Liberty's Outlook

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Huge Government Interventions Clobber Precious Metals Prices!

—Bank Woes Mount—Federal Reserve, Bank Of England, And European Central Bank Inject Over $500 Billion In Bank Liquidity!
—FDIC Chair Admits Agency May Need US Treasury Bailout!
—Are Physical Gold And Silver Supplies Running Out!
—Will Bargain Buying Time Last Until After US Elections?

Since July 15, the prices of precious metals have dropped a greater percentage than they have in years. Just compare the results through yesterday:

Metal	*July 15*	*September 2*
Gold	977.75	808.00
Silver	18.94	13.20
Platinum	1,961.00	1,417.00
Palladium	442.00	301.00

In barely six weeks, the price of gold is down 17.4%, silver 30.3%, platinum 27.7%, and palladium 31.9%.

During the same period, the value of the US dollar rose more than 5% against a basket of major foreign currencies.

Obviously, these lower metals prices and the rise in the dollar did not just happen by accident. There are one or more major reasons why this occurred.

To comprehend what has happened in the past six weeks, it is necessary to understand what happened before then. Only then is it possible to make a reasonable prognosis of what price changes we face in the coming months and years. Once this is done, you can then adjust your personal holdings with better prospects of future appreciation.

On the surface, the business media has made a big deal out of quoting so-called experts who say that precious metals and other commodities are past their peak, and that we are on the recovery side of the mortgage industry meltdown, rising inflation, trade deficits, rising unemployment, federal budget deficits, the war on terrorism, the falling value of the US dollar, and many other problems. The drop in precious metals prices and the rise in the relative value of the US dollar may even be interpreted as signs they could be right.

Unfortunately for these analysts:

- Global stock markets do not confirm that the economy is on the upswing.
- The supposed glut of precious metals being dumped to cause prices to fall is a lie. Customer demand to purchase physical metals is so strong the many retailers and wholesalers have run out of inventory for immediate delivery. Mints and manufacturers of ingots have gotten so far behind trying to fabricate enough product to meet demand that some have completely shut off accepting new orders. Premiums are up, some by a lot, on almost all forms or gold and silver coins and ingots.
- Major central banks are flooding the banking system with liquidity to try to buy time for banks to find ways to cope with their burgeoning illiquid assets (like underwater mortgages) and recognizing huge losses. Already the Federal Reserve has injected about $200 billion, the Bank of England about $350 billion, and the European Central Bank (ECB) by such a large (but not revealed) amount that one ECB official, who asked not to be identified, said that if the public became aware of the size of these bank loans, that it could cause the Euro to fail.
- As days pass, ever more evidence is uncovered proving that the recent fall in precious metals prices and the rise in the U.S. dollar are the result of massive intervention by governments and central banks around the globe. Here are just a few highlights.

Recent Government Interventions In Precious Metals And Currency Markets

1) Perhaps the most damning information to come to light is in the most recent monthly Bank Participation Report issued by the U.S. Commodity Futures Trading Com-

2008 Year To Date Results
Through September 2, 2008

Precious Metals	
Gold	-3.2%
Platinum	-6.2%
Silver	-10.8%
Palladium	-18.9%
Numismatics	
MS-65 Morgan Dollar	+13.8%
MS-63 $20.00 Liberty	+1.7%
MS-63 $20.00 St Gaudens	-2.1%
US Dollar vs Foreign Currencies	
India Rupee	+12.5%
Great Britain Pound	+12.1%
Canada Dollar	+8.9%
Euro	+1.5%
Switzerland Franc	-1.6%
Japan Yen	-3.2%
Brazil Real	-6.1%
China Yuan	-6.3%
U.S. Dollar Index 78.038	+1.75%
US and World Stock Market Indices	
Russell 2000	-3.6%
NASDAQ	-11.4%
S&P 500	-13.0%
London FT 100	-13.0%
Dow Jones Ind Average	-13.2%
Tokyo Nikkei 225	-17.6%
Frankfurt Xetra DAX	-19.2%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.16¢
Lincoln Cent 1982-date	0.47¢
Jefferson Nickel-non-silver	5.11¢
Roosevelt Dime 1965-date	2.32¢
Wash Quarter 1965-date	5.80¢
Kenn Half Doll 1971-date	11.60¢

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mission (CFTC).

This report was given wide publicity by silver analyst Ted Butler, who credits his friend Carl Loeb for his assistance.

In a nutshell, from July 1 to August 5, three or two unidentified US banks increased their net short positions in the New York COMEX gold and silver markets by huge amounts, with little corresponding reductions in the positions of foreign banks.

All banks combined increased their net short positions in COMEX gold contracts by 7.7 million ounces during this five weeks period, while the COMEX silver contracts expanded the net short position by 125.2 million ounces. All or virtually all of this change was done by US banks.

The amounts sold short were so huge that they represent about 10% of annual global new mining supplies of gold and 20% of newly mined silver supplies!

This one activity would be sufficient to cause a huge drop in the prices of gold and silver, which apparently happened just after these huge short sales occurred.

Butler suspects that only one US bank is the main culprit in these short sales, He makes reasonable arguments that there are very few banks of sufficient size to be able to make transactions of such magnitude. Such trades would be so risky in normal times that no bank's management would be willing to conduct such transactions unless they were doing them at the direction of the US government.

Butler further suspects that these huge short sales by banks are really a transfer of huge short positions from other unidentified parties who may have been trapped by the massive losses from their short positions but were not able to potentially tap into the pockets of taxpayers that same way that the bank industry can.

2) Goldman Sachs is a major brokerage which has been advising clients to close out their long gold positions because the market has peaked. As the same time the company has been advising its customers to sell gold (which would have the effect of lowering prices), it has been a net buyer of gold for its own account on the Tokyo TOCOM exchange. At the rate that Goldman Sachs has been buying gold, they are likely to shift from a net short to a net long position on this exchange by the end of November.

The top echelon of Goldman Sachs are heavily intertwined with government regulators. The current and two recent Treasury Secretaries left their positions at Goldman Sachs to enter government service, for instance. If any company was in position to learn insider secrets, it would be Goldman Sachs.

3) On Tuesday, August 26, Sheila C. Bair, the Chair of the Federal Deposit Insurance Corporation (FDIC) said her agency may have to borrow money from the US Treasury Department to provide liquidity through the expected wave of bank failures.

In an interview, she said, "I would not rule out the possibility that at some point we may need to tap into lines of credit with the Treasury for working capital, not to cover our losses, but just for short-term liquidity purposes."

The FDIC last had to tap into the Treasury in the early 1990s during the final stages of the savings and loan bank crisis.

Already, 10 banks have failed in 2008 after only three banks failed in the previous three years combined! The FDIC has become more aggressive at trying to bring troubled banks into mergers with stronger banks before they fail, to hold down the number of bank failures.

4) The Bank for International Settlements reported recent significant mobilization of central bank reserves used to purchase US dollars. In the three weeks ending August 8, the total exceeded $52 billion. In total, from mid-July to mid-August, central banks purchased so much US government debt that total holdings increased 2%, an unprecedented amount.

5) In the week ending July 25, member banks of the European Central Bank sold almost a million ounces of gold, whereas normal weekly quantities sold have been under 100,000 ounces.

6) China is the largest holder of US government debt (and I am including Fannie Mae and Freddie Mac debt in this total). As the value of the dollar declines, it affects about $1 trillion of Chinese reserves. To help support the value of the dollar, Chinese regulators have increased the reserve requirements for the country's banks five times in the past six months. The catch is that Chinese banks are required to hold any increases in their reserves in US dollars! By this means, the Chinese government can help support the value of the dollar without having to use its own resources.

7) Central banks continue to offer to lease gold in such large quantities that it keeps the lease rates close to zero. In effect, central banks are subsidizing other parties to borrow physical gold to be dumped onto the market.

This is only a partial list of some of the behind-the-scenes manipulations that are going on to hold down gold and silver prices. There simply isn't room to list them all.

What Does This Manipulation Mean?

A smart person would ask, "Why bother? What's so important about suppressing the price of gold and silver?"

The truth is that, no matter what governments and central banks say, gold is money!

All currencies are measured against gold. The price of gold in US dollars represents a report card on the US government and economy.

Just as the US government obscures the state of the US economy by altering how it reports statistics on inflation, unemployment, trade deficits, budget deficits, and the cost of various programs (perhaps the most extreme recent example of this is where the Congressional Budget Office estimated that the bailout of Fannie Mae and Freddie Mac would only cost taxpayers $25 billion, but an August 22 report by analyst Don A. Rich figures it will cost at least $1.3 trillion and perhaps as much as $2.5 trillion!), it also tries to mask poor economic conditions by holding down gold prices.

There is another major reason to suppress gold and silver prices—they are competition for the US dollar. Investors could choose to own government debt or buy stocks, or they could use the same funds to purchase gold and silver. Even after the recent swoon in prices, gold and silver have more than tripled in price since the early part of this decade, a record that no currencies or stock indices have come close to matching. Despite the relative lack of news coverage, more investors are selling stocks and bonds and taking positions in precious metals. If it looked like the prices of gold and silver had peaked, that would discourage more investors from shifting away from the dollar-denominated paper assets.

There is a major reason for all this manipulation to be going on right now. Gold had reached an all-time high earlier this year (if you ignore inflation) and silver reached its highest level since 1980. Even platinum had reached an all-time high more than double its record 1980 price (again, ignoring inflation). The US Dollar Index had reached record low levels. The financial news from all over the US economy is horrible and getting worse.

Such a track record does not help incumbent politicians trying to get reelected.

The US government has easily funneled at least $500 billion trying to support the values of US stocks—and failed. What has worked was clobbering the prices of alternative investments in precious metals.

Literally, every day that goes by brings a new round of horrible financial news. The US economy has a lot of strength, but it is sliding. It would not have to decline much further from current levels to bring on real chaos.

Unfortunately, government interventions simply make the problems even worse. Only an unfettered private sector can shake out the distortions wrought by government actions and restore the economy to health.

But, politicians seeking reelection have an incentive to try to hold things together and postpone the pain until after the election. That means that we may see ever more blatant manipulation of the precious metals markets for two more months.

What then?

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Politicians would prefer that bad news hits shortly after elections, to give voters as much time as possible to forget about it before the next election.

All the recent manipulations of the precious metals and currency markets have not changed the long-term fundamental reasons to expect much higher gold and silver prices by 2009 at the latest. Unfortunately, because of space limitations, I cannot recap it here. For this information, I have to refer readers to past issues of this newsletter which can be viewed at www.libertycoinservice.com. Or call us to mail you the last few issues if you don't have access to the internet.

By early November, I expect that the US government will have exhausted a lot of the ammunition it is now using to hold down gold and silver prices. As the manipulations wind down, I expect gold and silver will soar in price.

Is there a precedent for this expectation? Actually there is. Going into the presidential nominating conventions in 1976 the price of gold was clobbered. But, by the end of 1976 gold's price had jumped more than 30% from its low.

I anticipate another quick rise in gold and silver prices for the last two months of 2008, and even higher prices next year. The best time to prepare yourself is sooner rather than later!

Will Silver Get EPA Approval As A Broad Spectrum Anti-microbial Chemical?

Some silver-based preparations have been approved by the US Environmental Protection Agency (EPA) for use against microbes. The approvals have covered surface and water disinfectants.

Still, manufacturers are prohibited from making broad claims of silver's effectiveness in inhibiting the growth of bacteria.

Recently, the EPA issued an approval for solid metallic copper and some of its alloys for antibacterial and pathogen control claims, the Agency's first ever approved for any chemical.

Now the Silver Institute is studying whether to seek a similar approval for silver as a broad spectrum antimicrobial chemical. If such an approval is sought an granted, manufacturers would be allowed to make such claims in their sales literature, likely to lead to even more industrial demand for silver.

For example, Samsung and LG manufacture washing machines and refrigerators with silver coatings on their interior surfaces. Samsung is already selling these appliances in many nations, but neither company has yet received EPA approval to sell them in the US.

Other market niches where silver use is already or soon expected to grow significantly include automotive textiles, military and sports textiles, medical textiles, radio frequency identification devices (RFID), wound dressings, catheters, stethoscopes and other medical devices, hair dryers, pens, clipboards, paint, and much more.

A major reason for the explosion in industrial applications for silver is that the benefits of silver can be obtained using only microscopic quantities of the metal. Even though silver is considered a "precious metal," the unit cost of adding silver is usually minor compared to the value of the product's improvement.

Last year, the editors of *Environmental Building News* rated silver-coated window glass as one of the Top 10 products of 2007. Using silver, Alpen Energy Group's Fiberglass Window achieved a heat savings rating of R-20, equal to the heat rejection performance through 16 panes of ordinary glass! At least one major supplier of residential glass, The Cardinal Glass Co., reports that 60% of door and window sales are for silver-spatter glass.

The Silver Institute reported that global industrial demand for silver rose 1% in 2007 over 2006 even though the average price was 16% higher last year. Amazingly, industrial demand for silver was 120 million ounces higher in 2007 than it was in 2001!

Altogether, the Silver Institute reported that 2007 silver demand came to 843.7 million ounces, much more than the 670.6 million ounces of silver produced by mines last year.

As years pass, I expect silver to be used in many more applications than it is now, which will inevitably boost demand.

Will Silver Displace Platinum And Palladium In Catalytic Converters?

Mitsui Mining and Smelting announced that is had developed a new silver catalyst for use in diesel engines. This would replace catalytic converters now manufactured with platinum catalysts at a savings of more than 90% of the precious metals costs in the particulate filter.

The company reports that it still has a few technical issues to work out before these silver catalytic converters become the standard for diesel-powered vehicles.

Johnson Matthey, one of the world's largest refiners of precious metals, publishes semi-annual analyses of the platinum group of metals. In their most recent report, they state that approximately 4.24 million ounces of platinum demand is for use in catalytic converters.

While a large percentage of catalytic converters are used in gasoline-powered vehicles, the largest growth area for catalytic converters is in diesel-powered automobiles and light duty trucks in Europe.

I don't have a breakdown between platinum usage in the catalytic converters in gasoline versus diesel-powered engines, but this change in technology, if and when it happens, could reduce global platinum demand by a lot—maybe even 20-30%.

If such a decline in demand occurs, the price of platinum would take a significant drop.

Palladium is valued partly for its chemical ability to be a substitute for platinum in converters. Any fall in demand for platinum for this application would almost certainly reduce the demand and price for palladium as well.

Compared to gold and silver, I have been much less enthusiastic about the long-term fundamental supply and demand factors for platinum and palladium. This coming technological innovation makes me even more leery of owning either metal for an investment.

Are Physical Supplies Of Gold And Silver Nearly Exhausted?

In theory, central banks, governments, and international organizations hold almost a billion ounces of gold, including more than 261 million ounces by the US Treasury.

However, much of this amount has been leased, and is no longer available to be sold until the lease is redeemed by return of the metal. At the minimum, "official" researchers such as Jessica Cross estimate that 15-25% of official gold reserves are no longer in the vaults. Other researchers such as Frank Veneroso have calculated that 50-75% of all official gold holdings have been leased and turned into jewelry.

A few years ago, a mini-scandal erupted when it turned out that the International Monetary Fund (IMF) was requiring central banks who had leased out gold and the central bank that had actual possession of the gold to both report it as being in their respective vaults. The IMF has changed its reporting standards since to encourage governments and central banks to more accurately describe their owned, leased, and swapped gold positions, but compliance is voluntary.

This year, the IMF has persistently refused to disclose whether the gold that it reports as owning has also been double counted by the four central banks who are its custodians. The answers they provide to questions on this subject talk all around the issue, but never address it. So there is a possibility that the more than 100 million ounces supposedly owned by the IMF may not really be available for the sale awaiting US government approval

If it is true that official gold holdings are

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much smaller than reported, that would explain why government and central bank gold sales have fallen sharply in the past few years. It could also have influenced the announcement by the US Mint last month to suspend sales of US 1 Oz Gold American Eagles, then later resume sales of small quantities for the next month or so.

The US government supposedly has so much gold that it should never run out of blanks to strike these coins—if it really does have all 261+ million ounces of gold. The suspension and then limitation of sales has some wondering if the US government is covering up the fact that it has much less gold than it claims.

The same problem exists with the silver market. The US government is trying to claim that it is having trouble obtaining enough planchets from private companies to strike into coins. This may be obfuscating the fact that the planchet manufacturers may be having a problem obtaining physical silver. The same problem seems to be affecting the Royal Canadian Mint. Johnson Matthey was about 10 weeks behind on fabricating 100 Ounce Ingots to fill orders when they decided to totally stop accepting new orders. Normally, a private company would welcome a growing backlog of business unless, for instance, they knew they might have a problem obtaining a supply of raw materials.

The recent lower precious metals prices have brought on a buying frenzy. Very little physical gold and silver is available for immediate delivery, though here at LCS we have a better inventory than most coin dealers.

Even in India, traditionally the world's largest gold consuming nation, there is virtually no physical gold available for immediate delivery. What gold is being sold is being sold for the highest premiums above gold value since the government of India eliminated virtually all import duties and restrictions.

You should be concerned about having to wait 1-2 months for silver fabricators to fill orders (the Perth Mint currently has an even longer delay). If markets get extremely crazy before your purchases are delivered, I suspect some thinly capitalized and poorly managed coin and bullion dealers will encounter financial difficulties. If you have to wait more than a short time for delivery of physical gold and silver coins and ingots, it is more important than ever to make sure you dealer has a lengthy track record and a solid reputation. If you deal with a company founded before the 1979-1980 bullion boom, you know it is likely to be staffed by people who have experience in boring and crazy markets.

Although the man who founded LCS in 1971 retired from day-to-day operations less than 10 years later, the first two teenage employees he hired in 1972 are still working here today.

One more thing to watch out for—don't store your physical gold and silver with the dealer who has sold it to you. Many coin dealers who offered such programs went out of business later and left their customers with nothing. LCS's policy is that our customers must take delivery of their purchases.

The Month

Gold Range	79.50	9.1%
Net Change	-72.75	
Silver Range	3.57	21.7%
Net Change	-3.57	
Gold/Silver Ratio		62.2
Net change		+9.0
Platinum Range	222.00	13.8%
Net Change	-211.00	
Platinum/Gold Ratio	1.73	

Date	Gold	Silver	Platinum
Aug 06	875.50	16.47	1,603.00
Aug 07	870.75	16.23	1,571.00
Aug 08	857.75	15.30	1,545.00
Aug 11	821.50	14.60	1,521.00
Aug 12	808.25	14.46	1,470.00
Aug 13	825.00	14.82	1,505.00
Aug 14	808.25	14.22	1,480.00
Aug 15	796.00	13.00	1,397.00
Aug 18	807.75	13.29	1,412.00
Aug 19	816.00	13.24	1,381.00
Aug 20	815.25	13.18	1,393.00
Aug 21	837.00	13.87	1,485.00
Aug 22	830.50	13.59	1,460.00
Aug 25	823.00	13.49	1,449.00
Aug 26	822.25	13.57	1,418.00
Aug 27	828.00	13.47	1,439.00
Aug 28	831.00	13.61	1,478.00
Aug 29	829.25	13.61	1,485.00
Sep 01	US markets closed		
Sep 02	808.00	13.20	1,417.00
Sep 03	802.75	12.90	1,392.00

London Silver Market Premium To New York Silver Market = 7¢

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

Gold and Gold Coins

Gold ended today at $802.75, down $72.75 (8.3%) from last month.

Premiums are up the most on the most advertised gold coins such as the South Africa **Krugerrand** (6.5%), U.S. **American Eagle** (7.0%), and Canada **Maple** Leaf (5.7%). Krugerrands are virtually unobtainable until someone liquidates some. At the moment, you can obtain Eagles and Maple Leafs with only a modest delay, but I don't think they are worth their high premiums.

For most owners of gold coins, expect to receive pretty much the same price per ounce for all major gold coins when you sell in a boom market. That means that issues such as the Mexico **50 Peso** (3.6%), the Austria **100 Corona** (3.5%) and US **American Arts Medallion** (3.6%) are a far better deal today. Plus, supplies are relatively available.

Prices of **Common-Date US Gold Coins** have almost all fallen in the past two months as the gold spot declined. However, the $5.00 and $10.00 Liberties in MS-63 quality have fallen the least. Both coins are still relatively difficult to find in any quantity.

Interesting World Gold Coins are more challenging to find than ever. Many European and Chinese coins are worth more in their home countries, so are being repatriated. We were fortunate to hand-select the nicest specimens of **Republica de la Nueva Granada Gold 16 Pesos** out of a discovery hoard. Our group is larger than all the specimens we have previously handled in our 37 years of business, but they are still likely to sell out quickly. Please see our offer for details.

Silver and Silver Coins

Silver closed today at $12.90, down a whopping $3.57 (21.7%) from four weeks ago.

At this kind of price level, silver is about the closest thing I can imagine to a "sure thing" for future appreciation. With the gold/silver ratio above 62, I like its prospects much more than gold. My long-term expectation for the gold/silver ratio is in the 35-40 range.

Because of our deep inventory of US **90% Silver Coin** (6.2%) we have been able to supply all customers with immediate availability over the past few weeks. However, our wholesale suppliers are taking longer to ship us the replacement coins we have purchased, so we cannot guarantee to have immediate supply for long.

Last year, the US Mint stopped production of 2007 US **Silver Eagle Dollars** in September. I expect it will do the same this year in order to start production of 2009-dated coins. The premium for 2008 Silver Eagles is terribly high. I don't recommend these coins as a way to invest in silver. However, if you want a small quantity for collection or gift purposes, I recommend you buy them now. When the Mint runs out soon, the prices will get a log higher real quick.

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