Liberty's Outlook

Our 30th Anniversary! 1971-2001

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# Gold Rises 12% In 2 Weeks!

## Profit-Taking And Rumors Bring Price Back Down Over Next 2 Weeks! Is Gold Destined To Reach $600?

Last month, I alerted readers to the upcoming Gold Anti-Trust Action Committee (GATA) May 10 meeting in Durban, South Africa. I pointed out that GATA would be publicly releasing the damaging facts it had uncovered behind its lawsuit alleging manipulation of the price of gold.

I concluded that investors should purchase gold promptly, before a possible near-term quick jump in the price.

***As far as I can tell, I was the only precious metals analyst to make an on-target prediction right before the price of gold jumped 12% in only two weeks!***

Gold reached its highest price in 15 months!

But I also warned that the ultimate resolution of whether there has been massive gold price manipulation might take years to be finally resolved. Therefore, it was possible that any quick jump in gold prices might not last. Again, my analysis was on target as the price of gold has come back down in the past two weeks to where it was when I wrote the last issue of *Liberty's Outlook.*

So what exactly happened and where to now?

### Gold's Wild Ride

It is possible to interpret recent volatility in the gold market in two ways—as either normal, unmanipulated market gyrations or as what would have happened if the alleged secret manipulation was largely fact.

**Interpretation #1, Normal Market Gyrations:** Factors other than the GATA meeting affected gold prices. For instance, the possible imminent liquidation of Centaur Mining and Exploration Ltd., one of Australia's largest gold mining companies, was largely responsible for the $5.00 increase in gold on May 9. Had Centaur been liquidated immediately, the receivers would have had to purchase over one million ounces of gold on the open market to repay forward sales that originally realized $440 Australian per ounce (now about $225 U.S.) At the creditors meeting on May 14, it was decided to put off a decision until July to consider four bids for the company. Obviously, the creditors are trying to find some alternative to having to cash out their short position at a loss of well over $40 million.

There was also pressure for higher gold prices simply because lower U.S. interest rates discouraged forward selling by the mines. At one point, the price for delivering gold one year out dropped from $16 above the current spot to only a $5.90 premium (yesterday the July 2002 Comex premium was $6.10). With a reduction in supply, having nothing to do with GATA's actions, the price of gold was likely to rise.

As the price of gold was rising, some short-term investors with short positions cashed out to limit their losses, which further fueled a price increase.

In a normal market, when prices jump quickly, you will hit a point where profit-taking stops the rally. That began to happen after gold reached $298 in Far Eastern markets on May 21.

Last, a rumor widely reported in the news on May 24 said that Russian president Vladimir Putin stated that he was ready to sell gold and diamond central bank reserves to provide relief to flooded areas in eastern Siberia. Even though Putin tried to deny or retract that statement days later, the gold price had already fallen.

So, even if there was no GATA event, it is possible that gold may have fluctuated as wildly as it did over the past four weeks.

**Interpretation #2, A Manipulated Gold Market:** On the other hand, if major official and financial institutions were conspiring to manipulate the price of gold, and were trying to avoid it becoming public knowledge despite GATA's actions, what happened in the past few weeks could be construed as confirming the manipulation.

Two key pieces of information provided by the U.S. government contradicts the lawsuit defendants' assertions that there is no manipulation going on. First, a motion filed by the defense sought dismissal of the suit in part because the U.S. Treasury Department's Equalization Stabilization Fund (ESF) had not traded gold since 1978 because it lacked the legal authority to do so.

These denials were made by only Treasury officials who are not responsible for knowing the truth about this issue. GATA supporters found minutes of a Federal Reserve Open Market Committee meeting on January 31, 1995, where the Fed's general counsel indicated that the ESF had the legal authority for the gold swaps it had done!

The second bit of news was that the September 2000 Status Report on U.S. Treasury-Owned gold identifies all 54.7 million ounces of gold stored at West Point as "Custodial Gold" whereas prior reports had always described the holdings as "Gold Bullion Reserve!"

Attempts by GATA and others to get an explanation on this changed ownership of the gold at West Point have been turned down completely!

If the GATA lawsuit proceeds to Discovery, the defendants (including the Bank for International Settlements, (BIS), Federal Reserve Chairman Alan

*(Continued on page 2)*

**Inside this issue:**

*(Continued from page 1)*
Greenspan, former U.S. Treasury Secretary Lawrence H. Summers, five major bullion banks, and others) will be required under oath to answer questions about these and other discrepancies.

The GATA motion filed on April 19 opposing dismissal of the lawsuit highlighted these and other issues they assert are examples of the secret manipulation of the gold price.

In last month's analysis, I explained that it didn't really matter what the whole truth might be, or how long it might take to uncover it. Instead, it would be more important what gold traders did in reaction to any of these charges having any merit.

What happened is about what I expected. In the five weeks after GATA filed their April 19 motion, many gold traders on the Comex futures market each week closed out their short positions—well over 10 million ounces. By the time that gold jumped 5% on May 18, the Comex had more long than short positions in gold contracts for the first time in years!

If the gold markets were being manipulated, the conspirators would likely try to a two-pronged maneuver to nullify the impact of the May 10 meeting in Durban. First, they would arrange for apparently outside independent analysts to make statements just before the meeting to the effect that there had not been huge central bank sales above figures reported by Gold Fields Mineral Services (GFMS) or the World Gold Council (WGC). Next, they would have twisted arms to minimize news reporting of the Durban meeting.

Both of these steps occurred. London's *Financial Times* carried a story just days before the meeting claiming that the GFMS and WGC figures had been rechecked and were substantially correct. GATA consultant Frank Veneroso personally called Antony Neuburger, the source of this statement, and learned that the author was unwilling to consider any of Veneroso's additional information.

The May 10 meeting in Durban was widely reported in the South African press, but almost nothing appeared in the North American, European, or Asian media. As a matter of fact, the denial of the extra central bank gold sales received more coverage than the GATA event in Durban!

The news coverage on rising gold prices tended to blame investor fears of rising inflation, which is definitely on the horizon, rather than allude to any market manipulation being exposed.

The latest newsletters and bulletins from the World Gold Council and from The CPM Group, that supposedly cover important news on gold, are completely silent on GATA! Of course, a significant part of the their funding likely comes from the defendants of the GATA lawsuit.

Now, since GATA has identified five banks that have allegedly been making gold magically appear on the market, it would not be sensible for these banks to do any more of this trading until the attention blows over. Indeed, when the price of gold rose 5% on May 18, Toronto's *Globe & Mail* carried an article specifically noting that one bullion bank (unidentified in the article but almost certainly JP Morgan Chase) did not make any sales that day as it had regularly done during past gold market rallies.

It is the absence of sales by this one bank that probably threw a real panic into short-tern traders on May 18, resulting in the closing out of so many short positions that day.

If there was ever a day that that "one bank" would have sold into a rally, it would have done so on May 18. That it did not indicates that either it had no gold to sell or that it feared too much scrutiny if it did.

However, there are sneakier ways to kill a gold rally, if you are desperate enough. You might contact the head of a major gold mining nation whose central bank has been a constant net buyer of gold for the past couple of years and make some kind of under-the-table offer for him to make a statement that the central bank was suddenly considering selling some gold.

Well, that is exactly what Russia's Putin did. It is difficult to comprehend why Russia would not sell gold over the past two years for greater dilemmas but all of a sudden pretend that it was facing a minor crisis that would call for selling gold. It is completely out of character. What really is going on here? I don't know, but I am suspicious.

In sum, the volatility in gold prices of the past month could have been for isolated independent reasons. Or they might be the cat-and-mouse moves of a powerful conspiracy trying to continue their secret manipulation.

## So What?

If some of the research by GATA is on target, and it becomes public knowledge, the price of gold could quickly take off. In the Durban meeting, a price of $600 per ounce was tossed out as the realistic level where gold might be today if no manipulation were taking place.

This forecast comes out of research by Veneroso, which he presented in Durban. You can read his entire 16-page presentation on the Internet at www.gata.org under the "What's New" menu choice. Here is a quick synopsis.

Veneroso has tried to calculate (by six different methods) actual total worldwide gold supply and demand going back to the early 1980s. He points out faults in the research done by both GFMS and the WGC.

For instance, the World Gold Council only covers part of the world and includes only gold demand for jewelry, coinage, and investment. It excludes electronics and other industrial gold usage. Gold Fields Mineral Services surveys an even smaller, though somewhat different, group of gold users.

One thing Veneroso noted is that the World Gold Council reports a much higher growth in demand than does GFMS, closer to what Veneroso calculated as the growth in demand. Thus, Veneroso thinks that GFMS is under-reporting current demand by at least 20 million ounces per year!

The WGC and GFMS between them think that only about 96 to 160 million ounces of central bank holdings have been liquidated since the early 1980s, out of about 1.06 billion ounces held then. By six different calculations, Veneroso, estimates that central bank liquidations (either by outright sale or by leases) totaled between 325 million and 515 million ounces!

If central banks keep liquidating gold at current levels, if Veneroso's calculations are close, their gold reserves would be completely exhausted in seven to 10 years.

By the way, the six methods Veneroso used for computing supply and demand were:

1. Using 1995 data from the official in charge of the Bank of England gold trading operations about the increase in central

*(Continued on page 3)*

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bank sales and leasing.

2. Using the WGC and GFMS demand data, cross-checking them to each other, then supplementing the numbers to include categories of demand that they missed.
3. Using data on gold derivatives of commercial banks as reported monthly by the U.S. Comptroller of the Currency and others for meeting BIS capital adequacy requirements, then modifying it for how derivatives are actually traded in relation to the physical gold.
4. Using 200 years of gold demand income and price elasticities that consistently demonstrate that the demand for gold increases more than the proportionate increase in world wealth. This occurred despite the abandonment of gold used for monetary purposes.
5. Using the accurate statistics that are available on central bank gold dispositions (which cover about 1/3 of all such holdings) and extrapolating over all the holdings, using exhaustive investigation of just about every major gold trading operation around the world.
6. Using data obtained direct from officials at 1/4 to 1/3 of all bullion banks on the levels of gold loan activity.

As part of Veneroso's research, he has gone back over the underlying data collected by others, then gone on to obtain more complete figures. For example, the Bank of England demand survey only included 14 of 37 banks that accept central bank gold deposits. Veneroso determined that the banks excluded from the survey actually handled more central bank deposits than those who were included!

So what does this all mean?

Well, when the price of gold rose quickly in May, the mining companies that were willing to sell more future production (when gold rose only a couple bucks earlier this year) suddenly sat on the sidelines. They didn't want to sell more gold too cheap. It wasn't until after profit-taking started to bring prices down that the mines stepped in to sell. However, as best as I can determine, the mines are selling less gold than they were two months ago.

Second, the investment houses started receiving lots of orders from investors to buy gold after the price climbed above $270. Many of these purchases were "weak hands" that were looking only for a quick profit, not for long-term holdings. When the price of gold came back down, many (but not all) of these investors bailed out.

Still, there is a definite shift in the investment environment in favor of gold. It is being blamed on inflation fears, but the real reason doesn't matter. There is money poised to enter the gold market in much larger amounts than has been the situation in the past few years.

Then there is the risk of the decline in the U.S. dollar when the one-time huge demand from the European black market ceases next year after the Euro is adopted. The Sunday edition of the local newspaper included a front-page article on this issue ten days after it was reported in this newsletter!

With all the publicity about this massive money laundering activity, no one has stepped up to dispute the likely fall of the dollar after the conversion is over. As the dollar falls, gold should rise.

There has also been more talk of inflation in the past month than I have heard over the past few years. That is also a bullish indicator for gold.

I find it hard to think that the Veneroso research could be completely off the mark. Veneroso's clients have included the World Bank, the Organization for American States, and the governments of Bahrain, Brazil, Chile, Ecuador, Korea, Mexico, Portugal, Thailand, Venezuela, and the United Arab Emirates. You just don't make rash accusations against the U.S. government and other powerful interests and expect to keep serving such clients.

Besides, if the assertions were completely off the mark, it would be a simple matter for Alan Greenspan and others to make a direct statement to that effect. Why won't anyone explain why the former U.S. government gold holdings at West Point are now custodial gold for someone else? If there was a simple explanation, I suspect it would have been released by now.

If the judge in the GATA lawsuit dismisses the case, gold may have to wait for inflation and the fall of the dollar next year for a major rise to occur.

However, if the judge lets this case go to the discovery stage, the price of gold could easily jump 25% in short order. Since a ruling could happen any day (or maybe not for months), don't delay any longer building up you gold bullion holdings.

## Chinese Gold Demand Expected To Quadruple Within A Decade!

With the Chinese government preparing to get out of the gold trading business, buy and sell prices for private citizens in that country are expected to get close to worldwide levels. As a result, private demand in the country is expected so soar. Within a decade, demand is expected to quadruple to more than 25 million ounces annually. At those levels, China would be challenging India for the honor of the world's largest gold consuming nation.

## Gold and Gold Coins

Gold finished today at $266.00, up $0.75 (0.3%) from last month.

We noticed a moderate increase in physical gold demand in early May. When prices soared on May 18 and on the following Monday to almost $300, though, a number of investors chose to take a short-term profit.

Then, as prices declined, buying and selling both came to a virtual standstill. It wasn't until gold went back below $270 last week that demand took off. Last Thursday, for instance, we sold more ounces of gold to retail customers than for any other day thus far in 2001.

My advice from last month still applies: go for the lowest premium forms of bullion gold. That means the U.S. **American Arts Medallion** (2.7%), South African **Krugerrand** (2.9%), and Austria **100 Corona** (2.9%).

Prices for **Common-Date Classic U.S. Gold Coins,** those struck before 1934, are mostly up 5-10% over the past month in Choice Mint State-63 or higher grades. On the other hand, circulated and low-grade Mint State specimens have more declines than increases. This is exactly the result I forecasted last fall when I recommended MS-63 and MS-64 gold type sets. When the gold bullion market experiences an increase in demand, you often see a corresponding increase in demand in the collector coins. Since supplies of the collector coins are a lot smaller than bullion issues, they can often outperform the rise in bullion.

**Better-Date U.S. Gold Coins** continue to be almost impossible to locate. At the recent Long Beach Exposition, Chief

*(Continued on page 4)*

*(Continued from page 3)*
Numismatist Allan Beegle was able to snap up a gorgeous group of **MS-63 and MS-64 1914-S and 1915-S $20.00 St Gaudens** by being first in line at a wholesaler's table. When collectors can own so much rarity for little more than the price of a common-date coin, they step up to buy. See our enclosed flyer for more information.

## Silver and Silver Coins

Silver closed today at $4.34, down three cents (0.7%) from five weeks ago.

The silver market enjoyed a sympathetic rise along with gold, though on a smaller scale, then came down in sympathy with gold's decline.

This sympathetic trend between gold and silver is simple. If one metal makes a large quick move, investors who waited too long to buy or sell start looking for substitutes before they make their move. The same things happen in the stock market, where good or bad news for one company in an industry tends to cause sympathetic moves among industry competitors.

At the moment, there appears to be a number of potential short sellers ready to cut off any rally in silver that is not tied to a rise in gold. It may be that the large sale by the Reserve Bank of India is still expected, though I have heard no fresh news in the past month.

Whatever the reason, the physical market still trades for higher premiums than they paper silver market.

The premium on U.S. **90% Silver Coin** (10.1%) has increased in the last month. Even though silver spot is down a few cents, the price of 90% bags is up about $25. Virtually no silver is being liquidated by investors, so I expect the trend of higher premiums to continue.

Other forms of silver such as **100, 10 and 1 Ounce Ingots** (10.4%-15.0%) and U.S. **40% Silver Coin** (11.3%) are close to that of 90%, but I prefer 90% because of its greater divisibility, greater liquidity, and popularity. 90% Coin is more readily available than the other forms, so you should have little or no wait when buying it in quantity. Although ingots and 40% Coin can be found quickly in smaller quantities, a very large order could lead to a significant delay in delivery.

Action in a number of **bullion-related numismatic silver coins**, those that trade for well over silver value but also contain significant silver value, is heating up. **Circulated Common-Date Morgan and Peace Dollars** (136.5%) are at their highest price in several months as are Mint State 1964 Kennedy and Franklin Half Dollar Rolls. Even Mint State Canada Silver Dollars, both the common pre-1967 issues and the commemorative issues from 1958 and 1967, are in more demand of late. Our offering of **Mint State 1967 Canada Silver Dollar Rolls** from an original Mint-sewn bag is particularly timely. See the offer for details.

### The Month

| | | |
|---|---|---|
| Gold Range | $ 22.25 | 8.4% |
| Net Change | +0.75 | |
| Silver Range | .30 | 6.9% |
| Net Change | -.03 | |
| Gold/Silver Ratio | | 61.3 |
| Net change | | +0.6 |
| Platinum Range | 35.00 | 5.8% |
| Net Change | -25.00 | |
| Platinum/Gold Ratio | | 2.17 |

| Date | Gold | Silver | Platinum |
|---|---|---|---|
| May 02 | 265.25 | 4.37 | 603.00 |
| May 03 | 266.25 | 4.34 | 621.00 |
| May 04 | 266.00 | 4.34 | 609.00 |
| May 07 | 266.00 | 4.31 | 602.00 |
| May 08 | 265.25 | 4.33 | 597.00 |
| May 09 | 270.25 | 4.40 | 603.00 |
| May 10 | 269.25 | 4.34 | 599.00 |
| May 11 | 268.00 | 4.33 | 599.00 |
| May 14 | 268.50 | 4.36 | 600.00 |
| May 15 | 268.25 | 4.32 | 603.00 |
| May 16 | 272.00 | 4.45 | 603.00 |
| May 17 | 273.50 | 4.47 | 605.00 |
| May 18 | 287.50 | 4.57 | 607.00 |
| May 21 | 285.50 | 4.55 | 609.00 |
| May 22 | 285.25 | 4.56 | 607.00 |
| May 23 | 283.50 | 4.57 | 605.00 |
| May 24 | 279.25 | 4.61 | 612.00 |
| May 25 | 278.00 | 4.58 | 611.00 |
| May 28 | closed | | |
| May 29 | 274.00 | 4.54 | 610.00 |
| May 30 | 265.50 | 4.44 | 604.00 |
| May 31 | 265.50 | 4.40 | 597.00 |
| Jun 01 | 266.50 | 4.41 | 584.00 |
| Jun 04 | 265.25 | 4.33 | 586.00 |
| Jun 05 | 266.00 | 4.34 | 577.00 |
| Jun 06 | 266.00 | 4.34 | 578.00 |

London Silver Market Premium To New York Silver Market = 2¢

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

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We can now accept orders for non-bullion priced items by e-mail. Send them to Barb Robinson for fastest attention. However, we still suggest calling if there is a chance we may be close to sold out on an item or if you wish to pay by credit card. We are not yet sure of the security of our system, so please don't transmit credit card numbers or confidential information via e-mail.

We welcome your want lists by e-mail. Please send those to Tom Coulson.

Of course, to obtain up to the minute prices and to confirm trades on bullion items, please call our Trading Desk direct at 800-527-2375.

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