Liberty's Outlook

Volume 6 Issue 6 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics June 7, 2000

New Coin Collectors Spur Huge Price Hikes! More To Come!

Page 2: 1999—Huge Silver Shortage For 10th Consecutive Year!

"I expect this [Statehood Quarter Program] to spur the next surge in coin collecting in the U.S. As a result of past coinage changes, the numismatic market has boomed. I don't see why this time should be any different."
—*Liberty's Outlook* February 4, 1998

Long before the U.S. Mint began to issue the States Of The Union Quarters™ in January 1999, it was obvious to us that this event would encourage millions of new coin collectors.

Without exception since the 1850s, an influx of collectors has entered the hobby every time there has been a major change in U.S. coin or currency issues.

Also without exception, the rise in the number of collectors has increased demand for past coinage (which has a fixed, limited supply).

Although we anticipated the boom, neither we nor anyone else guessed the magnitude of the public interest in the new quarters!

The U.S. Mint reports that there are 100 million people collecting the State quarters! Banks have been deluged by callers eagerly seeking the latest issues. For all of 1999 and part of 2000, the hobby supply manufacturers were simply unable to meet demand for albums, folders, and maps to hold the coins.

Demand has been so strong that virtually all mass merchandisers are now selling coin supplies!

At the Michigan State Numismatic Society Spring Convention here in the Lansing area in mid-May, public attendance almost tripled that of the show two years ago! It set a record for attendance at any non-Detroit area coin show in Michigan!

Three important reasons why so many people are having fun with the new coins are 1) convenience—you can find most coins just by looking at the change in your pocket, 2) affordability—almost everyone can set aside a few quarters, which could be spent again at full face value if needed, and 3) historical interest—every state in the union gets to advertise its unique significance to the nation and to history.

Almost everyone is collecting for the fun of it since there is almost no downside risk—the coins can always be spent!

And, as we have seen repeatedly in the past, large numbers of the State Quarter savers are expanding their coin collecting interests.

We are still in the initial stages of the impact that these new collectors will have on numismatics as a whole. However, we have already seen some dramatic price increases in the more affordable collector coins of the 20th century. Here's some examples of price changes in just the past 12 months:

- The key-date Washington Quarters, 1932-D and 1932-S, in the popular collector grade of Very Fine are up 29.1%!
- The run of regular U.S. Proof Sets from 1960 through 1998 are up 48.3% as a group!
- The series of Proof Silver Eagle Dollars from 1986 through 1998 are up 63.4%!

As the number of collectors increases, I expect further increases in these categories. However, from this time onward, I expect waves of expanding collector interest will spark a huge increase in demand in other numismatic areas.

What Will New Collectors Buy Next?

The impact of the new collectors will filter through the entire field of numismatics, but at differing rates of speed and to varying degrees.

The numismatic categories that will benefit earliest are those that are most affordable and familiar to new collectors. They include such items as:

- 20th Century Coin series such as Lincoln Cents, Washington Quarters, Mercury Dimes, Buffalo Nickels, Franklin and Walking Liberty Half Dollars, both circulated and Mint State issues.
- Mint State Common-date Morgan and Peace Silver Dollars.
- Better-date Morgan and Peace Silver Dollars that sell for less than $100.
- Modern U.S. Commemorative Dollars and Half Dollars.
- Modern U.S. Gold Commemoratives.

For the above categories, price rises of 50-100% in the next two years for many issues are entirely possible!

Somewhat more slowly and to a lesser degree, expect to see rising demand for items like:

- Classic Pre-1934 U.S. Gold Coins, both common-dates and also better-dates that sell close to common-date prices, and especially coins selling for less than $500.
- Better-date Morgan and Peace Silver Dollars that sell for less than $500.
- Pre-1955 U.S. Commemorative Half Dollars.
- 1903-1926 U.S. Commemorative Gold Coins.

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- U.S. Coins from the 1700s and 1800s.
- U.S. American Arts Medallions issued from 1980-1984.
- Foreign gold coins selling for less than $150.
- U.S. and Confederate Paper Money.
- Ancient, medieval, and foreign coinage of famous issuers and events (e.g. Alexander the Great, Julius Caesar, Pontius Pilate, the Crusades, Kublai Khan, Pieces of Eight, Gold Doubloons, Napoleon, etc.).

In a 3-5 year time frame, the above items may actually appreciate more than those from the first list. However, there is also a higher degree of risk as well.

The third wave will take longer to develop and will have a lesser impact on such things as:

- Ancient and medieval coins (however, these have been popular recently because of the crossover to the new millennium).
- U.S. Colonial coinage and currency.
- Foreign coins and paper money.
- Tokens and other exonumia.

Appreciation in this third group of items will be more erratic. Risk of loss will be greater along with some potentially huge appreciation prospects.

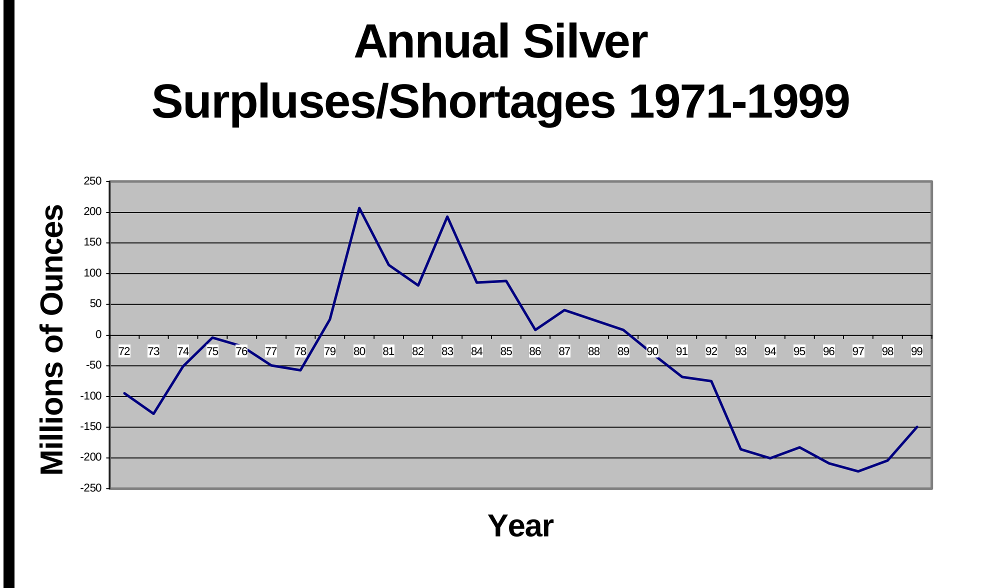
As long-time readers know, we are conservative in our advice. For hard asset buyers who are uncomfortable with more than the minimum risk, we do not recommend any numismatic purchases.

For those comfortable with a moderate degree of risk, though, the strong appreciation prospects for the first two lists of numismatic categories are hard to resist. I think that now is the best buying opportunity that any of us will ever see again in our lives.

1999—10th Consecutive Annual Silver Shortage, Part 1

In 1999, for the tenth consecutive year, there was a huge silver shortage.

Total supplies of 695.6 million ounces fell 149.7 million ounces (15.8%) short of covering demand of 845.3 million ounces.



Source: CPM Group's Silver Survey 2000

For the year 2000, even if the price of silver jumps sharply before the end of this year as the precious metals experts at CPM Group anticipate, we are likely to see another deficit of 115-120 million ounces!

At the beginning of 1990, there were over 2.4 billion ounces of silver inventories available to cover shortages. By the end of 1999, only about 910 million ounces of silver remain in inventories worldwide.

In the 1970s, we saw a string of shortages that did not end until the price of silver soared, peaking above $50.00 in February 1980.

The shortages in the 1990s are on a much larger scale than those of the 1970s.

The quick conclusion is that the silver price jump to almost $7.50 in the spring of 1998 was just an appetizer of higher silver prices coming in the near future.

But, to get a more accurate picture of where the silver market is headed in the next few years, it is helpful to examine the past.

A review of silver's track record for the past 29 years (after governments stopped massive manipulation of the silver market) points to an inevitable conclusion:

The price of silver is almost certain to rise sharply within the next two years. At the minimum, I expect to see at least $8.00 silver by the middle of 2002. The price could easily top $10.00 and could even spurt to $20.00.

I actually expected a huge move in silver before now. Although my timing is off, I am still confident about the magnitude of the price increases.

Here's why.

Silver's Track Record: 1971-1999

Let's look at the factors that affect the price of silver. I'll start with supply and demand this month and finish with inventories and investor psychology next month.

1) Supply: New silver supplies come from four sources: primary silver mines, as a by-product of gold, lead, copper, zinc, and other mining, recycled silver, and government dispositions. In 1999, new silver supplies came from:

Source	*Millions Oz*	*%*
Primary mines	111.4*	16.0%
Secondary mines	366.3*	52.7%
Recycling	207.9	29.9%
Government sales	10.0	1.4%
Total	695.6	100.0%

* does not include silver mined in countries formerly part of the USSR, China, and North Korea and consumed domestically. This data has also been excluded from total demand data.

<u>Primary mines:</u> Primary mining operations are only the third largest source of new silver supplies. Silver from this source peaked in 1989 at 128.8 million ounces, declined to 71.1 ounces in 1994, then recovered.

The jump in silver to over $7.00 in

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1998 prompted the development of new mines and the reopening of existing mines that had been shuttered because of low prices in the early 1990s. However, when silver prices returned below $6.00, the stream of new projects came to a halt. Even if silver prices rose dramatically in the next few months, no sizeable new operations could begin production until at least 2002.

Secondary mines: The largest category of new silver supplies is as a by-product or co-product of gold, lead, copper, zinc, and other mines. Output in 1999 increased 24.3 million ounces (7.1%) over 1998.

The increased production came about as new mines came on line, more than offsetting lower production that resulted from weak metals.

For example, the BHP Cannington lead-zinc mine in Australia reached full production in 1999, producing 25.7 million ounces of silver compared to 19.8 million ounces in 1998.

As with primary mines, the flurry of new mines going into production will taper off over the next two years.

Growth in newly mined silver supply takes time—an average of at least two years after prices change. In secondary operations, the price of silver is irrelevant. Even if silver prices doubled or tripled, it would have little effect on overall mining activity.

For 2000, total silver mine production should barely match 1999 levels.

Recycled silver: As the refiners finished processing the mountain of silver liquidated in early 1998 when prices topped $7.00, 1999 saw the highest volume of silver recycled since 1980!

The major components of recycled silver are old scrap—photographic and X-ray materials, jewelry, silverware, electronic and electrical equipment—187.5 million ounces in 1999, coin melting of 18.5 million ounces in 1999 (up from only 2.5 million ounces in 1998!), and silver scrap from India of 12.9 million ounces.

As more silver usage grows, the amount of recycled old scrap will increase. However, coin melting should fall by two-thirds in 2000. As a result, supplies of recycled silver in 2000 will likely drop slightly from 1999.

Government sales: With incredibly strong demand for U.S. Silver Dollars in 1999, government sales of silver rose by two-thirds over the prior year. This strong level of sales is expected to continue in 2000 from the major interest in silver coins dated 2000.

Summary: Silver supplies rose sharply in 1999, reducing the annual deficit somewhat from record levels of the previous six years. A large part of the increase came from a rash of new mines beginning production and the huge silver coin melt. If we see significantly higher silver prices in a few months, 2000 supply could match or just slightly exceed 1999 levels. Production levels are not expected to change significantly in 2001.

Demand: Perhaps it's not fair to call silver a "precious" metal. It is basically an industrial metal, gaining popularity every year because of its low relative prices.

Demand was also stimulated by population growth and a rise in per capita wealth.

Total industrial and coinage demand for silver in 1983 came to 366.6 million ounces. For the next fifteen years, demand rose every year, peaking in 1998 at 847.2 million ounces. Demand in 1999 fell just short of matching that record. Here's the breakdown:

Category	*Millions Oz*	*%*
Jewelry/silverware	291.5	34.5%
Photography	267.2	31.6%
Electronics	99.1	11.7%
Coinage	29.5	3.5%
Exports to Transitional Economies	11.0	1.3%
Other	147.0	17.4%
Total	845.3	100.0%

Jewelry and silverware demand declined less than 1% from 1998, photography demand rose 3.9%, electronics increased 3.0%, coinage usage was up 18.0%, and other applications consumed 1.9% more silver than in 1998.

The major change from 1998 was the 64.7% decline in exports to the transitional economies of countries formerly in the USSR, China, and North Korea, with China and Kazakhstan accounting for most of the difference.

In the past all silver purchased and sold in China was ostensibly transacted through the People's Bank of China (PBC), which paid far less than market price and charged well above it. Starting in 1998, some fabricators received an exemption from this onerous regulation, which spurred the liquidation of built-up inventories.

As of January 1, 2000, the PBC began trading domestic silver at buy and sell prices more aligned with international prices. This will encourage more domestic production, reducing import demand. However, it will also spark demand, enough so that exports into China will likely increase soon. To be conservative in our analysis, we will assume that they do not increase.

Jewelry and silverware: Demand for silver to use in jewelry and silverware had grown for almost 20 years. This category is the most sensitive to prices.

Demand dropped almost 50% from 1978 to 1981 when the price of silver climbed from $5.00 to $50.00 per ounce. In the years since 1984, demand has risen at a compounded 13.9% to current levels that are almost triple that of 1978.

Demand declined in this category in 1999 solely from lower purchases in India, the world's second largest silver consuming nation. Total 1999 demand there was 78.1 million ounces, down from 83.2 million ounces in 1998.

The major decline was in rural India, where the populace has not enjoyed greater economic well-being along with urban India. From a peak in 1992 of 41.3 million ounces of rural Indian jewelry demand, it fell to 20.2 million ounces in 1999.

It the price of silver jumps by year-end, expect another modest decline in demand for these purposes in 2000.

Photography: Even with growing use of digital photography, silver used for photography set a new record in 1999!

What has happened is that demand for silver-coated paper to print higher quality digital photos has grown beyond anyone's expectations. Even the usage of low silver APS 28 millimeter cameras has resulted in increased silver usage because of the larger number of prints per photo that customers are ordering!

As more of the world's citizenry becomes wealthy enough to own a camera, the number of pictures taken is exploding. Photo industry executives contend that silver prices have little impact on the cost of pictures, increasing the cost about one cent per photo per $1.00 increase in the price of silver. They do not expect silver usage in photography to decline until the price of silver reaches $20.00!

Sales of film and photo papers has been growing by 8% annually in industrialized nations and by a whopping 45% each year in emerging countries!

Although technological advancements

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require less silver for each X-ray, medical photography continues to grow as more pictures are taken each year.

Graphic arts are the one area where digital photography has cut demand noticeably. However, it is a small category, not enough to decrease overall consumption.

For at least the next five years, silver usage for photography should continue to increase.

Electronics and electrical usage: Silver usage has grown steadily in this category, but could stall if the price jumps and stays high.

However, engineers are now aggressively seeking ways to replace now-expensive palladium and platinum with silver. Though such substitutions are limited, they could easily boost demand to a new record in 2000.

Coinage: 1999 was not a banner year for silver used for coins. Although U.S. demand will stay strong in 2000, usage in other countries is likely to fall somewhat—but not enough to alter overall supply and demand factors.

Other: This category includes the growing anti-bacterial applications for silver. Demand has been steady for the past six years, and will likely remain stable for 2000. In the long-term, look for a huge increase in health uses.

Summary: Silver demand will continue to outpace supply by a wide margin, even if prices jump 50% by year-end.

(Analysis to be concluded next month)

Gold and Gold Coins

Gold closed today at $287.25, up $9.50 (3.4%) from five weeks ago.

For most of May, the strength of the dollar made gold more expensive in other currencies. Demand slumped.

Then, when the U.S. government reported higher unemployment data last Friday, clouding the current economic boom, it was the U.S. dollar that slumped. Within three trading days, gold jumped $16.50 (6.1%) to close at its highest level since March 21.

The U.S. stock markets have already given signals that the good times may be coming to and end. With the unemployment surprise, we saw an immediate increase in the number of precious metals buyers. It is not a frenzy by any means, but gold is showing the potential volatility to make a huge rise at almost any moment.

There has been no real change in bullion issues over the past month. The one area of change has been the turnaround in **Common-Date U.S. Gold Coins and U.S. Gold Commemoratives.** After several months of weakening prices, prices have stabilized or even increased. I think they dropped too far too quickly. Don't be surprised if they keep going up over the next few months. If you didn't pick up some bargains last month, don't wait any longer.

The Month

Gold Range	$ 18.50	6.7%
Net Change	+9.50	
Silver Range	.20	4.0%
Net Change	+.08	
Gold/Silver Ratio	56.9	
Net change	+1.6	
Platinum Range	75.00	15.8%
Net Change	+53.00	
Platinum/Gold Ratio	1.84	

Date	Gold	Silver	Platinum
May 03	277.75	5.02	476.00
May 04	280.00	5.12	484.00
May 05	279.00	5.01	478.00
May 08	276.50	5.02	489.00
May 09	277.00	5.05	492.00
May 10	277.50	5.04	499.00
May 11	275.50	5.02	499.00
May 12	276.00	5.02	497.00
May 15	275.50	5.02	488.00
May 16	275.50	5.10	494.00
May 17	273.25	5.00	497.00
May 18	273.00	5.02	515.00
May 19	274.00	5.01	534.00
May 22	275.25	5.02	540.00
May 23	274.25	5.01	541.00
May 24	272.00	4.94	532.00
May 25	270.50	4.92	530.00
May 26	272.00	4.94	534.00
May 29	Closed		
May 30	272.25	4.92	538.00
May 31	271.75	4.94	530.00
Jun 01	272.50	4.94	532.00
Jun 02	281.25	5.02	545.00
Jun 05	285.50	5.05	551.00
Jun 06	289.00	5.08	545.00
Jun 07	287.25	5.10	529.00

London Silver Market *Discount* To New York Silver Market = 4¢

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

Silver and Silver Coins

Silver finished today at $5.10, up eight cents (1.6%) from last month.

Demand for bullion products remains slow, with London silver prices now at a *discount* to New York levels.

With that discount and the retail premium for U.S. **90% Silver Coin** (0.5%) still below 2%, I don't foresee an immediate sharp rise in the price of silver.

Still the long-term fundamental shortage of silver supplies point to much higher prices before too many more months pass. Now is the time to stock up. Besides 90% Coin, you might also consider U.S. **40% Silver Coin** (6.0%), **100, 10, and 1 Oz Silver Ingots** (3.9%-10.8%) are also attractive values as well.

Like U.S. Gold Coins, the market for Mint State **Morgan and Peace Dollars** has started to rise. Prices are still at rock-bottom levels today, but maybe not for much longer. See our offering of Mint State Rolls of Peace Dollars for an excellent opportunity.

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