

WHY DOES A MINT LEASE OUT GOLD/SILVER?

There have been many accusations and innuendo directed at the precious metal mints around the world in recent weeks, namely the Perth Mint here in Australia. The two primary questions targeted at these institutions are as follows:

- 1. Why do they lease out inventory?**
- 2. Why are there delivery delays to customers?**

These questions are very reasonable ones to ask and some of the accusations made seem to have a great deal of validity in the highly probable event you don't have a working understanding of how a mint operates. I must be honest with you and admit that I had little knowledge prior to these questions and allegations being raised. I chose to reserve judgment until I had established exactly how a business of this kind works. After a couple of conversations with some extremely helpful people and additional research these are my findings.

Why does a Mint Lease out Gold/Silver?

A Mint generally comprises many business segments including:

- 1. A Metal Depository (sells metal related investment products).**
- 2. A Refinery (which the mint may have a joint venture in).**

The depository's primary role is to purchase metal and store it on behalf of their clients, either in an allocated or unallocated format. They may also lease a portion of their gold and silver inventory to their associated refineries, which swap much of this metal to producers in exchange for lower purity gold and silver to be refined in the future. Having refined this impure gold/silver from many producers over time, the refinery becomes accustomed to the rates of impurity to the point where they are comfortable exchanging the equivalent proportion of pure gold and silver that they expect to recover. They lease this metal primarily from the Metal Depositories. Gold/Silver producers do not want to be stuck waiting for the refinery to process their metal and simply wish to complete their transaction promptly and either deliver into forward sales agreements or cash in and reinvest their proceeds into the business. Once the refinery processes this metal, the metal is used to close out original gold leases with the Metal Depository and this process repeats itself over and over again. Therefore it is not unusual to have varying degrees of leased gold on the books of a Mint. It is all part of the normal operations of the business.

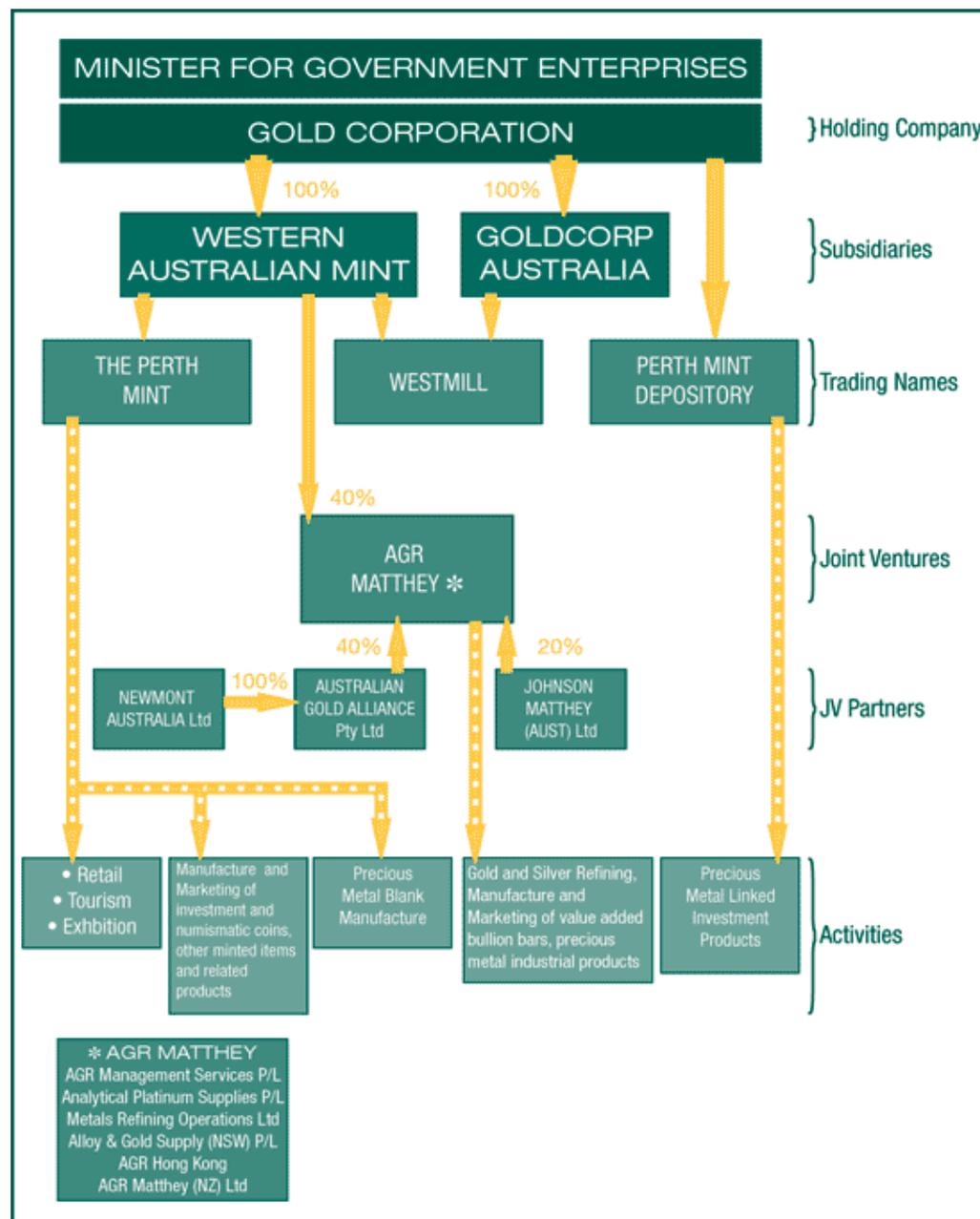
Why are there delivery delays to customers?

The accusations in relation to the above issue are primarily silver related. When it comes to Mints, silver is generally transferred in 1,000 oz bars. These bars weigh 32 kg and are not all that popular as far as private investors are concerned. Therefore, when private investors request silver in smaller bars these need to be fabricated via the refinery. The refinery, as a business, is primarily concerned with processing the vast amounts of metal they receive from producing companies. Whilst they are happy to mint these smaller denomination bars, it may not be all that high on their priority list depending on their workload. This can lead

to delays in fabrication which, while understandably frustrating for the customers, does not necessarily imply a worldwide shortage of silver. This fact is well supported by GFMS who are the foremost forecasters of silver demand and supply fundamentals.

Perth Mint Demonstration:

Company Structure:



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If we look at the company structure of the Perth Mint we see the Perth Mint Depository is a 100% owned trading business of Gold Corporation which has a 40% interest in subsidiary company AGR Matthey, Australia's only refinery. The leased metal on the Perth Mint's balance sheet primarily relates to gold and silver leased to AGR Matthey for the purpose of refinery operations as explained in detail earlier on. This gold and silver simply represents a timing difference in relation to the pure gold and silver distributed to producers in exchange for the gold and silver AGR Matthey anticipate refining via their operations in the future.

AGR Matthey is a commercial operation and like any business it has many jobs and must prioritize in favor of its major clients. This sometimes means delays in delivering to minor clients during busy periods. The physical investment demand for silver and gold at the present time is at unprecedented levels. This means delays are inevitable but note again that these delays do not necessarily imply a shortage of the metal. These delays get exacerbated when rumor mongering takes place and demand for "**certain**" products vastly exceed the ability of the Mint to supply (a self fulfilling prophecy if you like).

In summary, there are two sides to every story and I really encourage you to seek both sides before making any important decisions on issues that you may not be 100% knowledgeable in. It is when you are not up to speed with a subject that accusations and sweeping statements can seem to contain a great deal more validity than they actually possess. The moral of the story is to do your own homework and not rely on others to do it for you. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at the Global Speculator website below. Past issues of the newsletter may also be accessed at the website below.

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