

Coin Premiums Why An Ounce of Gold (or Silver, or Platinum) Can Have Different Prices

We get lots of questions about why one kind of one-ounce coin is priced differently than another one-ounce coin that has the same precious metal content. After all, an ounce of gold like a share of IBM stock should always have one price at any given time, right?

Certainly, it sounds like it should be that simple, but with precious metals bullion coins, it's not. An ounce of precious metal (gold, silver, platinum, or palladium) can cost either more or less than another ounce of the same metal in the same market. "How can this be?" you might understandably ask. Well, it's all about an aspect of pricing called "coin premiums."

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What is a premium?

A premium is the additional cost of a bullion coin above and beyond the market value of the precious metal commodity it contains. For example, with gold at a spot price of $814.50, an investor can expect to pay about $864.20 to buy a one-ounce American Eagle gold coin presently. But where does the additional $49.70 cost for the gold Eagle come from?



In general, the extra cost of any bullion coin over the spot price is the result of several factors, including manufacturing, distribution, and administration costs incurred by the mint or refiner that made the coin, and the "mark-up" representing the cost of sale and profit of the wholesaler selling the coin to the retail dealer. The retail dealer, in turn, will "mark up" the wholesale price to cover its costs and realize a small profit when pricing the coin for the investor market. This series of incremental price increases applied to the coin as it passes through the distribution chain is a typical market mechanism present in virtually every other industry in existence, from food to auto parts, and houseplants to sporting goods.

However, there is also the aspect of "supply and demand" that comes into play that influences the level of coin premiums. For example, in some market conditions, the available supply of a given coin, when balanced against its market demand at any given time, can have a pronounced impact on the coin's premium. In fact, unusual demand for a specific coin type can at times drive its premium level significantly higher than that of very similar coins.

This occurred with the American Eagle gold and silver bullion coins at the end of 1999, when concerns over Y2K created unprecedented demand for U.S. manufactured legal tender bullion coins.

At the same time, the equivalent sized gold and silver Maple Leaf legal tender bullion coins were left sitting in dealers' vaults. Late last year, the premiums for the 99.9% pure, one-ounce Silver Eagle coins were at one point as much as 300-400% higher than those for the 99.99% pure, one-ounce silver Canadian Maple Leaf coins. Astonishingly, at the time investors were willing to pay up to four times more in premium costs than they had to for a silver bullion coin, if it was an American Eagle silver coin.

Market Demand

On the other hand, a lack of market demand, or the outright dumping of a particular coin by market participants, can actually cause Its premium to go negative, thereby causing the coin to sell at a discounted price that is actually less than the "spot price" of its metal content. This is what happened to the gold Krugerrand when its importation into the United States and other countries was banned by many national governments in 1985 as a measure intended to demonstrate their national displeasure with the former apartheid policies of South Africa, the home of the Krugerrand. No investors wanted them and dealers would only buy them at prices discounted under the prevailing "spot" price of gold.



The market premiums for bullion coins are always changing for a wide variety of reasons.

Call us at 1-800-223-1080 if you'd like to learn more.