

Liberty's Outlook

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Gold Supply Falls, Price Rises!

P. 2 New Designs For 2003-5 Jefferson Nickel Signed Into Law!

Last month, I predicted that gold had reached what would prove to be a temporary bottom on April 7 and that silver hit a temporary bottom on March 21.

Since hitting those lows, gold is up \$31.25 (9.7%) and silver 51 cents (11.7%) even as the value of the U.S. dollar continues to fall.

(Since the beginning of 2002, the value of U.S. paper assets has dropped 27% versus paper assets denominated in Euros, and the U.S. dollar still does not look like it has hit bottom.)

As I noted, the prices of gold and silver were likely to climb because of long-term fundamental shortages of supplies.

For instance, in 1999, the latest year for which I have compiled data, new physical gold supplies were:

Source	Millions Oz
Gold mines	67.4
Recycling	20.0
Transitional economies	17.0
Central banks	8.2
Total	112.6

Physical gold demand was:

Application	Millions Oz
Jewelry	92.9
Industrial	8.9
Investment-net	10.8
Industrial inventory chg	2.6
Total	115.2

The modest shortage in 1999 was covered by the mines pre-selling future production.

Times have changed dramatically. In mid-March NM Rothschild released a report on 84 gold mining companies that produce 66% of the world's gold.

In 2002, these mines reduced their net pre-sold gold positions from 95.7 to 80.9 million ounces, devoting about one-third of current production to that end.

"This reduction in hedging more than offsets the amount of central bank gold sold during 2002 under the terms of the European Gold Agreement," the report noted.

The gold mines have become even more aggressive covering their pre-sold gold sales thus far in 2003.

On April 29, Barrick Gold, the world's 3rd largest gold mining company reported that it had reduced its pre-sold gold position by 750,000 ounces in the first quarter 2003, up from the 500,000 ounce per quarter rate of reduction for 2002. Then, in April, it reduced its pre-sold gold position by another 1 million ounces—more than double the amount of gold it produced that month!

On the same day, three other major gold mining companies, Placer Dome, AngloGold, and Sons of Gwalia reported that they had also accelerated their reduction in pre-sold contracts in the first quarter of 2003.

Placer Dome produced 903,000 ounces of gold in the first quarter but reduced its pre-sold gold position by 920,000 ounces!

AngloGold produced 1.4 million ounces of gold in the first quarter 2003 and reduced its pre-sold gold position by 940,000 ounces!

Sons of Gwalia produced only 137,000 ounces of gold for the quarter, but reduced its pre-sold gold position by 1.03 million ounces!

It should be no surprise that the price of gold rose 1.6% within 24 hours of these announcements, though most commentators attributed the rise to a falling U.S. dollar.

Then, on May 7, Newmont Mining Corporation, the world's largest gold mining company, reported it had produced 1.7 million ounces of gold in the first quarter but had reduced its pre-sold gold position by 1.55 million ounces! Within 24 hours, the price of gold jumped 2.0%!

These five companies alone accounted for more than a 5 million ounce reduction in gold supply in the first quarter (this doesn't count Barrick's million ounce reduction in April), offsetting 97% of their combined gold production!

There is one dominant reason why mining companies would be so aggressive in reducing their pre-sold gold positions—they anticipate sharply higher prices in the future!

Gold mining company executives were savvy in pre-selling gold in the later 1990s when they anticipated that prices would fall in the next few years. I am confident that their current judgment about higher prices in the future will be just as accurate.

By the way, the recent higher gold prices are spurring the development of new mines. However, it will be at least

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2005 before any of these new projects go into production.

There are other factors reducing gold supplies, but I do not have fresh data.

For instance, the Chinese central bank in 2002 was adding to its gold reserves at a rate almost completely offsetting all the gold sold by other central banks under the Washington Agreement on Gold. In the past six months, China's foreign exchange reserves have increased more than \$30 billion, so it could easily afford to have allocated a small percentage to purchase more gold. As hard information becomes available, I will pass it along.

Don't Forget About Inflation

Beyond falling gold supplies, another reason to be optimistic about rising gold prices is the return of inflation in the U.S. Over the past 12 months, the Consumer Price Index (CPI) is up 3.0%. That does not reflect raging inflation—yet. But it is headed in that direction.

With the U.S. government now facing an all-time record budget deficit, increasing the money supply would be an easy way to try to cover the problem. Even by the narrow M1 definition, the U.S. money supply increased 4.0% in the past 12 months. More encompassing definitions of the money supply show greater increases. It is only a matter of time before the inflation of the money supply shows up in higher consumer prices.

As we have seen in the past, when paper assets lose value to inflation, investors turn toward tangible assets for protection.

Even with the new-fangled alternative investments that are supposed to protect against inflation (such as the U.S. Treasury's inflation indexed bonds), I expect to see the movement to tangible assets accelerate over the next few years. That means higher prices for gold, silver, and rare coins. So, even though gold and silver prices are higher than they were several weeks ago, they are still at levels that I expect will prove to be bargains over the next few years.

U.S. To Get Newly Designed Nickel!

On April 23, President Bush signed

into law a bill to annually change the design of the circulating Jefferson Nickel through the year 2005 to commemorate the Louisiana Purchase of 1803 and the Lewis & Clark Expedition of 1804-1806.

As it normally takes nine months for the mint to go through the process of designing a new coin, getting the design approved, and preparing master and working dies before production can begin, it is not certain that the new nickels will enter circulation before the end of 2003. Mint personnel are putting a priority rush on the job, but may not produce the first nickel until 2004.

When these coins go into production, the current Jefferson Nickel design will be discontinued. The obverse of the new nickels will feature a different portrait of Jefferson (possibly different each year!) while each of the 2003 (if made), 2004, and 2005 reverses will commemorate the Louisiana Purchase and Lewis & Clark Expedition with a different design each year.

In 2006, the nickel is scheduled to resume a constant design of Jefferson on the front and his home Monticello on the reverse, but there is no assurance that they will be the same designs now used.

Mint Director Henrietta Holsman Fore said, "More than 130 million Americans are collecting coins in the United States Mint's 50 State Quarters® Program. I expect these new nickels will encourage even more interest in coin collecting."

Following close on the heels of the State Quarter Series and the Sacagawea Dollar, this new nickel is virtually guaranteed to further spark an increase in the number of coin collectors, with the result of even higher demand and higher prices for rare coins.

There is even more good news on the horizon. The Lincoln Bicentennial Commission is pushing to have the Lincoln Cent changed to commemorative designs in 2007-2009 in conjunction with the Bicentennial of Lincoln's birth.

As I pointed out two months ago, we are facing a once-in-a-generation coin collecting boom over the next few years. Those who buy their rare coins now rather than later will get in near the ground floor.

Legislation Introduced To Permit Rare Coins In IRAs and Retirement Plans

Congressman David Vitter (R-LA) introduced House Bill 1820 on April 11. If enacted, it would permit Individual Retirement Accounts (IRAs) and other pension accounts to own a greater variety of numismatic and bullion coins.

A companion Bill was introduced in the Senate a few days later.

If passed, the bill would apply for taxable years beginning in 2003. I'm not sure what the prospects are for passage this year, but it has a much better chance than other versions that have been introduced over the past several years. As I understand the process, the hope is that this bill will be grafted onto whatever tax legislation comes out of Congress this year.

Permissible coins in retirement accounts would have to meet three criteria: 1) be "certified by an independent third-party grading service," 2) be or have been legal U.S. tender, and 3) be a coin "traded on a nationally recognized electronic coin trading network or listed by an independent wholesale reporting service."

I am not a fan of holding tangible assets in retirement accounts for several reasons. Let me just cover the two most important.

First, retirement accounts accumulate income tax-deferred until it is withdrawn from the account. It is ideal for investments that earn interest and dividends. It makes no sense to put bullion or rare coins into this account because income taxes are already deferred until the asset is sold.

Second, to own bullion and rare coins in a retirement account requires that you have all transactions conducted by an outside fiduciary party, who charges a fee. You also are not allowed to have possession of the assets, which means another fee to pay for secure storage. If you own coins personally, you can avoid most or all of these expenses plus you have greater privacy about your holdings. Plus, if you own your hard assets personally, you have easier access to them in times of financial crisis.

Despite these downsides to putting rare coins and bullion into IRAs and

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pensions, I expect, if this Bill is enacted, that substantial retirement funds will be devoted to acquiring hard assets. That will only further increase the pressure for higher prices for precious metals and rare coins.

So, even if you do not put any bullion or rare coins in your retirement accounts, the ability of others to do so just might help increase the value of your holdings.

First Quarter 2003 Gold Eagle Sales Up 560% Over Prior Year!

For the first quarter 2003, the U.S. Mint reported that it sold a total of 224,500 ounces of gold in the form of American Eagles. This sales figure is up 560% from the 34,000 ounces sold in the first quarter of 2002!

Full-year sales in 2000 were just 164,500 ounces, in 2001 they were only 322,200 ounces, and in 2002 were 315,000 ounces. Sales in 2003 should exceed those totals by mid-summer.

Sales in 2003 are still only running about 1/3 of the level of 1999, when the Y2K buying frenzy was going full tilt. Still, these statistics provide further evidence of the strength of investor demand for physical gold.

Islamic Gold Coin To Begin Production Within 6 Months

The Islamic Chamber of Commerce in Malaysia will host a one-day conference July 1 to discuss the use of the gold dinar as an alternative medium of exchange for international trade.

Up to 500 attendees from a wide number of Islamic nations are expected to attend.

As I reported last year, Malaysian Prime Minister Matathir Mohamad proposed the dinar as a multinational monetary unit.

Royal Bank of Malaysia Managing Director Datuk Megat Mohamed Abdul Wahab announced May 6 that, "I think before October we can start the minting."

At first, the gold dinar will be issued as a commemorative for payment of zakat (tithes) and mas kahwin (dowry) in Malaysia. The Mint Director went on to say, "If the dinar could be standardized as a dowry in Malaysia, it has the potential to be used in neighboring

countries like Indonesia, Brunei, and Singapore."

The Royal Bank of Malaysia, was privatized in 2000. Malaysia's central bank, Bank Negara, accounts for 80% of the Mint's current volume. It recently upgraded its facilities to triple its capacity and has plans to grow even more in the next two years.

As I alerted you last year, any successful introduction of a standardized world gold coin could rock the international financial markets, with the potential to depreciate paper currencies. I don't know how much prospect there is for this dinar to develop into a world trade coin, but I will keep you advised of developments.

1999 Washington Agreement On Gold Up For Renewal Next Year

When the Washington Agreement on Gold was unveiled in September 1999, it put limits on the amount of central bank gold sales and leases for the next five years. Along with the fifteen nations that signed the agreement, other central banks announced that they would abide by the limitations. Together, these central banks controlled about 85% of the world's official gold holdings.

In this first five year period, the major central bank sellers are Switzerland and the United Kingdom. The UK has already finished its sales program and Switzerland is due to finish by next September.

South Africa Treasury Director General Maria Ramos was one of the architects of the original Agreement. She announced yesterday that she would resume her attempts to secure the extension of the Agreement for another five years. This time she hopes to add more actual signatories to the Agreement.

The Agreement limits central bank sales to 400 tons (12.86 million ounces) per year. I expect the Agreement to be renewed and to be renewed at this same level. However, I don't know how the parties to this agreement will be able to find enough sellers to reach the maximum limit, now that the UK and Switzerland will be out of the picture. Any failure to maintain current liquidation levels will only further deepen the long-term gold

supply shortage.

Gold and Gold Coins

Gold closed today at \$352.25, up \$26.50 (8.1%) from four weeks ago.

There was a noticeable up tick in demand after gold reached bottom at \$321 in early April. Then, when gold climbed back over \$340 at the beginning of this month, we saw a sizeable increase in the amount of gold bullion coins and ingots being liquidated.

This liquidation has been mostly for the higher premium gold coins and ingots, not the low premium forms. But demand has been relatively stronger for the low premium forms. As a result, the least expensive forms of physical gold now cost a higher premium than a month ago. Still, the lowest premium issues continue to be the U.S. **American Arts Medallion** (3.7%), Austria **100 Corona** (3.4%), Mexico **50 Peso** (3.9%), and South Africa **Kruggerand** (4.2%).

Among the lower premium smaller-size gold coins, the British **Sovereign** (7.6%) has been quite popular. The French **20 Franc Rooster** (8.7%) and the Swiss **20 Franc** (8.7%) have also been in demand. They are all gold coins that have histories of trading at 50-100% above gold value, offering the possibility that premiums could rise higher than current levels.

After fierce demand from late 2002 to January 2003, **Common-Date U.S. Gold Coins** have languished. Not even the recent surge in gold prices has spurred demand. They look like great values, except that I like **Better-Date U.S. Gold Coins** even better. Collectors love the opportunity to acquire a coin with, for instance, 50 times the rarity of a common date costing only slightly more than the common issue. They are almost impossible to find now, and sell almost instantly when available.

Many modern-era U.S. Commemorative issues are up sharply in price in the past few years, 50-200%, from the demand by new collectors. However, there are still niches where coins are at bargain prices—if you can find them.

For the first time in our history, we can offer a modest quantity of the low-mintage **Gem Proof-65+ 1984-P, -D, and -S \$10.00 Olympic Gold Com-**

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memoratives. They are now available at huge discounts to their past prices. In fact, their prices make them semi-bullion coins today. With such limited downside risk, I would love to call them our "Pick Of The Month" except that our supply is not as large as I would like. See offering for details.

Silver and Silver Coins

Silver settled today at \$4.86, up 38 cents (8.5%) from last month.

Demand for physical silver continues at a torrid pace. We have already sold more U.S. **90% Coin** (6.2%) to retail customers thus far in 2003 than we have sold in any year in the past decade!

With higher silver prices, some silver has been liquidated, knocking down premiums. For instance, the price of 90% Coin is up 2.5% from last month instead of the 8.5% increase of the raw silver price..

Right now, 90% Coin has a substantial price advantage over almost any other form of physical silver. Since it has the best liquidity, smallest buy/sell spreads, and great divisibility, it is our top recommendation. **100 Ounce Ingots** (10.7%), in comparison, now cost 22 cents per ounce more than 90% Coin.

Numismatic Silver Coins such as Better Date Morgan and Peace Dollars, and are still selling as fast as they appear on the market. For instance, our offering of the Mint State-64 1926 Peace Dollars last month was a quick sellout. When I attended the Central States Numismatic Society show in St Louis two weeks ago, I hoped to find several specimens for customers on our waiting list. To my astonishment, I only saw one specimen that was nice enough for our customers. A major silver dollar wholesaler told me that he would purchase up to 300 specimens to supply other waiting retailers!

Seven months ago, we sold out an offering of **Mint State 1921 Morgan Silver Dollar Rolls**. Since then, the price of silver and the wholesale value of the 1921 Morgan rolls has increased. Despite that, we managed to find a handful of rolls that we can still

The Month

Gold Range	\$26.50	8.1%
Net Change	+26.50	
Silver Range	.39	8.7%
Net Change	+.38	
Gold/Silver Ratio	72.5	
Net change	-0.2	
Platinum Range	57.00	9.2%
Net Change	+36.00	
Platinum/Gold Ratio	1.86	

Date	Gold	Silver	Platinum
Apr 16	325.75	4.48	619.00
Apr 17	327.00	4.47	630.00
Apr 18	closed		
Apr 21	333.50	4.52	635.00
Apr 22	334.25	4.58	636.00
Apr 23	331.25	4.61	632.00
Apr 24	334.50	4.63	632.00
Apr 25	333.50	4.62	632.00
Apr 28	334.50	4.57	610.00
Apr 29	333.75	4.55	598.00
Apr 30	339.25	4.64	602.00
May 01	342.00	4.76	598.00
May 02	340.75	4.78	600.00
May 05	342.00	4.80	600.00
May 06	342.75	4.79	621.00
May 07	341.75	4.73	632.00
May 08	348.50	4.79	633.00
May 09	348.50	4.79	636.00
May 12	351.25	4.86	655.00
May 13	350.00	4.82	645.00
May 14	352.25	4.86	655.00

London Silver Market Premium To New York Silver Market = 1¢

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

offer at last October's price. See our flyer.

In the past, colored Silver Eagle Dollars were heavily promoted on cable television sales channels and in Sunday newspaper ads at very high prices. Most of these were relatively poor quality products that look like decals melted onto the coin's surface. They have been incredibly popular as enduring mementos of special events such as the arrival of the new millennium in 2000. We just acquired a sizeable lot of the more attractive **Hand-enameled 2000 Silver Eagle Dollars** that we can offer at lower prices than one of our national competitors charges for the ordinary 2000 Silver Eagles!

LCS Website Improved

If you visited the LCS website www.libertycoinservice.com in the past, you may have noticed that our most recent issue of *Liberty's Outlook* was several months old and the Daily Price Quotes page was also out of date. Unfortunately, the software used to post them was highly technical, difficult to use, and could be done on just one computer.

These problems were recently fixed. Now it just takes a few minutes to post the Daily Quotes Page after we print our own store copies. The monthly newsletter doesn't take much longer. We now post them in .pdf format which you can read using Adobe Acrobat Version 5.0 software. If you do not have this software already loaded on your computer you can download it free at our website.

Thanks for your patience.

LCS Family Grows Again

LCS is delighted to announce the addition of Dany Rothfeld to our staff in April. With Dany on board, LCS now has its largest staff since the bullion boom of 1979-80.

Dany is one more long-term coin collector on our staff, having been an LCS customer since the early 1980s. For the past several years, he has been serving on the Board of Governors of the Michigan State Numismatic Society (MSNS).

Dany is a prolific and top-notch exhibitor at coin shows, as evidenced by his winning first place awards in three of seven exhibit categories at last month's MSNS Spring Convention. By also winning an award for the Best of Show Exhibit there, he will be enjoying an all-expenses paid trip to the American Numismatic Society Summer Seminars in Colorado next month. He will be accompanied by his daughter Talya who won the same prize for the Junior Best of Show exhibit at the MSNS 2002 Fall Convention. Welcome aboard.

At the beginning of May, Senior Numismatist Tom Coulson was honored to accept Jennifer Orange as his new bride. Most of the LCS crew and some LCS alumni were among the hundreds in attendance to celebrate the occasion. Congratulations and best wishes.

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