



Mints Can't Keep Up With Silver Coin and Bar Demand, Dillon Gage Metal's President Says

Dallas, TX (9/26/2011) ...The top retail markets for silver bullion coins are North America and Western Europe, while other major markets -- China and India -- favor small bars over coins.

In the silver bullion coin market, the U.S. Mint's American Eagle coin program celebrates its 25th anniversary this year. Since their launch in 1986, these coins have dominated the global market for physical bullion coin investments. The U.S. Mint produced nearly 35 million ounces of silver Eagles last year, and would have sold more if it weren't for a shortage of blanks to make coins.

The Eagle's principal competitors are the Canadian Maple Leaf, the Austrian Philharmonic and the Australian Kookaburra, Lunar and Koala. But Eagles outsell their competitors collectively by about 3 to 1.

"While U.S. Mint sales of silver bullion coins could be as much as 40 million ounces this year and a record, I think more can be done to boost demand for the Mint's offerings," Hanlon said. First, the Mint needs to overcome production problems and ensure that it has a reliable stream of blanks to meet its needs. And second, the U.S. Treasury Dept. should find a way to level the playing field for bullion investors with regard to tax treatment.

Current tax laws impose a maximum rate of 28% on bullion investments held one year, rather than the 15% levied on securities and mutual funds. By lowering that rate, Congress could boost demand for American Eagles. "Earlier this year, I testified before the U.S. Congress and recommended that it give a competitive edge to Eagle bullion products by adjusting capital gains tax treatment," Hanlon stated.

In North America and Western Europe, silver investors have long bought small bars and coins, favoring their portability and anonymity. Indian investors, who buy jewelry and silverware for their silver investments, are beginning to include small bars in that mix. And in China, which liberalized its silver market over the past two years, investors are starting to invest in small bars.

In the United States, physical investment in silver is dominated by the purchase of one-ounce bullion coins and 100-ounce bars. Bars are mostly produced by accredited refineries. But in the past three years, a number of other private mints and industrial manufacturers have also produced bars.

The silver coin market is dominated by the U.S. Mint's one-ounce Silver Eagle bullion coin. Also popular in the United States are foreign, one-ounce bullion coins, including the Canadian Maple Leaf, the Austrian Philharmonic and Australian Kookaburra.

Demand for silver is very strong among Dillon Gage Metal's customers. "Investors are seeking one-ounce coins, 1,000-ounce bars and everything in between," Hanlon reported. "We've observed strong demand for 90% silver U.S. coins pre-dating 1965 and for American silver dollars."

U.S. Mint sales of silver are up 26% this year over 2010. The Mint continues to allocate its inventory of Silver Eagles to authorized buyers because of insufficient blanks to meet demand. A shortage of blanks hampers other manufacturers too. Production of Canadian Silver Maple Leafs, Austrian Philharmonics and Australian Kookaburras has been consistently delayed.

"With demand outpacing supply, we've seen premiums increase at the mints and in the secondary market," Hanlon said. In October 2010, the U.S. Mint raised its Silver Eagle premium to first-line buyers

from \$1.50 to \$2.00 per ounce over spot. That was the second increase in premiums ever, since the 1986 start of the program.

Meanwhile, private minting companies in the United States are operating three shifts a day to meet demand, but deliveries still run several weeks behind.

"At current prices, you might expect to see large volumes of coins and bars being melted, but that hasn't been the case," Hanlon commented. Little is going to melt, other than damaged coins and "backyard" bars of uncertain origin.

As for silver bars, the GFMS World Silver Survey 2011 shows that the 2008 financial crisis took a toll on the bar market in 2009, when margin calls forced big players to liquidate. In 2010, demand for bars in the United States and Western Europe began to recover but was partly offset by bar disinvestment in India.

United States sales of silver bars are less than 20 million ounces annually -- which is half of this year's anticipated output of U.S. Silver Eagle coins.

As for silver scrap, supplies rose 14% in 2010 from 2009 to the highest level in 10 years mainly because of industrial scrap recycling and consumers selling unwanted pieces of jewelry and silverware.

"This is an outstanding time to be in our business," Hanlon remarked. Physical trade is brisk, and price potential is promising. "We expect silver demand to remain strong, and could see prices push above \$50 per ounce in late 2011. We're optimistic for 2012, too, because we see an expanding group of buyers of coins and small bars."

Many investors are just beginning to realize the advantages of a diversified portfolio, Hanlon noted. "To cultivate new buyers and long-term investors, our industry will need to offer more products in a range of weights," he said.

Dillon Gage Metals is scheduled to open a new metals depository in Toronto, Canada in fourth quarter 2011.

For more information on Dillon Gage Metals, phone 800-375-4653. Follow Dillon Gage on Twitter @DillonGage and Facebook at www.facebook.com/dillongage.

About Dillon Gage

Dillon Gage (www.DillonGage.com) was founded in 1976, and its companies include:

Dillon Gage Securities, Inc., a full-service NASD member firm that specializes in financial planning. 800-375-4243

Dillon Gage Metals, one of the largest precious metals dealers in the U.S. 800-375-4653

Dillon Gage Inc., a firm dealing in futures markets. 800-375-4243

Diamond State Depository, a wholly owned, independently operated precious-metals storage facility located in New Castle, Delaware. 888-322-6150

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