Liberty's Outlook

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Are The Swiss Really Selling Their Gold?

In early 1997, responding to outside criticism of the country's treatment of refugees from Nazi Germany, the Swiss government proposed to fund a humanitarian Solidarity Foundation by selling part of the nation's official gold holdings.

Finally, after more than three years that it took for new legislation, a constitutional change, and a popular referendum, the Swiss National Bank (SNB) was cleared to begin selling gold on May 1.

Yesterday, the SNB announced that it had started to sell its gold through the Bank for International Settlements, a common conduit for central bank gold transactions.

Under the Washington Agreement reached last September, the SNB could sell nearly 4 million ounces of gold by this September as part of an almost 42 million ounce quota of gold it can sell over the five year length of the agreement.

If all 42 million ounces are sold, that would reduce the SNB holdings about 50%. However, that would still leave the Swiss National Bank (which is jointly owned by the Swiss Federal government, the cantonal governments and by private parties who have no voting power) with more than enough gold to cover all of its outstanding currency!

The Swiss Federal Council and the SNB both emphasize that they will sell their entire quota of gold, but also are adamant that they will sell no more than that. The Swiss citizenry is not against the sales. I am convinced that the entire 42 million ounces will be sold over the next 54 months.

However, there is a major obstacle in the way of any significant sales soon—a lack of consensus on what to do with the proceeds from the sales of gold!

The Federal Council appointed committees to discuss three possible uses: 1) liquidity of the pension system, 2) computer training, and 3) debt reduction. The possibility of placing any funds in the Solidarity Foundation is a major political controversy.

The committees were to have turned in their reports by the end of last week. As of last night, the reports were apparently still unfinished.

The nation's largest political party, the Social Party, was the major force behind the gold sales decision. Right now, this party is undergoing turmoil and fragmentation.

The Swiss People's Party has soared to second place in the popular vote. It wants to dedicate 100% of gold sale proceeds to the Swiss pension system and is currently gathering signatures for a referendum that would do just that. This party is against any substantial gold sales before the public decides where to allocate the proceeds.

Two other Swiss parties recently lost heavily to the Swiss People's Party and are mostly abstaining from the gold sales question.

Have no doubts, the lack of consensus is only a temporary obstacle to significant continuing Swiss gold sales.

However, you also need to understand that Swiss gold sales have been expected. They are also desperately needed to keep the gold shortage from growing any larger.

What The Swiss Sales Mean To The Gold Market

The Swiss gold sales will affect the market in two different ways—the nuts and bolts of supply and demand and the collective psychological market perceptions of investors.

Supply and demand: Even by conservative estimates, newly mined gold supplies fall more than 40 million ounces short of covering the annual industrial and investment demand for physical gold. In 1997, this shortage was covered by scrap recycling of 15.5 million ounces, net central bank sales of 20 million ounces, and leases and forward sales by mines of 5.2 million ounces.

Last September's Washington Agreement was signed by the 11 member nations of the European Monetary Union, the European Central Bank, the Bank of England, the Swiss National Bank, and the Swedish central bank. It capped annual gold sales by the signatories to 12.86 million ounces and restricted lease activities to pre-existing levels.

Though they did not sign the Agreement, the United States, Japan, the International Monetary Fund, and the Bank for International Settlements announced that they would abide by the document. In addition, Australia and South Africa announced that they would make no official sales during the period.

Together, these central banks and agencies control more than 85% of all official gold holdings!

After offsetting central bank gold sales by the net purchases of other central banks, it is quite possible that the physical gold shortage will increase by 10 million ounces per year during the five years of this Agreement!

With the SNB sales already incorporated within the limits of central bank sales under this Agreement, there is no reason to consider these sales as "flooding the market."

However, fundamental supply and de-

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mand factors aren't the only things that affect prices.

Investor psychology: In the investing world, perception becomes reality, whether or not the perception is real. So it seems to be with the Swiss National Bank gold sales.

All along, I warned readers to expect that Swiss National Bank gold sales would eventually happen. It was a matter of when, not if.

Still, with Switzerland's strong orientation towards gold, many doubted that the sales would ever come to pass.

After holding at $282.00 at the close on April 17, gold gradually slid down to close at $273.25 (down 3.5%). The prime culprit was investor fears that the Swiss would actually begin selling gold and disrupt the market.

This week, as it became evident that the sales would not even cause noticeable ripples on the market, gold rallied to close today at $277.75.

I'm sure there are a number of investors who still expect that the SNB sales will clobber the price of gold. For the next couple of months, we could see continuing soft prices.

Summary: The Swiss gold sales will not alter the continuing shortage of physical gold. In the long term, this fundamental shortfall of supply bodes well for much higher prices.

The investors' psychological fear that the Swiss will flood the market with gold should run its course soon.

With strong gold demand from India and the Far East at today's bargain-basement prices, I think there is little downside risk to gold prices. I expect a recovery, back above $280, by mid-July. Then look for $300 gold later this year.

Coupled with the low premiums for many gold bullion coins, you now have an excellent opportunity to add more gold to your holdings.

Stock Market Volatility And Inflation Fears Bringing Investors To Precious Metals

No, it is not yet a groundswell shift in investor sentiment, but in the past month we have served a noticeable number of first-time customers who are transferring funds out of their stock investments into precious metals.

Their timing is almost ideal. Both the gold and silver spot prices and the premiums for many popular bullion-priced coins and ingots are at attractive levels.

The shift has not been strong enough to boost spot prices. However, if the recent volatility in the stock markets continues, with diminishing prospects for appreciation as we have seen in the past few years, the shift to precious metals would almost certainly accelerate. The greatest profits would be enjoyed by those who purchased gold and silver sooner rather than later.

Story On U.S. Silver Stockpile Exhaustion Creates Stir

Last month I passed along a report from the Silver Institute about how the U.S. National Stockpile of silver was down to only 20 million ounces. It also said that, with continuing silver usage by the Mint to strike Silver Eagle Dollars, Commemoratives, and Silver Proof Sets, the silver supply would be exhausted around the end of 2001.

In the 1960s, the U.S. National Stockpile of silver was about 2 billion ounces.

I surmised that the psychological shock caused by the U.S. government's open market purchases of silver might carry far greater impact on silver prices than the comparatively trivial quantities might merit.

My forecast of the psychological reaction may prove to be wildly understated.

Almost every month, topics discussed in *Liberty's Outlook* are excerpted in other publications. The report of the diminishing National Stockpile was *the* story picked up (by *Coin World* and *Numismatic News*, for instance) from last month's issue.

We received the strongest response to this report from readers of other publications than any other issue ever covered.

Typically, the callers were alarmed at the report. To generalize from their comments, the prospect that the U.S. National Stockpile of silver will be exhausted is the concrete signal that there is a major shortage of physical silver.

If the interest now is any indication of what we will see when the Stockpile actually runs out, we just might have a real silver buying frenzy around the end of next year.

Almost everyone wanted more source information on this report. You can read the original Silver Institute's February 24, 2000 press release on their website at www.silverinstitute.org.

Rumored Lawsuit Judgment Rocks Numismatic Wholesale Market

A judgment has been handed down in a lawsuit with serious short-term implications to the numismatic marketplace.

One of the nation's largest coin telemarketers had sued the wholesaler that was possibly its largest supplier (and apparently also a part owner of the telemarketer!).

The gist of the suit was an assertion that the wholesaler, knowing what categories of coins the telemarketer was seeking to accumulate for upcoming promotions, manipulated prices for these coins. The result was that the wholesaler increased its profits when the telemarketer paid higher prices to purchase the coins. Wholesale prices invariably fell after the telemarketer's promotion had run its course.

We have not obtained direct confirmation from the wholesaler of the details of the judgment but the rumor from reliable sources is that the com-

Did You Know?

Few people realize the magnitude of the world gold market. Part of the reason is that trading volume was only partially reported until recently. Even today, much over-the-counter gold trading is unreported.

For instance, the London Bullion Market Association (LBMA) did not start reporting its gold trading volume until October 1996. For the calendar year 1997, average daily LBMA volume was $12 billion. The 1997 average daily volume on the New York Comex gold market was $1.32 billion in comparison. Together, their trading volume came to almost 60% of the New York Stock Exchange average daily trading volume in 1997 of $22.64 billion!

A number of investment advisers try to pass off the gold market as small and unimportant. Well, the LBMA and the Comex reported over $3 *trillion* in gold transactions in 1997, more dollar volume than most of the major stock exchanges around the world! It makes the trading in Microsoft stock, the world's highest valued corporation, look like chump change!

Many thanks to Franklin Sanders for directing me to this information in Frank Veneroso's book, *The 1998 Gold Book Annual*.

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pany has been ordered to pay around $18 million to the telemarketer. If so, such an amount may cripple the company.

This wholesaler has been aggressively trying to liquidate sizeable quantities of a wide range of common-date U.S. gold and silver coins in the past two weeks. Other wholesalers have knocked down their bids to avoid being buried in stock before prices bottom out.

As I have already said in this issue, investors' perceptions become reality. No matter what the size of this judgment, there is softness in the "Blue Chips."

For instance, one major wholesaler in uncertified Morgan and Peace Dollars recently said that, instead of simply reducing his buy prices, he was withdrawing most of his buys for the next few months.

Many Blue Chip coins had already been soft for the past six months as numismatic wholesalers experienced liquidity problems from an excessively large auction last October and from "Y2K-protection portfolio" liquidations early this year.

This latest liquidity crunch should also prove temporary. The millions of new collectors entering the hobby because of the new Statehood Quarters and the Sacagawea Dollars are almost certain to propel the market to new heights in a few years. Already, subscriptions to numismatic publications and memberships in some organizations are up dramatically.

In the meantime, smart collectors have been jumping at the opportunity to pick up bargains. For instance, this month we offer **Mint State $20.00 Saint Gaudens** for less than $400 for the first time since the 1970s—one of the most popular Blue Chip numismatic coins.

Although experienced collectors (including me) really love the value of rarer coin types and better-date coins, adding some "Blue Chips" to your numismatic holdings is unusually appealing right now.

Gold and Gold Coins

Gold closed today at $277.75, down $3.25 (1.2%) from four weeks ago.

Even with the gradual slide due to the impending Swiss sales, gold prices were the most stable for any month since last July. It almost seemed that traders were sitting on the sidelines, waiting for a clear signal, either from the impact of the Swiss gold sales or anything else positive or negative.

Compared to March and earlier months, Y2K-related liquidations dropped off sharply in April. As we see every year, there was some selling early in the month to raise funds for paying taxes, but not enough to affect the market.

Demand from previous purchasers of precious metals was unremarkable. There was a small but noticeable surge in first-time buyers seeking refuge from the stock markets.

I like quiet months. They often prove to be the calm before the storm. Just last year, the drowsy summer gold market was shattered by a 30% rise in the gold price from the end of August to the end of September.

Will the gold market explode out of its current doldrums? It is possible, but I think a gradual rise is more likely.

The low-premium best buys continue to be the Austria **100 Corona** (2.0%), U.S. **American Arts Medallion** (1.8%), and South Africa **Krugerrand** (2.2%). The U.S. **American Eagle** (3.5%) continues to be popular with its premium level near the lowest it has ever been.

The best deals in smaller gold coins are the British **Sovereign** (5.2%), French **20 Franc Rooster** (6.1%), and Swiss **20 Francs** (6.1%). I especially like Sovereigns, which are among the world's most widely traded gold coins.

As I discuss above, **Common-Date U.S. Gold Coins** are mighty tempting bargains right now. We have enjoyed a surge in demand for $20.00 Double Eagles that are priced under $400.

Better-Date U.S. Gold Coins continue to be in high demand and short supply.

The huge quantities of Russian gold coins that were liquidated as part of the Norwegian government gold hoard have now been dispersed. Premiums for Russian and some Scandinavian coins are already on the rise.

Silver and Silver Coins

Silver had a second peaceful month. It finished today at $5.02, down nine cents (1.8%) from last month.

Silver did break below $5.00 last week. That low price sparked some buying interest, but it still took until this Monday to close over $5.00 again. I see no fundamental reason why silver should have dipped. Most likely it was an unsuccessful attempt by short-term commodities traders to try to profit from a quiet market.

For example, in such circumstances leveraging $50 million of short contracts will carry more impact than during times of heavy trading activity.

The silver market, which is far smaller than the gold market, has almost been ignored while attention has been riveted on the wild gold market of the past eight months. For instance, the amount of gold from Y2K liquidations dwarfs the value of silver that was sold.

Is silver on the verge of a major move? I doubt it. Both indicators I use to foretell imminent strong price increases—if the retail premium on U.S. **90% Silver Coin** (1.1%) is above 2% and the premium of the London Silver Market over the New York Comex is more than 5-7 cents—are not flashing any warning signals.

Still, in my mind, the long-term fundamental shortage of silver makes a breakout bull run inevitable. For one simple reason, silver has better prospects than gold, platinum, or palladium for a sustained major run.

Of these four, silver is the only metal where only a small fraction (about 20%) of new mining supplies comes from primary mining operations. Almost all new silver supplies come as a by-product from gold, lead, copper, zinc and other mines. For those mines, the price of silver is unimportant in deciding whether to increase output.

The price of silver could double or quadruple with only minor impact on either mine supply or demand. For instance, from 1976 to 1980, the average annual price of silver soared 263% but industrial demand only declined 29%!

As I have analyzed in the past, I think it will take a silver price of at least $13.00 to reach long-term balance in supply and demand.

While the premiums and spot prices remain low today, buyers have a perfect opportunity to get in on the ground floor.

Among different forms, I like U.S. 90% Silver Coin the most. It carries the lowest cost per ounce, has superior liquidity, greater divisibility, and is more familiar to the general public. U.S. **40% Silver Coin** (6.7%), **100, 10, and 1 Oz Silver Ingots** (4.0%-11.0%) are also attractive values as well.

The U.S. **Silver Eagle Dollar** (59.8-69.7%) market has cooled off from two

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months ago, falling $2.75 per coin from the peak. Premiums are still about $1.40 higher than we saw in "normal" markets two years ago, so I'm not going to call the 2000-dated coins a bargain.

That said, I think we may be near the lowest prices of the year. As demand picks up for graduation and wedding gifts next month, and for holiday gifts later this year, prices could increase from today's levels. As I have said before, I do not regard Silver Eagle Dollars as an investment. But these gorgeous coins have become immensely popular with the new collectors. And the 2000 date on any coin is magic.

While both circulated and high-grade Mint State **Morgan and Peace Dollars** have come down in price as wholesalers have scrambled for cash. **Mint State Morgan and Peace Dollar Rolls** had also declined. However, the Morgan Rolls have started rising over the past two months, bucking the trend of most other Blue Chips.

Nice **Better-Date and Rarer Type U. S. Silver Coins** sell almost instantly. Unfortunately, about all that seems to be in wholesaler inventories are over-graded, ugly, or problem coins.

Fun For Children

Just a friendly reminder to those in or near Lansing—the Michigan State Numismatic Society holds its 44th Annual Spring Show and Convention at the Kellogg Center on the Michigan State University campus in East Lansing.

LCS is a major sponsor of a wide variety of fun (and also educational) activities for children. Because of the extensive publicity done on the children's program, there is some possibility that the show may set an all-time attendance record for children at any coin show anywhere. See you there!

The Month

Gold Range	$ 9.25	2.9%
Net Change	-3.25	
Silver Range	.23	4.5%
Net Change	-.09	
Gold/Silver Ratio	55.3	
Net change	+0.3	
Platinum Range	52.00	10.4%
Net Change	-25.00	
Platinum/Gold Ratio	1.71	

Date	Gold	Silver	Platinum
Apr 05	281.00	5.11	501.00
Apr 06	280.00	5.12	492.00
Apr 07	280.00	5.11	465.00
Apr 10	281.50	5.15	475.00
Apr 11	281.25	5.13	477.00
Apr 12	281.25	5.13	479.00
Apr 13	281.00	5.16	482.00
Apr 14	282.50	5.15	488.00
Apr 17	282.00	5.13	476.00
Apr 18	281.00	5.17	480.00
Apr 19	280.50	5.12	473.00
Apr 20	279.50	5.00	464.00
Apr 21	closed		
Apr 24	279.25	4.94	455.00
Apr 25	278.25	5.00	452.00
Apr 26	275.25	4.94	449.00
Apr 27	276.50	4.97	473.00
Apr 28	273.25	4.96	499.00
May 01	273.50	5.03	500.00
May 02	275.50	5.03	486.00
May 03	277.75	5.02	476.00

London Silver Market Premium Over New York Silver Market = 0¢

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

You Asked Us

Most months, we share an interesting question received from one of our customers. Please call or write with your questions.

Q: Will the U.S. $10.00 Gold and Platinum Library of Congress Commemorative released on April 24 be a good buy? *Received from several customers.*

A: At the Mint's current price of $380 for the Uncirculated version and $395 for the Proof version I very much doubt it.

This coin has a nice gimmick—a quarter ounce of platinum surrounded by a quarter ounce of gold (plus a small amount of alloy). It is the first bimetallic coin issued by the U.S. Mint. Because of this interesting feature, I would not be surprised if the entire authorized mintage of 200,000 sold out.

The coin is attractive because of the 2000 date and its bimetallic content. However, the high price of the coins, with a current precious metal content worth less than $200, and the potentially high mintages, are significant disadvantages.

None of the U.S. Platinum Eagles has ever sold 200,000 coins in a year. The last time a U.S. gold commemorative sold 200,000 pieces was the 1989 Bicentennial of Congress, a coin the currently sells for about 50% of original issue price.

A few early gold commemoratives issued in the 1980s temporarily doubled in price because of the excitement over the first U.S. gold coins issued in more than 50 years. All now sell below original issue price.

The only way that this coin could realize sustainable long-term appreciation is if very few were sold, I would say no more than 15,000 of both versions combined, and the Mint did not reveal this information until after the ordering period was closed.

The Mint regularly reports sales of commemoratives before the order period ends. Many would-be low mintage coins then enjoy a flurry of last-minute demand. So, the chance for a low mintage is virtually nil. If you like the coin, I suggest buying them in the aftermarket, but not for at least two years.

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