

The Silver Eagle Saga II

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By the quirk of timing, my journey into silver analysis coincided with the introduction by the US Mint, in 1986, of their popular American Eagle gold and silver bullion coin program. That was the same year I started writing to the CFTC about my concerns that the price of silver was being manipulated downward due to excessive short selling on the COMEX. While there appears to be no connection between the two beginnings, in a moment I'll explain why there now may be a strong connection between Silver Eagles and the ongoing price manipulation in the metal.

First, allow me to describe how I recall the origin and progression of the Mint's Gold and Silver Eagle bullion program. The US had legalized the private ownership of gold in 1974, following 40 years of a ban on such ownership and the idea of a US Government issued gold and silver coin progressed until it became law in 1986. By then, I had realized that there were certain vested interests that had a stake in keeping silver prices as low as possible, while there didn't appear to be as many vested interests in keeping gold prices low (emphasis on "as many"). For example, the Silver Users Association (SUA) had long advanced any policy that would either depress the price or increase the supply of the metal to the benefit its members, all big silver industrial consumers. There was no counterpart to the SUA in gold (or any other

commodity) and I quickly saw the impact of that in how the American Eagle bullion coin program was structured.

The law's wording mandated that the gold used in Gold Eagle coins be sourced from domestic gold mining, in an attempt to aid the US gold mining industry. One would think the same provision would or should be included in Silver Eagles, but the SUA not only succeeded in killing this provision in silver, but they also succeeded in having the metal sourced for Silver Eagles come only from the last remaining stockpiles in the Defense Logistics Agency's strategic silver reserves. This way, no currently produced silver would be used in the coin or impact the supply/demand equation. I always thought that was unfair because it discriminated against US silver miners. After all, the US Government held twice as much gold as it did silver at the time, to say nothing of the lopsided dollar values of each. Those DLA strategic reserves supplied the metal for Silver Eagles for the next 15 years, isolating and preventing the production and demand for these coins from having any impact on the overall supply and demand for silver, until the 100 + million oz were depleted in the early 2000's. I can remember feeling at the time violated and abused that a private lobbying organization could arrange for the very last bit of the nation's silver inventory be taken from its rightful owners, the taxpayers, because I knew one day silver would be valued at many times the price the US Government received for its strategic reserves. I suppose that's just another mile marker in life's lessons as we grow up and learn about the world.

What prompted this review on the Silver Eagle saga was the release of the latest sales figures for the first five days of March from the US Mint. I wrote a similarly-titled review of Silver Eagles back on December 19, 2009 (in the archives) in which I credited my good friend and mentor, Izzy Friedman, with kicking off a surge of buying in Silver Eagles. I still feel that way and the thrust of this article is to highlight just how strong the demand for US Silver Eagles has been. Yesterday, the US Mint reported that for the first five days of the month, Silver Eagle sales totaled 876,500 coins. This is equal to a daily production of 175,000 coins per day, or 50% greater than I had estimated was the Mint's capacity.

http://www.usmint.gov/mint_programs/american_eagles/?action=sales&year=2013

I'm not going to get into predicting what Silver Eagle sales will be in the future, as I know of no reasonable grounds for doing so. But it is easy enough to analyze and dissect actual sales for the 27 year life of the program. It is no overstatement to say that Silver Eagles sales have been stunning. From day one, the US Mint has sold over 325 million 1 oz Silver Eagles bullion coins.

Here's a single link containing data for most of the years

http://www.usmint.gov/mint_programs/american_eagles/?flash=yes&action=MintageTotals Millions more silver coins and ounces have been produced and sold by the US Mint in proof Silver Eagles and in a wide variety of various

commemorative coins. This is all in addition to what other world mints, private and public, have sold over the years.

Remarkably, of the 325 million Silver Eagles sold over the past 27 years, 170 million Silver Eagles, or more than half, have been minted and sold over the past five years alone (since Izzy's article). If you had asked me five or six years ago what my estimate was for future Silver Eagle sales, I would have provided an estimate far lower than what actually occurred. That's the first point I would make – the explosion in sales of Silver Eagles has sort of crept into existence even though sales data are published almost daily and are in full view.

Silver Eagle sales now regularly consume the equivalent of the entire annual silver mine production for the US (still a top ten producing country), a fact almost beyond comprehension. Silver Eagle sales account for roughly 5% of total world annual mine production. Compare this to Gold Eagle sales, which while robust, only consume 10% of US gold mine production and a little more than 1% of world mine production. For many years, it was believed that Eastman Kodak was the largest single silver user/consumer in the world. With the decline of photography using silver halide, the US Mint has now become the largest single user of silver in the world, thanks to Silver Eagles and other silver coinage. I think that is largely unknown. Even though I was well immersed in the belief that silver was manipulated in 1986 and that big changes were in store, if you tried to tell me that 27 years later, the US Mint would be the largest

silver consumer in the world, I would have considered you daft. Funny what a single coin can do, or 325 million of them.

Another point I would make is that I believe that silver is, effectively, being consumed in Silver Eagles, or at least removed as supply from the market. Since Silver Eagles are bought and sold at a premium to the price of silver, I doubt even a single coin of the 325 million minted and sold to date has ever been melted down for its silver content. I freely admit that these coins have and could change hands, with one owner selling to another buyer, but melting would only occur as and if Silver Eagles begin trading at a steep discount to the price of silver bullion, something that has yet to occur. If anything, some older dated Silver Eagles trade at increasing premiums. In addition, because ownership of Silver Eagles is extremely diverse and they are held by large numbers of individual coin collectors and smaller investors, the chance of large amounts of Silver Eagles being dumped on the market and being melted into bullion is virtually nonexistent. That's why I don't consider the 325 million Silver Eagle coins in existence in my silver bullion inventory calculations. Yes, they can change hands to some extent, but they can't be considered as practical silver bullion equivalent. In a physical bullion silver shortage, Silver Eagles will provide scant relief, particularly to industrial users.

Here's another observation □ the US Mint has done a good job in producing Silver Eagles. Yes, the Mint's reporting of sales is confusing at times and it is

annoying and inconvenient that there have been many instances of demand overwhelming supply and allocations being enforced for Silver Eagles; but the total sales of 325 million coins is a testament to US Mint following the letter of the law that dictates that Silver Eagles be produced in sufficient quantity to satisfy demand. The Mint has done that overall, otherwise they never would have produced 325 million coins.

A new thought has recently occurred to me about Silver Eagles when viewing the remarkable cumulative sales. What has enabled the Mint to sell so many Silver Eagles was the wording in the actual legislation from 1986, which directed the Mint to produce American Eagle bullion coins to demand and not some set amount of coins per year, as is the case with all commemorative coins. Had the wording in the original legislation dictated that a set limit of coins be sold per year, for instance no more than 5 million coins, I wouldn't be writing, or you reading, about the 325 million Silver Eagles having been sold. Certainly, had the Silver Users Association foreseen this, they would have made sure there was an annual limit to Silver Eagle production. It's funny how things sometimes work out.

I've been careful to write about past actual sales of Silver Eagles, as those numbers can be documented. No one can predict with accuracy what future sales may be. While sales of Silver Eagles have been running at a record this year, I have also remarked that there seems to be a foreign component to the

record sales. That makes it all the more difficult to project future sales. But uncertainty cuts both ways. While I have been amazed at how strong Silver Eagle sales have been over the years, particularly over the past five years, there's no guarantee I won't continue to be amazed. Instead of cooling off (as I seem to always expect) who can say for sure that sales won't increase from here? We went from Silver Eagle sales of less than 500,000 or a million coins per month for the first 22 years of the program to a rate close to 3 million coins a month over the past five years. Can anyone guarantee Silver Eagle sales can't jump to 4 or 5 million coins per month? After all, this may be the most beautiful, in addition to being the most popular coin in the world, with a silver purity guaranteed by the US Government itself.

If Silver Eagle sales continue at the current rate or increase, I can't see how that won't help to bring the developing silver shortage to a head, as we are talking some very impressive quantities of silver being taken off the market. And that's also where I get the feeling that even though the introduction of the program in 1986 had no direct connection with my journey into silver analysis, there seems to be a connection between Silver Eagles and the manipulation today. It seems uncanny to me that Silver Eagle sales have blossomed just as the silver manipulation has come more into view.

A downward price manipulation must result in increased demand and that may be behind the increased demand in Silver Eagle sales. In other words, because

the price of silver is lower than it would be if JPMorgan's concentrated short position on the COMEX didn't exist, the lower price of silver has stimulated Silver Eagle sales to record levels. I'm not saying that JPMorgan's short position is solely responsible for the dramatic increase in sales of Silver Eagles for causing the price of silver to be too low, but the artificially depressed price must have played some role in increasing Silver Eagle sales, particularly relative to Gold Eagle sales. After all, the surge in Silver Eagle sales began immediately after JPMorgan took over Bear Stearns and their big short position in March 2008 (and just after Izzy's original article <http://news.silverseek.com/TedButler/1196788997.php>).

It may be merely a coincidence that more Silver Eagles have been sold in the five years since JPMorgan became the big concentrated COMEX short than in the previous 22 years of the Mint's program, but these are not coincidences that can continue in harmony. The death knell of the silver price manipulation is physical demand beyond the capacity of physical supply. No one would argue that Silver Eagles don't represent unquestioned physical demand or that lower (manipulated) prices wouldn't stimulate further physical demand. That growing physical demand is in conflict with an indefensible concentrated short position.

Also in conflict is the spectacle of one US Government agency, the US Mint, struggling to obey the law and produce increasing quantities of Silver Eagles, as mandated, while another agency, the CFTC, refuses to obey the law and ignores

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the glaring downward silver price manipulation, which complicates the Mint's production strain. The easiest solution would be for the CFTC to enforce the law and demand that JPMorgan give up its concentrated short position, thereby freeing the price of silver from manipulation and allowing it to reach free market equilibrium levels. A free market price for silver would ultimately reduce sales of Silver Eagles. While I am way beyond being sick and tired of the silver manipulation, as I know you must be, it is a beautiful thing that so many Silver Eagles have been produced and are in investors' hands at unintentionally-subsidized price levels.

Ted Butler

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Silver – \$28.90

Gold – \$1580