Swiss to vote on massive gold-buying plan

By JOHN HEILPRIN

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FILE - In this Aug. 8, 2011 file photo a person touches gold bars in the gold store of the Cantonal...

GENEVA (AP) — In Switzerland, a campaign is on to protect the country's wealth by investing in gold — a lot of gold.

In a test of their sense of financial security, the Swiss are being asked to vote on a proposal to make the central bank hold a fifth of its reserves in gold within five years. That would mean buying about 1,500 metric tons, or 1,650 short tons, of gold worth more than $60 billion.

If the initiative wins the backing of a majority of voters this Sunday, the Swiss National Bank would also be prohibited from spending any of the treasure, which would have to be locked away in vaults entirely on Swiss soil. The prospect risks causing a spike in gold prices globally.

The nationalist Swiss People's Party, the country's largest, has brought the "Save our Swiss Gold" initiative, arguing it will restore trust in the central bank and its paper money. The proposal is opposed by the government and financial leaders but aims to capitalize on a growing sense of caution among the Swiss about the perceived dangers and increasing volatility of financial markets.

Though the country is among the world's most prosperous, the initiative argues that owning physical gold in vaults would protect the country's wealth from trouble in markets beyond the control of this small Alpine nation. The experience of the 2008 global financial crisis, triggered in part by complex investments that brought down multiple banks and bankrupted states, is fresh in people's memories.

Jacques Mayor, a Geneva accountant, said he was wary of the idea of Switzerland buying or selling gold in large amounts in international markets.

"The last time they sold gold, we had an enormous loss," Mayor said, referring to the central bank going $10 billion in the red in 2013, when the value of its gold holdings slumped.

Despite the perception that gold's value is protected by the fact it is a physical good, its market price can in fact be quite volatile. The metal is used often by speculators as a safe haven.
Recently, gold has lost much of its sheen. Its price has fallen 11 percent since the summer to around $1200 an ounce.

Swiss polling firm gfs.bern has found the initiative is likely to fail, with just 38 percent supporting it, short of the required majority. About 47 percent were opposed as of early November.

For investors, the vote is still too close for comfort.

"Initial market reaction to a yes vote would be a sharply higher price — a $50 dollar rise looks plausible," said Carsten Fritsch, commodity analyst at Commerzbank.

A greater impact may be felt over months, as global traders know the Swiss central bank will be a regular buyer. "It could provide the base for an upward trend in the years to come," said Fritsch.

Until 1973, Switzerland was part of the Bretton Woods system of fixed exchange rates and the value of the Swiss franc was defined in grams of gold. But the Swiss National Bank, or SNB, was criticized for holding excessive gold reserves that generated too little return. Moving away from this system allowed the bank to decide more freely how to invest its currency reserves.

Fritz Zurbruegg, a member of SNB's governing board, notes the Swiss still hold a relatively large amount of gold in reserve.

"At 125 grams per capita, Switzerland has the largest gold reserves per head of population of any country - triple those of Germany and quintuple those of the U.S.," he told a conference last week.

If the initiative were to pass, the SNB would need to dramatically increase its gold holdings, which currently amount to 1,040 metric tons or just fewer than 8 percent of its nearly $532 billion in reserves as of the end of September. Raising that to the required 20 percent of its official reserve assets would mean buying gold worth over $60 billion at current prices.

There would be the additional cost of repatriating gold Switzerland now stores overseas. About 30 percent of the SNB's gold is kept in U.K. and Canadian central banks. European countries historically store part of their gold with allies to protect it in case of war on the continent.

A gold-buying binge could also hurt the Swiss economy by reducing the amount of money the central bank has to spend on keeping a lid on the strong Swiss franc. The bank currently intervenes in currency markets to weaken the franc, with the ultimate aim of helping exporters and tourism.

Zurbruegg said the initiative to buy more gold could therefore disrupt the domestic economy. And the benefits would be dubious: "Gold which cannot be sold in a crisis no longer meets the definition of a reserve and thus offers no security at all."