

US Mint Bullion Coin Sales 2

The US Mint's popular American Eagle gold and silver coins remain in high demand by US investors. Working to overcome production bottlenecks, the Mint radically stepped up operations last year to the highest levels by far of this entire secular gold bull. The Mint's Eagle sales data offers interesting insights into physical precious-metals demand.

Back in the early 1980s, foreign gold coins like the famous South African Krugerrand were soaring in popularity. The US Congress didn't want the United States to be left out of the prestigious national gold-coin realm, so it crafted the Gold Bullion Coin Act of 1985 which President Ronald Reagan promptly signed into law. It mandated that the US Mint produce a family of 22-karat gold bullion coins containing one, one-half, one-quarter, and one-tenth of a troy ounce of pure gold.

The gold bullion for these coins had to come from the United States, first from gold mined in America within the past year and if this source isn't sufficient then from official US gold reserves. Most importantly, this law required the US Mint to "mint and issue the gold coins ... in quantities sufficient to meet public demand". The Mint got to work and sold its first Eagles right on schedule in October 1986.

For the next 22 years without interruption, the Mint dutifully sold Eagles and generally achieved its mandate. Per the GBCA the Mint couldn't sell its first coins until October 1986, but it spent the first three quarters of that year minting these new coins so it had huge stockpiles to sell right out of the gates. And of course gold languished in a long secular bear in the 1980s and 1990s, so naturally investment demand wasn't very robust.

But in the 2000s as today's secular gold bull started powering higher, investment demand for gold Eagles grew. In the early years the Mint didn't have any real problems meeting demand. Between its fresh supplies and existing Eagle coins that investors sold back into the market, Eagles were easy to buy. This was even true leading up to the dreaded Y2k changeover, when gold-coin demand soared on wild fears.

But abruptly in August 2008, the US Mint stealthily announced it was temporarily suspending gold Eagle sales. This ignited a firestorm amongst [conspiracy theorists](#), and even spilled into the mainstream when the Wall Street Journal ran a story on page C1 called "The Eagle Has Been Grounded". Many commentators sensationally spun this Eagle shortage into a broader physical-gold shortage, but it was truly just an Eagle shortage.

In the year and a half since that troubling Eagle suspension, the Mint has faced a *fabrication bottleneck*. While gold in the form of large 400-ounce bars that [central banks](#) and ETFs use is common and always readily available, the Mint's

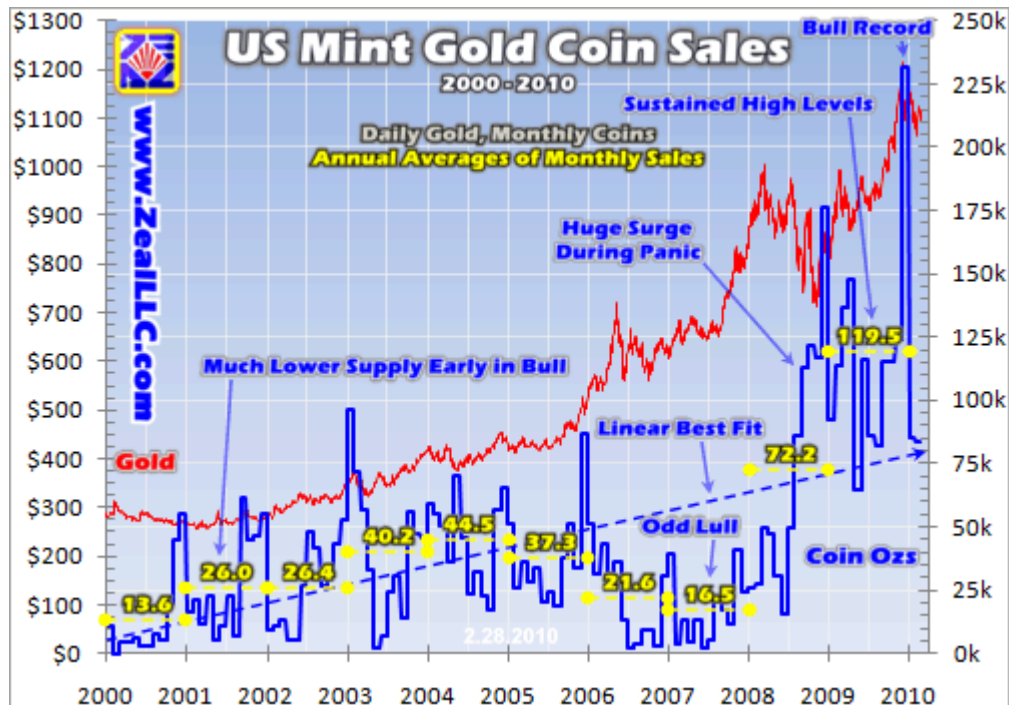
suppliers couldn't produce enough planchets (blanks) for one-ounce Eagle production. These are the flat disks of 22-karat gold that are ultimately stamped into the beautiful coins we all love.

The Eagle shortages have been very frustrating for American investors. Having laid up my own gold Eagle hoard way back between 1999 and 2001, I didn't experience these shortages firsthand. But I sure talked with a lot of investors in the last couple years who were very discouraged and upset by the Eagle shortages and resulting high premiums. They made new physical-gold investment a big hassle at times.

I have continuously recommended one-ounce gold-bullion coins to our subscribers since May 2001 as the foundation for *every* long-term investment portfolio, so I've been a vocal critic of the Mint. It wasn't following the law and providing "quantities sufficient to meet public demand", which was inexcusable. In last year's essay on [this same subject](#) I discussed these problems in more depth. It looked like the Mint was just sandbagging, not trying hard enough to produce the required Eagles.

So as I started gathering the US Mint's Eagle sales data for this essay, I expected more of the same. But amazingly, the Mint finally seems to be getting its supply chain sorted out! Based on 2009 Eagle sales, the oft-lamented fabrication bottleneck finally appears to be opening back up. After that rude awakening of having to illegally suspend Eagle sales in August 2008, the Mint has started taking this gold bull seriously.

These charts show the US Mint's monthly sales of gold Eagles and then silver Eagles over the last decade, encompassing the powerful secular gold bull. This data is superimposed over the daily gold and silver prices for reference. In addition, the annual averages of *monthly* Eagle sales are noted for each calendar year. Since its summer 2008 troubles, the Mint has really started getting its act together.



Back in the early years of this gold bull, the Mint's gold Eagle sales were modest yet rising. In 2000 for example, the Mint only sold 165k ounces of gold through its Eagle program. Monthly sales averaged less than 14k ounces. In 2001 surrounding gold's multi-decade secular-bear lows, sales improved to 325k ounces. Yet at 2001's pathetic average gold price of \$272, this only represented \$88m worth of gold Eagles. Only a tiny fraction of hardcore contrarians wanted to invest in gold after such a long and deep bear.

But as gold gradually started climbing after today's secular bull was born near \$257 in April 2001, gold Eagle demand naturally picked up. While this data merely shows Mint sales, not underlying demand, over time they are probably a decent approximation of demand. Investors would go to coin dealers looking for Eagles, so the coin dealers would order Eagles from their distributors, of which an elite group of 10 wholesalers were authorized to order directly from the Mint. So the Mint's production supply probably roughly matched end-investor physical-coin demand growth.

Provocatively Eagle sales fell off in 2005, 2006, and 2007. This lull is really odd, and I still haven't found a great explanation for it. If gold had been flat over this span, it would make sense for new-investor enthusiasm to wane. But in 2006 gold soared to new bull highs yet the Eagle sales still fell sharply. That year, gold rallied 23.1% yet freshly-minted gold Eagle sales *plunged* 41.9% to 261k ounces.

One possibility is the birth of the wildly-popular [GLD gold ETF](#) diverted some small-investor gold demand from traditional gold coins to this tracking vehicle. GLD was born in November 2004, so its early years which saw huge GLD

demand growth indeed coincided with dwindling Eagle sales. But on the other hand, this model breaks down in 2008 and 2009. Although GLD demand and its gold bullion held in trust for stock investors soared, so did traditional bullion-coin demand *simultaneously*. There is no sustained GLD/Eagle correlation.

While physical gold coins held in your own immediate physical possession are infinitely safer than any paper-gold vehicle like an ETF, in all but end-of-the-world scenarios both coins and ETFs have functionally-identical impacts on investment portfolios. They each mirror gold's price moves and lead to nearly equal gains or losses. In normal times when markets were functioning well, many investors apparently preferred to get their gold-price exposure through paper-gold vehicles like GLD.

But starting in the summer of 2008, general faith in paper markets was seriously rocked. The bond panic, followed by a [once-in-a-century](#) stock panic, scared investors half to death. There were fears of the entire markets seizing up, of a new depression. It is provocative that physical-gold-coin demand started soaring to bull records just as the financial markets started to implode. Incidentally, [GLD's holdings](#) were also growing through the panics, so it *wasn't* a shift out of the ETF into Eagles. *Other* investors wanted physical.

While Eagle demand as indicated by Mint sales started picking up in mid-2007 as gold rallied to new bull highs, it didn't surge dramatically until the summer of 2008 when mortgage behemoths Fannie and Freddie were on the verge of bankruptcy. In the first half of 2008, monthly gold Eagle sales averaged 33k ounces, which was in line with bull precedent to that point. But in the second half as the panics erupted, the monthly-average gold Eagle sales skyrocketed to 111k ounces! As these bull-record levels show, a paper crisis led investors to rediscover the unique merits of physical coins.

In the Mint's defense regarding its August 2008 suspension, the Eagle demand spike driven by the panics was *far* beyond anything yet witnessed in this gold bull. It was essentially impossible to forecast, like once-in-a-century stock panics. Yet in hindsight, the Mint adapted more quickly than its critics like me have given it credit for. It produced 50k ounces of gold Eagles in July 2008, 86k in August, 113k in September, 122k in October, 117k in November, and 176k in December. As you can see in this chart, these levels were way beyond bull-to-date norms.

And then in 2009, the Mint *sustained* this radically-higher panic-driven output. Last year its monthly gold Eagle sales averaged 119k ounces, a level well above even the previous extremes prior to late 2008. 2009's 1425k ounces of gold Eagles represented a staggering 65.6% year-over-year growth rate. At last year's \$974 average gold price, this equates to \$1388m worth of Eagles (16x 2001's levels)! December 2009's 232k ounces hit a new monthly bull record as well.

I came into this week fully expecting to be disappointed again by the US Mint's performance, but actually 2009 was very impressive. I never thought I'd write this, but kudos to the US Mint! The Mint indeed took the fabrication bottleneck encountered in summer 2008 seriously and ramped up its suppliers' blank production. I don't know if today's gold Eagle production is high enough to meet demand yet, but the trend has certainly turned in the right direction.

Even more important for gold investors are the implications of the sustained high freshly-minted gold Eagle sales over the last 19 months or so. The Mint couldn't sell such high numbers of gold Eagles unless wholesalers were buying them. And wholesalers wouldn't take the risk of holding huge inventories in this volatile gold market, so they must be seeing serious demand from coin dealers. And coin dealers are only buying because retail investors' appetite for physical-gold investment is growing.

Even before gold broke decisively [above \\$1000](#) last autumn, gold Eagle demand remained very strong near panic levels. This was despite consolidating gold prices, the ugly hit [US-dollar gold](#) took in the stock panic, and the competition from paper gold-tracking vehicles like GLD. And it is not hedge funds buying one-ounce Eagles, their premiums and transaction costs are simply too high for bulk purchases. It is *individual retail investors*. Physical-gold investment demand is strong, a very bullish omen for gold.

Interestingly this same phenomenon was observed in silver Eagles. The Mint hit all-time-record sustained production levels in 2009, in response to very strong retail physical-silver demand. This is pretty interesting considering the percentage premium above spot on the silver Eagles is nearly always *far higher* than the premium on gold Eagles. Even though these admittedly-sexy silver Eagles are not the most cost-effective way to own physical silver, retail investment demand for these coins is soaring too.



Given the vast premium differential between gold Eagles and silver Eagles, the Mint has really been under-producing these latter beautiful coins for years. Despite silver powering from an average of \$5 in 2000 to above \$13 in 2007, and building a fanatical investor base, annual average monthly silver Eagle sales remained remarkably constant. It wasn't until 2008 that the Mint really started ramping silver Eagle production. And this was *before* the panic on silver's blistering rally to \$21 between January and March 2008.

Despite this uncannily-consistent annual production before 2008, big production spikes were common around year-ends. After [last year's essay](#) wondering about this, coin dealers told me these spikes have to do with demand psychology surrounding the years stamped on the Eagles. Apparently coins with this year's date are first offered to wholesalers in December of the prior year. So 2008 silver Eagles went on sale in December 2007. And for a variety of reasons silver investors like brand-new current-year coins rather than older coins someone else has already owned.

Since early 2008, the US Mint has steadily ramped its monthly silver Eagle production. After averaging just 0.70m to 0.87m ounces of monthly production annually between 2000 and 2007, in 2008 this shot up to 1.63m and in 2009 it surged again to 2.41m. Total silver Eagle production soared 46.9% in 2009 to 28.8m silver Eagle coins! Back in 2000 for comparison, only 9.1m were produced.

So like physical-gold investing, retail demand for physical-silver investments remains very strong too. The dealer supply chain would not be buying silver

Eagles at such a furious pace from the US Mint unless it was easily selling these coins to investors. The Mint is getting its act together on the silver Eagle side too, so *perhaps* we'll even see silver Eagle premiums start falling and getting more competitive with those on other forms of bulk silver preferred by retail investors.

2009's record sustained levels of US Mint bullion coin sales are very impressive. They show that American individual-investor physical-gold and physical-silver demand has never been higher in this bull. And generally it is not casual investors who trek down to coin shops to buy Eagles, but serious ones. The ranks of investors who believe owning physical gold and silver is important are apparently growing dramatically. And the much-maligned Mint deserves praise for responding with high production.

While we specialize in commodities stocks at Zeal, physical gold and physical silver were the first long-term investments we ever recommended. I told investors to buy one-ounce gold-bullion coins at \$264 in May 2001, and junk-silver bags at \$4.20 in November 2001. To this day, I believe *every* single investment portfolio should have a foundation of physical gold and physical silver in the investor's own immediate physical possession. Sometimes paper and electronic markets fail, so physical is the ultimate insurance.

Lately we've been aggressively buying elite gold and silver stocks to take advantage of [cheap prices](#) before the likely spring rally. If you are interested in understanding unfolding gold and silver price trends, and leveraging their rallies with precious-metals stocks, you'd love our subscription newsletters. For a decade our subscribers have been getting rich in this precious-metals bull. [Subscribe today](#) to our acclaimed [monthly](#) or [weekly](#) and *get informed*. Knowledge truly is power in the financial markets!

The bottom line is the US Mint's latest bullion-coin sales data reveals very strong American retail investment demand for physical gold and physical silver. High sustained gold Eagle and silver Eagle production shows physical demand in 2009 was the highest yet seen *by far* in this secular bull. The ranks of gold and silver investors are growing as news of their bulls spreads, which is a very bullish omen. More investors drive up prices which entice in still more investors, creating a self-feeding circle.

And we sometimes obstreperous long-time gold and silver investors have to give credit where credit is due, the US Mint had an awesome 2009! It dramatically ramped Eagle production and made great strides towards eliminating the fabrication bottleneck. Hopefully this trend will continue, big physical demand pulling more physical coins into the marketplace. They should be readily available for all investors.

Adam Hamilton, CPA

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Thoughts, comments, or flames? Fire away at zelotes@zeallc.com. Due to my staggering and perpetually increasing e-mail load, I regret that I am not able to respond to comments personally. I will read all messages though and really appreciate your feedback!

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