, "Shifts in Chinese policy are often announced through key think tanks and academies."

When the Chinese government changes policies, it often announces such changes only after it has already done so. Such announcements are normally made by lesser officials, such as by He Fan.

However, He Fan's essay confirmed a statement late last week by Xia Bin, the finance chief at China's Development Research Center, which has cabinet rank. This official said that China's massive foreign reserves should be used as a bargaining chip in talks with the US. He was being politically polite when he said, "Of course, China doesn't want any undesirable phenomenon in the global financial order."

2007 Year To Date Results

Through August 7, 2007

Precious Metals	
Platinum	+12.7%
Palladium	+8.1%
Gold	+5.6%
Silver	+1.6%
Numismatics	
MS-63 $20.00 St Gaudens	+5.3%
MS-63 $20.00 Liberty	+0.0%
MS-65 Morgan Dollar	-10.0%
US Dollar vs Foreign Currencies	
Japan Yen	-0.2%
Switzerland Franc	-1.9%
China Yuan	-3.0%
Great Britain Pound	-3.2%
Euro	-4.0%
India Rupee	-8.8%
Canada Dollar	-9.6%
Brazil Real	-10.9%
U.S. Dollar Index 80.48	-3.9%
US and World Stock Market Indices	
Frankfurt Xetra DAX	+13.9%
Dow Jones Ind Average	+8.4%
NASDAQ	+6.1%
S&P 500	+4.1%
London FT 100	+1.4%
Russell 2000	-1.7%
Tokyo Nikkei 225	-1.8%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.36¢
Lincoln Cent 1982-date	0.89¢
Jefferson Nickel-non-silver	6.60¢
Roosevelt Dime 1965-date	3.00¢
Wash Quarter 1965-date	7.48¢
Kenn Half Doll 1971-date	14.96¢

U.S. Treasury Secretary Henry Paulson has argued against passage of the bill in Con-

Inside this issue:

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gress, saying that any sanctions on Chinese imports “could trigger a global cycle of protectionist legislation.”

Of the twin announcements from China, Simon Derrick, a currency strategist at the Bank of New York Mellon said, “The words are alarming and unambiguous. This carries a clear political threat and could have very serious consequences at a time when the credit markets are already afraid of contagion from the subprime troubles.”

For much of the 20th century, the U.S. government used its economic and military might to give orders to other nations, with significant success. America still has the world’s largest economy and the U.S. dollar is still the most common currency used in international trade.

However, for many years now, other nations have been subsidizing the American standard of living. They have done this by exporting goods to the U.S. and accepting U.S. dollars and U.S. dollar-denominated debt in return. One analyst now calculates that foreign governments, companies, and private citizens are now holding about $4 trillion in U.S. dollars and U.S. debt. This figure is increasing an average of $2 billion per day.

It has been obvious to me for some time that, by borrowing from foreigners to support the U.S. economy, the American government was also exporting its status as a sovereign nation.

The Chinese announcements of the past few days are the first official statements, that I know of, that the United States government is no longer in full charge of America’s political policies.

This loss in America’s economic clout did not occur because of the Chinese announcements. Rather, the announcements were merely making explicit what has been developing for many years.

What This Means To You

Believe it or not, most Americans don’t yet realize the precarious position of the U.S. dollar.

The U.S. Dollar Index yesterday was just under 80.5, a major psychological point for technical traders. If the dollar falls below this level, there is a significant chance that the dollar could fall as much as 20% quickly, even if China does nothing or actually tries to support the dollar.

As the largest holder of U.S. dollar currency and debt, the Chinese are also going to suffer significant losses as the dollar continues to lose value. The dollar has fallen 3% against the Chinese renminbi yuan so far in 2007, which means that the Chinese central bank has absorbed losses on the order of $30 billion, an average of about $135 million every day!

Think about it. If you ran a government and the U.S. government asked you to absorb losses of hundreds of millions of dollars every day for no benefit in return, why would you do it?

The lack of U.S. news coverage on the Chinese announcements just proves to me that most Americans won’t realize (for too long) that the value of the U.S. dollar is likely to continue to fall. When the general public does understand what has happened, they will already be much poorer than if they had taken steps to protect their wealth earlier.

Though it is the U.S. dollar that is suffering right now (it is down 15% thus far in 2007 against the Thai baht, for instance), that doesn’t mean that I regard any other fiat currency as being a safe store of wealth. Even the Swiss franc, where the central bank holds so much gold that, the last time I checked, it held double the amount of gold that it would need to redeem all of its outstanding currency, is subject to political manipulation.

The ultimate protection against the fall and possible collapse of the U.S. dollar is provided by liquid tangible assets. Over several thousand years of history, that has meant physical gold and silver. I don’t see any other assets that would serve any better now.

If you have not yet done so, for your own protection I recommend that at least 20% of your net worth be held in the form of hard assets such as physical gold, silver, and maybe even rare coins. When governments with major financial clout such as the U.S. and China are proposing to go to economic war, almost everyone loses. Only those who take prudent cautions early on will come out ahead.

When the Southeast Asia currency crisis hit in 1997, those who owned precious metals maintained or improved their standard of living. Those who didn’t own gold or silver were financially devastated. Just because this calamity has not yet happened in the U.S. doesn’t mean that it never will.

We can help you prepare and protect yourself.

Gold Mining Companies Accelerate Dehedging Activities

As reported late last week by Virtual Metals, a metals consulting firm, in the second quarter of 2007, gold mining companies reduced their net pre-sold gold contracts by 5.4 million ounces.

This was the 21st consecutive quarter with a net decline in pre-sold (hedged) gold contracts. Since the 3rd quarter of 2001, the mining companies have closed out 70% of these contracts, so that, worldwide, only 31.2 million ounces of gold are still owed.

Newmont Mining Corp absorbed a loss of more than $500 million to close out the last 2 million ounces of their hedging contracts in the second quarter. Among other mines closing out major positions were Lihir (1,400,000 ounces), AngloGold Ashanti, Ltd. (800,000 ounces), Companie de Minas Buenaventura SA (500,000 ounces), Harmony Gold Mining Ltd. (200,000 ounces), Emperor Mines Ltd (150,000 ounces), and Newcrest Mining Ltd (150,000 ounces).

In the second quarter, only four mining companies established newly pre-sold gold contracts, with the largest being 400,000 ounces sold by Western Goldfields Inc. in order to finance projects.

Newmont’s vice chairman Pierre Lassonde recently predicted that the price of gold will reach $750 in the next few months and could reach an all-time high above $850 in the next year or so.

It is this expectation that future prices will be higher than today that is the main reason that mines are absorbing huge losses to close out their pre-sold gold contracts rather than risk even greater losses in the future.

For instance, Barrick Gold Corp. still owes 9 million ounces in pre-sold contracts, mostly at a price around $300. That means every time the price of gold increases by $1, Barrick gets hit with a $9 million dollar loss. The huge bank Citigroup recently recommended that Barrick close out its pre-sold gold contracts because taking the $3.5 billion dollar loss now would free the company to increase profitability in the future.

Other mines with major exposure to losses on pre-sold contracts are AngloGold Ashanti (8.5 million ounces) and Newcrest (4 million ounces). I know a number of our customers own stocks of gold mining companies in addition to physical metals, but I don’t follow them closely enough to offer intelligent insights. Absent other information, though, it seems to me that the gold mining companies that have large pre-sold gold positions have limited the future profits, making them less attractive investments.

The activity over the past few years of buying back pre-sold gold has had the effect of magnifying long-term gold shortages. Now that the amount of extant positions is so much smaller than it was in 2001, it is likely that future buy backs will be on a smaller scale. Although this might decrease the size of the annual shortages of gold supplies, it will not be enough to eliminate the shortages. The fundamental long-term supply and demand still point toward much higher prices in the long term.

German Banks In Trouble Over U.S. Sub-prime Mort-

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gages

In a conference call with leading bank executives on July 29, Germany's Finance Minister Peer Steinbruck arranged a bailout of IKB, a company that specializes in making loans to smaller companies.

According to multiple people who participated in this call, Jochen Sanio, the head of Germany's financial regulatory agency, warned of the worst banking crisis in Germany since 1931.

KfW, the state-owned development bank, pledged almost $11 billion to guarantee IKB's obligations. Other private German banks have helped establish a $5 billion rescue fund.

IKB and Commerzbank, Germany's second largest bank, both had warned that they had sustained substantial losses from higher than expected default rates on U.S. sub-prime mortgages in which they had invested.

This crisis has brought almost immediate fallout across Europe. Frankfurt's DAX stock index is down 5% in the past month. Even London's Financial Times 100 index is down over 2%.

The cost of derivatives to protect against European bond defaults has also jumped. Early last week, the cost of buying derivatives to insure against the risk of default from bonds issued by a basket of risky European companies reached 5% of the face value of the debt!

The cost of other derivatives has also increased as investors have become less confident in the viability of such securities.

European Central Banks Sell More Gold In July

After selling about 2.3 million ounces of gold from March to May, the Spanish central bank sold none in June. It then sold another 800,000 ounces of gold in July.

Also, the Swiss central bank announced that it has started selling gold again. Their reason is that higher prices means gold now accounts for 42% of that bank's reserves, much higher than the 33% target.

The Central Bank Gold Agreement (CBGA) limits signatory nations to selling 16.1 million ounces of gold during the October 1 to September 30 fiscal year. That level of sales would be enormous. Early in the current fiscal year, it looked like central banks would fall 20-30% below quota.

With heavy central bank sales since March, which curiously always seem to happen when gold seems ready to break to higher levels, it just might be possible that the entire quota will be filled.

If central banks have to sell that much gold to help hold down the price of gold, that is actually a sign that gold prices are destined to go much higher in the future.

Gold Price Manipulation Becomes More Blatant

Gold analyst Jim Sinclair recently alerted his readers of a blatant method of manipulating gold and silver prices (and the prices of mining companies, as well) that he has detected.

On the Toronto and New York exchanges, he has seen trades executed in the last 90 seconds before closing, where the sellers deliberately sell a handful of contracts to posted bids that are lower than the highest bids on these exchanges.

The strategy results in the closing prices for a market being reported at lower levels than the prices at which almost all the trades took place during the day.

I cannot think of any reason why a seller would choose to accept less money on a sale, unless their sale is part of a larger effort to manipulate prices downward.

Investors almost always use closing prices in making their financial plans because that is the information they can access. If they perceive that gold and silver prices are lower, momentum investors are less inclined to purchase precious metals.

A number of central banks and their partner bullion banks are suspected of manipulating the prices of gold and silver downward. Over time, more evidence is coming to light to confirm this suspicion, and nothing has been uncovered to prove it false.

I take is as a sign of desperation by these culprits that easily detectable manipulations are happening. That means that their previous strategies are no longer working and that they are just about out of their bag of tricks.

What that means is that the days of sharp price increases are getting nearer.

Rare Coin Inventories Getting Tighter?

In the past month, LCS Retail Store Manager Bob Sweet and I have visited several wholesalers looking for bargain deals and coins for customer want lists.

Uniformly across the board, wholesaler inventories were far below what we are used to finding, perhaps an average of 75% less than what they might have six months or even a year ago.

Instead of having so many coins to show, these dealers were all saying "everything is selling" and "now I have to put dealers on waiting lists for coins I always used to have in stock."

Common-date Mint State Morgan and Peace Silver Dollars are a perfect example. It used to be possible to locate 1,000 coin bags of from almost every major dealer. Now almost no one has any in stock and they say that have a waiting list for any coins that come in.

Even the Morgan and Peace Dollars nice enough to be sent to the grading services are being snapped up for promotions. In the past, if we needed 100 specimens of common-date MS-64 Morgan Dollars, for instance, several dealers could help us. Now, not only does it seem that nobody has that many coins for immediate delivery, they all have waiting lists to fill before they could offer coins to us.

We recently acquired a lovely group of **Mint State-60+ 1921 Morgan Dollars** out of the long-term holdings of a Michigan coin dealer. When we checked to see if we could locate more rolls to offer them to our customers, wholesalers told us they needed them for other orders and offered to pay us higher prices to buy our coins than we have heard in many years. We have decided to offer what we have at an attractive retail price, but realize that we may have to decline further orders when our stock on hand is exhausted.

Savvy collectors tend to be frugal with their hard-earned money. They would rather be patient and put in more effort to obtain a good coin at a lower price than pay a higher price to get it now.

I think what we are seeing now is the drying up of rare coin inventories as they are being purchased by these knowledgeable numismatists. The only way to cure this shortage is through much higher prices.

If you have an interest in rare coins, I recommend making your purchases sooner rather than later.

Another Perspective On the Huge Comex Silver Shortage

Silver analyst Ted Butler tried to quantity the extent of the huge short positions in the Comex silver commodities market that are held by "four or fewer traders."

As of the July 24 Commitment of Traders report from the Comex, these large traders held a net short position of more than 264 million ounces.

When Butler compared the size of the concentrated short position in the silver market to other commodity markets in terms of global production, the distortion in the silver market is plain to see.

It would take all of the world's silver producing mines 145 days to produce enough silver to cover the Comex shortage of these four or fewer traders.

The next closest short position is in the

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Comex gold market, where the largest short positions would take 45 days of world production to cover.

The large short positions in the Comex, copper market would only require 10 days output to cover. The Chicago Board of Trade corn major short positions amount to only 13 days supply. Even the Nymex crude oil large short traders could be covered by 1-1/2 days of global production.

These large silver short positions on the Comex have ballooned over the past year. In my judgment, it is simply impossible to "fix" this distortion without the price of silver exploding. The longer it takes, the higher the price of silver will have to go to reach equilibrium. At some point, perhaps soon, something has to give.

I had expected the price of silver to shoot up several years ago. It appears that the growth in this short position on the Comex is probably the main reason why it has not happened—yet.

Gold and Gold Coins

Gold settled today at $674.50, up $14.25 (2.2%) from last month.

Buying and selling has been active over the past month. One noticeable change has been the increase in the number of orders from customers spending $25,000 or more at one time. .

With active two-way traffic, the premiums are virtually unchanged over the past months. The low premium best buys are still the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (2.9%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%).

Among smaller issues, the British **Sovereign** (6.0%) is perhaps the world's most widely traded gold coin, with demand especially strong in the Middle East.

Demand for czarist Russian gold coins has been so strong, especially for the 7-1/2 and 15 Roubles, that those who have purchased them should consider cashing in their profits now. As I understand it, this demand is spurred by laws in Russia having to do with where some prosperous citizens derived their wealth. It is safer to claim that such coins were secretly handed down within the family, rather than having to explain previously unreported sources of income. This may be a temporary situation, so check with us today for current prices.

Supplies of **Common-Date U.S. Gold Coins** seem to be declining along with all other coins. The recent higher premiums on **U.S. $20.00 Double Eagles** have held steady, even though spot prices are up.

Demand for **Better-Date U.S. Gold Coins** is hotter than ever. You can acquire many of these coins for very close to the same prices as Common-Date issues. Others are remarkably reasonable given their scarcity. Mostly from our recent buying trips, we have picked up a modest selection of **Better-Date U.S. Gold Quarter And Half Eagles** at great money-saving prices. See our enclosed offer for details.

The Month

Gold Range	24.00	4.0%
Net Change	+14.25	
Silver Range	.67	5.2%
Net Change	+.25	
Gold/Silver Ratio		51.4
Net change		+0.1
Platinum Range	63.00	4.9%
Net Change	-21.00	
Platinum/Gold Ratio		1.89

Date	Gold	Silver	Platinum
Jul 11	660.25	12.87	1,294.00
Jul 12	666.75	13.08	1,313.00
Jul 13	666.00	13.03	1,312.00
Jul 16	665.00	12.95	1,312.00
Jul 17	664.75	12.92	1,307.00
Jul 18	672.50	13.20	1,316.00
Jul 19	677.00	13.28	1,314.00
Jul 20	683.50	13.32	1,330.00
Jul 23	680.75	13.24	1,320.00
Jul 24	684.00	13.31	1,314.00
Jul 25	673.25	13.07	1,311.00
Jul 26	662.50	12.88	1,308.00
Jul 27	660.00	12.65	1,270.00
Jul 30	664.00	12.81	1,267.00
Jul 31	667.00	12.95	1,283.00
Aug 01	663.50	12.89	1,269.00
Aug 02	664.50	12.93	1,271.00
Aug 03	672.50	13.10	1,280.00
Aug 06	671.50	12.98	1,289.00
Aug 07	670.50	13.04	1,273.00
Aug 08	674.50	13.12	1,273.00

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

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Silver and Silver Coins

Silver finished today at $13.12 up 25 cents (1.9%) from four weeks ago.

Silver trading has not picked up as much as gold activity over the past month. We have heard a number of customer comments along the lines of "If the silver fundamentals are so positive, how come it can't get over $15 per ounce?"

Every time that silver has climbed over $14.00 since early last year, the holders of large short positions on the Comex sell even further short, squashing the rally. This gambit will end someday, and prices will take off.

That is why I lean somewhat more toward silver than gold. Between the two, I recommend 60% toward silver and 40% to gold.

U.S. **90% Silver Coin** (0.4%) is still the best buy. It is the most widely traded form, with the best liquidity and greatest divisibility.

U.S. **40% Silver Coin** (0.3%) can save you a couple cents per ounce, but you have to purchase a much larger quantity to get the same amount of silver. The small savings can be eaten up by higher postage and storage costs.

I see little reason to pay an extra 35-50 cents per ounce to purchase silver in the form of **100, 10, or1 Ounce Ingots** (2.9-4.0%). You get a small savings in storage space over 90% coin. In a runaway silver market you would probably get a slightly higher price for the Ingots than you would for 90% Coin, but not likely enough to cover the higher upfront cost.

Follow Up On Last Month's Newsletter

Last month, I reported that Credit Suisse had analyzed the problems with U.S. subprime mortgages and projected that worldwide losses would be in the range of $52 billion. I stated that I thought that figure was too conservative.

A few days after the last newsletter was finished, Federal Reserve Chair Bernanke stated that expected losses from U.S. subprime mortgages looked to be about $100 billion.

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