Liberty's Outlook

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October 6, 2009—The US Dollar's Demise Is Sealed!

- **China To Adopt A Partial Gold Standard**
- **Barrick Gold Technically Defaults On 9.5 Million Ounces Of Gold Hedges**
- **International Monetary Fund Confirms Future Sale Of 403 Tons Of Gold**
- **Federal Reserve Governor Confirms Fed Has Traded Gold Swaps**
- **Huge International Gold Price Suppression Tactic Quickly Fizzles Out!**
- **Congress Takes Up "Audit The Fed" Legislation**
- **Gulf Co-operation Council Nations To Adopt New Currency Not Tied To US $**
- **Secret Plan By China, Russia, France, GCC Countries To End Use Of US Dollar For Payment Of Oil Contracts Is Uncovered!**

The Result: Gold Price At All-Time Record High!

In my judgment, yesterday will go down as one of the most important days in history. It will be remembered as the day that the collapse of the US dollar became inevitable.

I am deeply grieved and sad to come to this conclusion.

At the longest, the US dollar might survive until 2018. But I think it will fail much sooner as the general public sees a growing number of other countries abandoning the US dollar and assets valued in the dollar.

Toward the end, there will likely be a panic as dollar holders try to dump them before they become worthless.

In the past six weeks, there has been an extraordinary amount of major news affecting precious metals, culminating in the October 5 report in *The Independent* in London about secret meetings involving China, Russia, Japan, France, Saudi Arabia, Kuwait, Abu Dhabi, and Qatar about abandoning the use of the US dollar for payment of oil contracts.

Before I get into more details about this specific dollar-killing development, let's first review other important events that have transpired since the last newsletter:

China To Adopt A Partial Gold Standard. On September 7, *London Telegraph* reporter Ambrose Evans-Pritchard disclosed his conversation over the weekend with Cheng Siwei, the former vice chairman of the Chinese Communist Party Standing Committee who now serves as a sort of Chinese ambassador to the world.

2009 Year To Date Results

Through October 6, 2009

Precious Metals	
Palladium	+52.0%
Silver	+50.6%
Platinum	+39.5%
Gold	+17.2%
Numismatics	
US MS-63 $20 St Gaudens	+14.7%
US MS-63 $20 Liberty	+10.5%
US MS-65 Morgan Dollar, Pre-1921	-9.4%
US Dollar vs Foreign Currencies	
China Yuan	+0.1%
Hong Kong Dollar	+0.0%
Mexico Peso	-1.9%
Japan Yen	-2.1%
Singapore Dollar	-2.1%
India Rupee	-3.8%
Switzerland Franc	-3.8%
Euro	-5.1%
South Korea Won	-7.7%
Great Britain Pound	-8.3%
Canada Dollar	-12.9%
Australia Dollar	-20.0%
New Zealand Dollar	-20.1%
South Africa Rand	-21.2%
Brazil Real	-24.3%
U.S. Dollar Index 76.335	-6.1%
US And World Stock Market Indices	
Sao Paulo Bovespa	+66.9%
Shanghai Composite	+52.6%
NASDAQ	+33.4%
Dow Jones World (excluding US)	+32.3%
Australia S&P/ASX 200	+23.4%
Russell 2000	+20.5%
Frankfurt Xetra DAX	+17.6%
S&P 500	+16.8%
London FT 100	+15.9%
Dow Jones Industrial Avg	+10.9%
Nikkei 225	+9.4%
10 Year US Treasury Note interest rate 3.248%	+44.2%
Intrinsic Metal Value Of U.S. Coins	
Lincoln cent 1959-1982	1.81¢
Lincoln cent 1982-date	0.50¢
Jefferson nickel non-silver	4.49¢
Roosevelt dime, 1965-date	2.04¢
Washington quarter, 1965-date	5.09¢
Kennedy half dollar, 1971-date	10.18¢

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Cheng stated "on the record" that China had lost confidence in the US dollar and was going to shift to a partial gold standard through reserve accumulation. He said, "Gold is definitely an alternative, but when we buy, the price goes up. We have to do it carefully so as not to stimulate the market."

In plain English this means that China stands ready to buy gold on any price dips. This news by itself, that China will be buying more gold and keeping fewer US dollars, is enough to guarantee significantly higher gold prices over the next few years.

GFMS Gets It Wrong—Again. In an interview released September 7, Paul Walker, the CEO of GFMS, one of the world's most respected precious metals consultancies, stated that while he thought gold would perform well over the next 10 to 15 years, he thought gold prices had "a little more downside risk in the short term."

In the weeks since, gold has experienced only small, brief dips and has soared to record high levels. If I have the ability to detect the overall trend for the gold market, I would have expected that GFMS, with far more personnel and insider contacts, to have been able to get this right.

Walker complained that gold made it over $1,000 only because of what he termed "lumpy transactions." He did not explain what he meant, but several analysts suspect it refers to the announcements by several Middle East and Far East central banks that they would be repatriating their gold reserves currently stored in London.

In April, China revealed that it had added 454 tons of gold (14.6 million ounces) to its reserves since the end of 2002. Even I had alerted readers that this was likely occurring, but GFMS completely missed it. When asked by investment analyst John Embry how the firm could have missed this huge development, company officials had no answer.

Barrick Gold Corporation Technically Defaults On 9.5 Million Ounces Of Gold Hedges. Right on the heels of China's announcement of adopting a partial gold standard, Barrick Gold Corporation dropped a bombshell.

The company announced that it would be recording a $5.6 billion dollar loss on 9.5 million ounces of gold hedges that Barrick is unable to repay in kind.

Either in early 2008 or 2009, Barrick bragged that it had closed the last of its hedge positions. When questioned about an old hedge of nine million ounces borrowed to finance the purchase of a South American mine site (which has never been developed, by the way), company officials downplayed its impact by claiming that the terms of the hedge allowed Barrick to participate in any rise in the gold price and that the hedge effectively never had to be repaid.

When gold reached $1,000 last month, the company gave up its pretense. Barrick announced that it would be issuing new stock, eventually totaling more than $4 billion. The proceeds would first be used to settle for cash on three million ounces of fixed-price hedges (for which it was unable to acquire the gold to repay the contract). Any remaining funds were to be used to cover part of the 6.5 million ounces of non-priced hedges that, as it turns out, are due to be repaid in a few years.

The one-time $5.6 billion loss may have exceeded all of the profits that Barrick had previously recorded in its entire history. Some analysts who have pored over the financial statements are concerned that the actual loss sustained by the company is at least several hundred million dollars higher.

There are two extremely important points about this event.

First, Barrick was supposed to redeem these hedges by delivering physical gold. That is what the parties who originally loaned the gold to Barrick wanted to receive. Settling for cash instead constitutes a technical default on the contracts. When the other parties receive the cash, how are they going to find the gold that they expected to get?

Second, Barrick's decision to take the loss now indicates that they expect gold prices to be even higher in the future. After all, if they expected lower prices, they would not be in a rush to now close out the positions.

International Monetary Fund (IMF) Confirms It will Sell 403 Tons Of Gold Reserves. After the global markets had closed for the weekend on Friday, September 18, the IMF announced that it was going ahead with its proposed sale of 403 tons (12.96 million ounces) of gold reserves.

This development was carefully timed to have maximum effect at holding down gold prices by forcing traders to wait until Monday.

The news did have the hoped-for effect, as gold prices traded below $1,000 early Monday morning. However, by the close of the COMEX, the spot price was back above that level.

The specter of an IMF gold sale of this size had been threatened repeatedly for at least the past six years. Each time previously that this was done, the price of gold had dropped significantly and taken at least two weeks to regain the pre-announcement level.

Now that the IMF will actually sell this gold, their bluff will be called—because they will not ever be able to threaten to sell the same gold a second time.

Shortly after the IMF announcement, China offered to purchase the entire amount. In the past I had told readers that if the IMF sale ever came to pass, it was doubtful any would be available to private investors. I stand by that position.

In my mind, I think the timing of the announcement was more of a near last-ditch effort to suppress gold prices.

At least a couple analysts theorize that this gold sale could provide the physical gold to settle Barrick's hedges on which they had just defaulted. There could be merit to this idea.

Federal Reserve Governor Confirms Fed Has Traded Gold Swaps. Five months ago, the Gold Anti-Trust Action Committee (GATA) filed a second Freedom of Information Act (FOIA) request with the Federal Reserve seeking documents from 1990 to date having to do with gold swaps, gold swapped, or proposed gold swaps.

On August 5, The Fed responded to this FOIA request by adding two more documents to those disclosed to GATA in April 2008 from the earlier FOIA request. These documents totaled 173 pages, many of which were redacted (parts of the pages were covered to avoid disclosing exempt information). The Fed also noted that there were 137 pages of documents not disclosed that were alleged to be exempt from disclosure.

GATA appealed this determination on August 20. The appeal asked for more information to substantiate the legitimacy of the claimed exemptions from disclosure and an explanation on why some documents, such as one posted on the Federal Reserve web site that discusses gold swaps, were not included in the August 5 document release.

In a September 17, 2009 letter on Federal Reserve System letterhead, Federal Reserve Governor Kevin M. Warsh completely denied GATA's appeal. The entire text of this letter cam be examined at http://www.gata.org/files/GATAFedResponse-09-17-2009.pdf.

The first paragraph on the third page is the most revealing. Warsh wrote, "In connection with your appeal, I have confirmed that the information withheld under exemption 4 consists of confidential commercial or financial information relating to the operations of the Federal Reserve Banks that was within the meaning of exemption 4. This includes information relating to swap arrangements with foreign banks on behalf of the Federal Reserve System and is not the type of infor-

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mation that is customarily disclosed to the public. This information was properly withheld from you."

In admitting that the Fed has, sometime between 1990 and the present, engaged in gold swaps, Warsh's letter contradicts previous Fed statements to GATA denying that it ever engaged in such gold swaps during this time period.

If there had never been gold swaps from 1990 to date, Warsh's letter would have been certain to say so.

In theory, gold swaps should have no real effect on the long-term price of gold. Gold swaps merely refer to the exchange of matching amounts of gold that may be delivered to different locations or at different times.

For example, central bank A could swap a ton of gold with central bank B. Central bank A might deliver their gold to either central bank B or to someone else who has a claim on B's gold. At some point, central bank B would deliver a ton of gold to central bank A.

Such swaps could easily be used to surreptitiously hide gold dumped onto the physical market to suppress the price. In the above example, both central banks are allowed (and formerly were required) by the IMF to continue to report the missing gold as still being held in their respective vaults. That would leave both central banks free to sell the physical gold on the market, while not disclosing that they had reduced their reserves.

In most instances, swaps are short-term, which is why the net impact would be negligible. If the swapped gold was replaced in a few weeks or months, the replacement of the physical gold would cancel out the earlier decline in physical supply.

However, what if the swaps do not mature for a very long time?

Long-term swaps could help suppress gold prices for years and maybe even decades. GATA and others have accumulated a significant quantity of circumstantial information indicating that this is exactly what has happened.

Warsh's letter may end up being the centerpiece document used to finally get Congress to authorize an audit of the Federal Reserve, including its gold holdings.

Huge International Gold Price Suppression Tactic Quickly Fizzles Out. On September 24, top officials of the G-20 group of developed nations began a two-day meeting in Pittsburgh. The weakening US dollar was sure to be a major topic of these meetings. In order for the US dollar to show some relative strength, it was necessary for the price of gold to drop.

In addition, September 24 was also an options expiration date. There were more than 4,300 gold call options with a contract price of $1,000 per ounce that expired that day. Had the price of gold closed on the COMEX above $1,000, these call options would have been exercised. That would have required the immediate delivery of more than 430,000 ounces of gold!

After a few gold price suppression measures failed to knock the price of gold under $1,000, the US government and its allies tried again.

Before the COMEX close, the Federal Reserve announced that it was going to start withdrawing stimulus funds from the market. It also said it would scale back the short-term debt auctions in early 2010. At almost the same time, the European Central Bank, the Bank of England, and the Swiss National Bank all made virtually identical statements.

The timing of these announcements and the matching of their messages just did not happen by accident. You can be sure that they were planned and coordinated.

The announcements were made on the basis that the world's economy will improve substantially in the next few months. At this point it really isn't possible to prove that there is no chance this could happen. People want to hope that it could happen and would naturally tend to believe that these developments may come to pass if the governments say they will.

As a tactic, these announcements were brilliant. It managed to knock the price of gold under $1,000 for two days without any central bank needing to immediately unload any physical gold on the market. They did not have to use up any resources to have this effect. Best of all, when the central banks later have to renege on their plans (I am more than 90% confident this will occur) that will transpire long after the COMEX close on September 24.

Make no mistake, it took this huge international effort to knock the price of gold down just a few measly dollars—and only did so for two days! The quick failure of this tactic is a huge sign that the US government's gold price suppression efforts are nearing the point where they will no longer work.

Congress Takes Up "Audit The Fed" Legislation. On September 25, the House Financial Services Committee began hearings on HR 1207, a bill calling for the Government Accountability Office (GAO) to audit the Federal Reserve. The bill is sponsored by Rep. Ron Paul (R-TX) and has 295 co-sponsors.

Among the witnesses testifying that day was Scott G. Alvarez, the general counsel for the Federal Reserve. In response to a question from Rep. Alan Grayson (D-FL), Alvarez precisely stated that he did not foresee that the Fed would object to an audit by the GAO of the "physical presence" of gold alleged to be stored in US government vaults.

By carefully answering this question, Alvarez completely avoided the more important issue of whether all of the gold physically present in US government vaults is actually owned by the government.

Since these hearings began, various Federal Reserve officials have repeated the threat that any audit of the Fed would result in higher interest rates, higher consumer prices, and a lower value for the US dollar. While these statements may be true, I consider them desperate measures to bully American citizens and keep them from knowing what their government is doing.

This opposition to operating transparency is not a new issue for the Fed. Bloomberg News won a court order to enforce their FOIA request seeking the names of financial companies that are not banks who had received loans from the Federal Reserve. The Fed is objecting to complying with the order, saying that such information could cause a run on such institutions, hurt shareholders, and limit the Fed's "ability to perform important statutory functions at a time of economic upheaval." The Fed is appealing the court order.

Gold Price Achieves A Record High For End Of The Month Close. When gold closed on the COMEX on September 30 at $1,008, that was the first time it had settled on the last trading day of a month above $1,000. Month end closing prices (especially for those months which are the end of a calendar quarter) are carefully tracked by technical traders. This new record high price sends a buy signal to such traders.

New Unemployment Report Shows Increase, But Gold Price Rises Anyhow. Last Friday, the latest US unemployment report came in with worse results than the month before. As with almost every monthly unemployment report in the past four years, the price of gold was beaten down at the time this news was released. Typically, this tactic almost always worked.

Not this time. The price of gold rose afterward, closing again over $1,000.

Gulf Co-operation Council (GCC) Countries To Establish A New Currency Not Tied To US Dollar. The GCC consists of the nations of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar, and Kuwait. For years, these nations tied their respective currencies to the US dollar.

The economies of these nations have

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suffered as the value of the US dollar has declined. Many imports to that region of the world are priced in Euros and other currencies that have risen against the US dollar, which means that inflation is a real problem.

Over a year ago, Kuwait broke its US currency link. The other nations were exploring ways to do the same.

At least four of the GCC nations—the United Arab Emirates, Saudi Arabia, Qatar, and Kuwait have agreed to develop a new currency tied to the value of a basket of other currencies, which is almost certain to include gold (with a weighting that may approximately 50% of the whole basket) and may exclude the US dollar.

With these nations together holding over $2 trillion in US dollars and US government debt, such a development would be a serious blow to the value of the US currency. There would be less future demand for any US debt, government or private. Existing US dollar-denominated debt would tend to be cashed out rather than rolled over into new bonds, causing the US to have to export goods and services to redeem the paper. This could start a trend that would result in the insolvency of the United States government and its citizenry.

US Commercial Real Estate Ticking Time Bomb. According to a Federal Reserve report released last week, US banks now have only booked bad debt reserves equal to 38% of their bad loans in commercial real estate. This is a decline from reserves equal to 158% of such bad loans as recently as January 2007.

Two days ago Bill Dudley, the president of the New York Fed District, said, "More pain likely lies ahead for this sector." Recently, Chris Whalen of Institutional Risk Analytics said that, "The fourth quarter in the banking industry is going to be a bloodbath."

A couple months ago I warned you that $700 billion of US commercial real estate debt would have to be refinanced before the end of 2009. With mortgages becoming ever more difficult to obtain, a sizeable portion of this debt is likely to go into default.

The debt problems of the commercial real estate market will carry over to the residential market. One analyst even predicts that the US residential real estate market, by the spring of 2010, could see values decline a further 20-30%.

Declassified Documents Prove US Government Has Long Engaged In Gold Price Manipulation. As the years pass, many government documents become available for disclosure. Just in the past month, there have been three significant documents uncovered having to do with the US government's actions and plans to suppress the price of gold.

A June 3, 1975 memorandum from then Federal Reserve Chairman Arthur Burns to President Gerald Ford had copies distributed to Secretary of State Henry Kissinger and future Fed Chair Alan Greenspan. On page four is found:

"a large measure of freedom for governments to trade in gold at market-related prices may easily frustrate efforts to control world liquidity. For example, such freedom would provide an incentive for governments to value their official gold holdings at a market-related price [France has already done so.] This in turn could result in the addition of up to $150 billion to the nominal value of countries' reserves. Liquidity creation of such extraordinary magnitude would seriously endanger, perhaps even frustrate, our efforts and those of other prudent nations to get inflation under reasonable control."

A 1968 US State Department document further explained the inner workings of gold price manipulation.

A September 23, 1975 letter from Paul Volcker as president of the Federal Reserve Bank of New York to officials at the Vatican City states, "I suggest that the gold should be sold to the private sector and not to a central bank."

The documents openly acknowledge that there was a two-tier gold market, one for the private sector and one for central banks. Holders of gold were consistently urged to sell their gold in the private sector, where additional supplies would help hold down prices.

With earlier documents confirming that the US government intervened to suppress the price of gold and Warsh's letter acknowledging that the Fed had traded gold swaps at least some of the time from 1990 to the present, there is a strong suspicion that the government has been actively manipulating the gold price all along.

The Big Story Breaks

Two days ago, *The Independent's* disclosure of the secret meetings involving China, Russia, Japan, France, Saudi Arabia, Kuwait, Abu Dhabi, and Qatar about abandoning the use of the US dollar for payment of oil contracts rocked the financial world.

As soon as the news spread, buyers jumped in to buy gold. Gold's price soared yesterday to close at an all-time high (ignoring inflation). Every attempt to hold down the rise was quickly overcome by even more buying activity. We saw more of the same today.

As early reports of this story spread, people were told to expect high placed denials that these meetings had taken place.

Naturally, governments were quickly working behind the scenes to do damage control. The occurrences of these secret meeting were denied by Saudi Arabia central bank chief Muhammad al-Jasser, Japanese Finance Minister Hirohisa Fujii, and Kuwait Oil Minister Sheikh Ahmed Al-Abdullah Al-Sabah.

The original news story cited unidentified Middle Eastern officials and Chinese bankers in Hong Kong as confirming the story.

Late yesterday, Max Keiser, who broke the story this year about the German central bank gold holdings stored in the New York Federal Reserve vaults, said his contacts in Paris, the Middle East, and in Russia confirmed the accuracy of the original story.

Details of the plan are not complete. Broadly, by 2018 the member nations of the Gulf Co-operation Council, China, Russia, and France would agree to no longer use the US dollar for pricing and payment of oil contracts. Instead, payment would be made by a new currency whose value would be determined in relation to the value of gold, the Euro, the Japanese yen, the Chinese Yuan, and the new GCC currency.

Apparently, Brazilian officials had attended at least one meeting but were not yet committed to be part of the plan. Officials from India have also requested to be part of these meetings.

Why This Development Kills The US Dollar

The US government has been actively inflating its currency for decades. In a large part, the US has benefitted from the status of the US dollar serving as a world reserve currency. In return for exporting goods and services to the US, foreigners had received—paper!

In theory, this paper currency and debt could someday be redeemed for goods and services. While some redemptions have occurred all along, the US government has been pushing ever greater amounts of paper assets to foreigners.

As long as foreign dollar and debt holders perceive that the US is sufficiently prosperous and fiscally prudent, they are inclined to pay relatively little attention to the growing amount of foreign-held paper.

Starting in 2007, growing in 2008, and soaring in 2009, the US government's size of expenditures and the net budget deficit have grown. Foreign governments and private citizens have become more worried about the amount of foreign-held dollars and dollar-denominated debt.

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These foreign parties now face a situation where they realize that if the US government doesn't do something to control this financial mess, the dollar could become worth a lot less and maybe even worthless.

The current administration is quickly making a bad situation spiral into an uncontrollable disaster. The only possible way out that I see would be by the adoption of prudent, responsible fiscal policies that would encourage foreign creditors to wait long enough for current problems to be managed.

These secret meetings are a sign that time has run out for the US dollar. A significant coalition of foreign governments are making plans which will result in massive quantities of US dollars and debt being repatriated to American in return for goods and services. The only way this can be done is through a sharp long-term contraction of the American standard of living.

The only other alternative to redeeming all these dollars for full value would be to inflate the US dollar to such an extreme degree that it becomes practically worthless. Like Zimbabwe, you can repay a trillion dollar debt when a trillion dollars is only enough to buy a cup of coffee.

Unfortunately, I think the revelation of this plan to displace the US dollar in a significant percentage of international transactions will push down the value of the dollar long before the actual program is implemented in full.

The existence of this plan will now push all other foreign creditors of the US government to expedite their repatriation of dollars.

As the value of the dollar sinks, Americans will also realize that holding dollars and dollar-denominated paper assets is a losing strategy. Retirement funds invested in most stocks and bonds will lose their value.

At some point I would not be surprised to see the price of gold rise by at least $100 a day, and that time could come before the end of 2009. I also see silver rising 5-10% per day at about the same time.

We saw a similar situation in Indonesia in 1997, during the Far Eastern currency crisis. Indonesian citizens who owned gold saw their lifestyle largely unchanged. Those who owned only the paper currency became destitute.

The Solution

Maybe things won't get as bad for the dollar as I fear. But my expectation is for the us dollar to fail before 2018, to be replaced by something else.

Gold and silver bullion-priced coins and bars would be excellent assets to have in your personal custody to protect yourself. There are many other physical goods, personal skills, and a network of relationships that would also be important, but they are beyond the scope of this essay.

Right up into the mid-1800s, Americans were used to a wide variety of coins and currencies in circulation. I don't think there will be any one form of gold or silver to own for trading purposes. Instead, I expect that a wide selection of coins and ingots will be readily exchangeable.

Because I think many forms of gold and silver will trade, it makes sense to look for the forms with the lowest premiums, where you get the most metal for your money. I also like the idea of having some smaller, more divisible, forms, even though they might cost a higher premium above metal value.

Between gold and silver, I recommend a split of 40-50% in gold and 50-60% towards silver.

Right now, most gold and silver bullion-priced products are readily available at reasonable premiums. Once the dollar really starts to drop, I would expect product to be snapped up by worried people. During one of the worst parts (so far) of the financial crisis a year ago, just about all forms of physical gold and silver disappeared within a matter of days.

If you don't yet own your core position of gold and silver bullion, I urge you to do so quickly—while you still can.

Silver Summit 2009

Last year, attendance at the Silver Summit had grown so large that there was no longer a facility in Coeur d'Alene, Idaho large enough to host it.

This year, the venue moved to the larger Davenport Hotel in Spokane, Washington. It was an appropriate location as the Davenport began almost 100 years ago to service travelers involved with the nearby mines, most of which produced silver.

Once again, the programs were filled with presentations by silver mining companies, analysts, geologists, dealers in physical metals, and a few eccentric speakers.

While there, I was interviewed for a broadcast on the Korelin Economic Report on September 26 (available as part of a two-hour program at www.kereport.com). The theme of my interview segments was steps that investors in physical precious metals could take to protect themselves from unscrupulous, incompetent, or non-competitive suppliers. The interview went so well, that the host, Al Korelin, asked that I become a regular guest every few weeks.

I later mentioned the idea of an investor protection panel for next year to Shauna Hillman and her husband David Bond, the Silver Summit organizers. They were interested in the idea and will likely include me as one of the speakers.

Although highly selective, I still took 13 pages of notes. Here are some of the more interesting tidbits that I picked up:

David Morgan (www.silver-investor.com): "Most gold and silver trading is in derivatives, so a weak general stock market could hurt gold and silver prices." Recommends selling all stocks and exchange traded funds for physical metals.

John Embry (Sprott Asset Management): Expects silver to outperform gold and for the gold/silver ratio to drop precipitously. Does not think the US government will call in gold because it would cause prices elsewhere in the world to explode; it would also be a sign of US government weakness. Predicts gold will reach $1,500 within six months.

Roger Wiegand (Trader Tracks): Gold must pass at least $1,032.50 or $1,050 in order to confirm a near term move to $1,250. Super inflation is coming this winter.

Gerry Schubert (INTL Commodities): He was the trader who handled the silver trade at $53 per ounce back in January 1980. This week, the Chicago Mercantile Exchange started offering over the counter cleared forwards to facilitate hedging activities since banks have stopped financing such contracts.

Hugo Salinas-Price (Grupo Elektra): A sound medium of exchange is a requirement for economic development.

Dr. Eric Rentz (Natural Immunogenics Corporation): Bacteria carry a negative charge, so the electrical charge in silver ions is the cause of its anti-microbial effect. Silver is anti-bacterial, anti-fungal, and anti-viral.

Bill Murphy (GATA): Highest attended presentation of the whole conference—by a lot. China's central bank is set to purchase 350 tons of gold in the next three years. Cited the analysis of James Turk who says that if the Consumer Price Index today were calculated using the same methodology used in 1980, then gold would have to rise to $6,500 today to match the 1980 peak price. Is suspicious of the reason why gold mines would hedge future production at $270 per ounce as they could not make a profit at that price level.

Jeffrey Christian (CPM Group): Russia, Ecuador, Philippines, and Kazakhstan central banks are all current net buyers of gold, but only purchase domestic production. "Some" central banks in last few weeks have entered the commodity markets to make open market purchases.

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Mike DiRienzo (Silver Institute): Newer silver uses include hospital needles, catheters, breathing tubes, wall coatings, floors, cabinets, furniture, spinal implants, a contact lens that measures retina pressure to detect glaucoma earlier than before, bottled water, hospital papers used to package food, case notes, conductive inks, lockers, drapes, rugs, clothes, silk and polyester fibers, home appliances, humidifiers, cell phones, lead-free solder, rechargeable solar batteries, diesel catalytic converters, windows, solar power mirrors, seats in cars, trucks, buses, trains, and airplanes.

Silver and Silver Coins

Silver settled today at $17.48, up a huge $3.22 (22.6%) from the last newsletter!

This is one of the sharpest increases in any six week period in the past 25 years. This rise occurred in spite of the aggressive efforts to hold down silver spot prices.

For instance, right now almost all silver leases from one month to one year in length carry a negative interest rate. In other words, the borrower has to pay back less than they are borrowing! This circumstance only occurs when "someone" wants to force physical metal onto the market so much that they are willing to lose money to do so. No profit-seeking party would do that. About the only reason for the lease market to be like this is to try to flood the market to suppress the silver spot price.

So far, demand for physical silver has not taken off like we saw several times last year. As a consequence, premiums have mostly declined over the past six weeks and supplies are readily available—for the time being.

Despite these indicators, there are signs of tight silver supplies in the paper contract markets. The prices of the COMEX October and December contracts are much closer than normal, a sign of tight supply. Should the October contract price rise above December for a few consecutive days, we will likely see an even greater price rise than was just experienced.

My recommended form of silver to purchase is US **90% Silver Coin** (2.6%). It has the lowest premium except for US **40% Silver Coin** (1.6%). 90% Coin is the most widely traded form of investment silver, the most liquid, and is highly divisible. The 40% Coin has the disadvantage of requiring the storage of the 60% copper-nickel content, which also runs up postage costs if it is shipped.

Yesterday, the US Mint announced which products would be forthcoming by the end of 2009 and which would not be struck. Demand for the uncirculated US **Silver Eagle Dollars** (12.9%) has been so strong that more than 20 million coins have been sold already, an all-time annual record with almost three months left to go. Unfortunately, because of this strong demand, the Mint will not strike a 2009 Proof Silver Eagle Dollar. From a customer service perspective, I think the Mint will come to regret this decision. The other coins that will not be struck this year have nowhere near the popularity of the Proof Silver Eagles.

Although prices have not begun to run up yet, supplies of the **Blue Chip** (or "generic") coins like high grade common-date Morgan and Peace Silver Dollars are drying up. I expect to see national marketing campaigns for them late this year or early in 2010. As this occurs, I expect prices to spike. We are fortunate to be able to offer a decent quantity of hand-picked **Choice Mint State-63 and Very Choice Mint State-64 Peace Silver Dollars** at today's reasonable levels. See our enclosure for details.

Gold And Gold Coins

Gold finished today at $1,043.25, a strong increase of $99.00 (10.5%) from six weeks ago.

Gold rose in the face of extreme efforts to suppress prices. At least twice in the past six weeks, commercial traders have shorted a minimum of five million ounces of gold in a week to try to flood the market. Plus, all gold leases of six months or shorter are currently at negative interest rates—for the same price suppression reasons that silver lease rates are negative.

Like silver, premiums are still reasonable and most products are readily available.

The exciting news from the US Mint is that they will produce both uncirculated and proof US **Buffalo** One Ounce Gold coins this year. Dealers are able to take orders now and will be able to ship in about two weeks. I expect demand to be strong, so I'm not sure that they will long stay at their current relatively reasonable premium levels.

The Mint also announced that it will sell uncirculated versions of the 2009 fractional **American Eagles** in the first week of December. You should be able to place orders for them around Thanksgiving. Don't think that with the short time left in the year that the mintages will necessarily be low. I expect that the coins are already in production and that demand will be strong.

Despite the sharp increase in the price of gold, most **High Grade US Common-Date Gold Coins** were stagnant or even fell in price in the past six weeks. We were fortunate to snap up a lovely lot of **Choice Mint State-63 $5.00 Liberties from the 1800s** at the right time. Please see our enclosed of-

The Month

Gold Range	99.00	10.5%
Net Change	+99.00	
Silver Range	3.26	22.9%
Net Change	+3.22	
Gold/Silver Ratio	59.7	
Net change	-6.5	
Platinum Range	112.00	9.0%
Net Change	+90.00	
Platinum/Gold Ratio	1.27	

Date	Gold	Silver	Platinum
Aug 26	944.25	14.26	1,238.00
Aug 27	945.50	14.22	1,240.00
Aug 28	957.00	14.78	1,246.00
Aug 31	952.50	14.91	1,244.00
Sep 01	954.75	15.04	1,227.00
Sep 02	976.50	15.34	1,230.00
Sep 03	995.75	16.26	1,254.00
Sep 04	995.00	16.26	1,259.00
Sep 07	closed		
Sep 08	998.00	16.49	1,290.00
Sep 09	995.25	16.44	1,291.00
Sep 10	995.50	16.65	1,290.00
Sep 11	1,005.00	16.68	1,321.00
Sep 14	1,000.00	16.60	1,320.00
Sep 15	1,005.00	16.98	1,320.00
Sep 16	1,019.00	17.41	1,350.00
Sep 17	1,012.25	17.24	1,342.00
Sep 18	1,009.25	17.04	1,338.00
Sep 21	1,003.75	16.86	1,322.00
Sep 22	1,014.25	17.09	1,339.00
Sep 23	1,013.00	16.89	1,328.00
Sep 24	997.50	16.27	1,309.00
Sep 25	990.25	16.04	1,289.00
Sep 28	992.50	16.17	1,291.00
Sep 29	993.00	16.16	1,278.00
Sep 30	1,008.00	16.64	1,303.00
Oct 01	999.50	16.42	1,289.00
Oct 02	1,003.25	16.21	1,283.00
Oct 05	1,016.75	16.51	1,302.00
Oct 06	1,038.50	17.27	1,325.00
Oct 07	1,043.25	17.48	1,328.00

London Silver Market Premium To New York Silver Market = 4¢

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

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